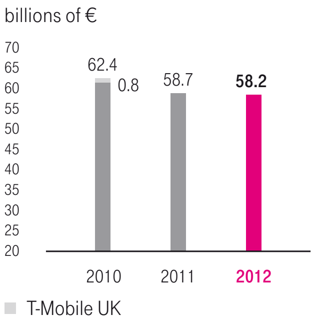
MANAGE-
MENT
REPORT

TELEKOM LABORATORIES PROVIDE CRUCIAL IMPETUS FOR THE FUTURE OF OUR COMPANY. THIS IS WHERE WE CREATE INNOVATIVE PRODUCTS, SERVICES, AND INFRASTRUCTURE FOR DEUTSCHE TELEKOM'S GROWTH AREAS.

57 COMBINED MANAGEMENT REPORT

OVERVIEW OF THE 2012 FINANCIAL YEAR.

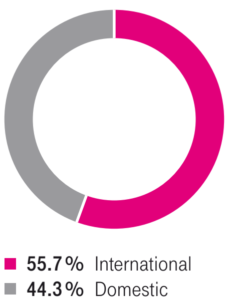
G 05



Net revenue.

- Net revenue decreased slightly by 0.8 percent. This includes positive net exchange rate effects of around EUR 1.1 billion, primarily from the translation of U.S. dollars into euros.
- Operations were positively impacted by the development of television services and mobile data revenues, particularly in connection with the marketing of smartphones.
- Negative impacts on operations included declining revenues from voice telephony, price changes imposed by regulatory authorities, and intense competitive pressure.

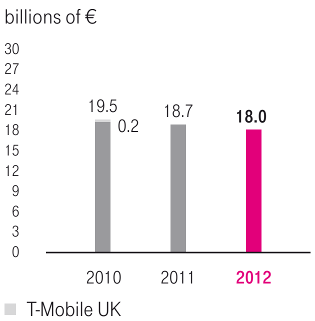
G 06



Proportion of net revenue generated internationally.

- The proportion of net revenue generated internationally increased to 55.7 percent (compared with 55.1 percent in 2011). This was partly attributable to increases in revenue due to exchange rate effects in our United States operating segment.

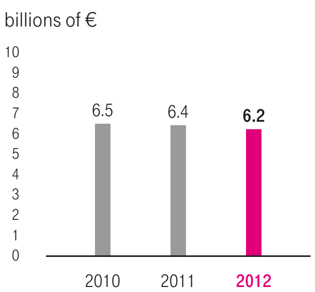
G 07



Adjusted EBITDA.

- We generated adjusted EBITDA of EUR 18.0 billion, achieving the corporate target we originally communicated for the year.
- Positive effects included the focus on high-value revenue in connection with TV services and mobile data revenues (see Net revenue) and net exchange rate effects of EUR 0.3 billion.
- Negative effects included fixed-network lines lost to competitors, price changes imposed by regulatory authorities, and special levies imposed in the wake of national austerity programs. The negative effects were partially offset by our comprehensive cost management.

G 08



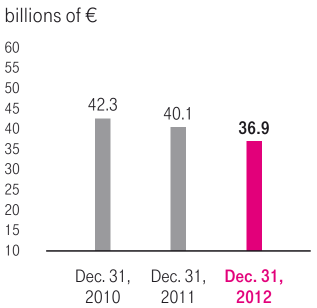
Free cash flow (before dividend payments, spectrum investment).[a]

- Free cash flow amounted to EUR 6.2 billion, exceeding the Company's announced corporate target of around EUR 6.0 billion.

[a] And before PTC and AT&T transactions.

For a more detailed explanation, please refer to the section "Development of business in the Group," **PAGE 90 et seq.**

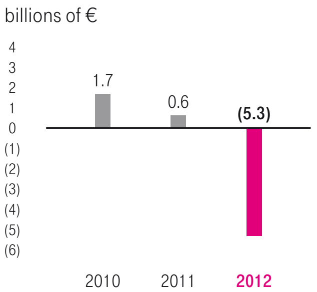
G 09



Net debt.

- Net debt decreased by EUR 3.3 billion or 8.1 percent compared with the end of 2011 to EUR 36.9 billion.
- Net debt was reduced by more than EUR 3 billion despite dividend payments including to non-controlling interests (EUR 3.4 billion), effects in connection with the AT&T transaction (EUR 0.5 billion), payments to external pension funds (EUR 0.8 billion), and the acquisition of spectrum (EUR 0.4 billion).
- A positive impact came from free cash flow (EUR 6.2 billion), the sale of the shares in Telekom Srbija (EUR 0.4 billion), and the payment received in connection with the cell tower deal between T-Mobile USA and Crown Castle (EUR 1.9 billion).

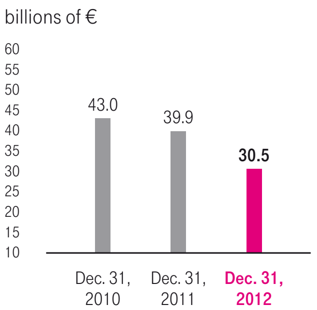
G 10



Net profit/loss.

- Net profit decreased by EUR 5.8 billion, resulting in a net loss of EUR 5.3 billion.
- The impairment loss recognized on goodwill and assets of T-Mobile USA in particular had a negative impact (approximately EUR 7.4 billion after taxes).
- Adjusted net profit decreased from EUR 2.9 billion to EUR 2.5 billion, a year-on year decline of EUR 0.3 billion.

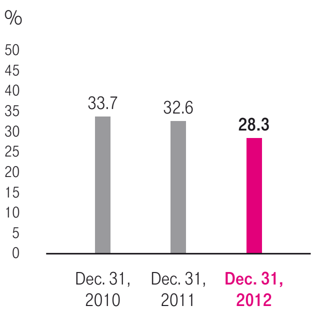
G 11



Shareholders' equity.

- Shareholders' equity decreased by EUR 9.4 billion compared with the end of 2011.
- The net loss of EUR 5.3 billion, the recognition of actuarial losses (EUR 1.3 billion after taxes) directly in equity, and dividend payments including to non-controlling interests (EUR 3.4 billion) reduced the level of shareholders' equity.

G 12



Equity ratio.

- Despite the decrease in shareholders' equity, the equity ratio remained within the announced target range of between 25 and 35 percent.
- Total assets decreased by 11.9 percent, mainly as a result of the asset impairments, including on goodwill, at T-Mobile USA (around EUR 10.6 billion) and dividend payments including to non-controlling interests (EUR 3.4 billion).

DEUTSCHE TELEKOM AT A GLANCE.

In 2012 we succeeded in meeting our key financial targets with adjusted EBITDA of EUR 18.0 billion, and with free cash flow of EUR 6.2 billion we even exceeded them. Net revenue was slightly down by 0.8 percent year-on-year. While we recorded a slight decline in Germany, our home market, positive exchange rate effects resulted in moderate growth in the United States. Developments at our subsidiaries in Eastern Europe continued to be dominated by the challenging economic environment, intense competition, and massive regulatory intervention. As expected, adjusted EBITDA declined by 3.8 percent, with cost-cutting measures not fully compensating for higher expenditure to improve our market position in Germany and the United States and a decline in revenue in the Europe operating segment.

On October 3, 2012, we concluded an agreement with MetroPCS on the combination of our business activities in the United States. The combined company's improved position in terms of mobile spectrum and an expanded customer base mean that we will be able to compete more aggressively with the other national mobile carriers in the United States. Although the agreed business combination triggered the recognition of an impairment loss on goodwill and other non-current assets totaling EUR 7.4 billion (after taxes) that reduced our net profit significantly, we believe that this transaction generates value and makes entrepreneurial sense.

In 2012 we reduced net debt by EUR 3.3 billion to EUR 36.9 billion. Positive effects included, in particular, free cash flow, the cash inflows in connection with the cell tower deal between T-Mobile USA and Crown Castle, and the sale of the shares in Telekom Srbija.

We presented our growth plans at our Capital Markets Day in early December 2012 in Bonn. We plan to invest in the Company's future, notably in modern broadband networks in Germany, the United States, and Europe. This will give us a clear edge over many of our competitors. At the event we also presented our finance strategy for 2013 through 2015. In light of the considerable investments we are planning, we have decided to adjust our dividend to a sustainable level. We also announced a new sales partnership between T-Mobile USA and Apple that will help us, over the coming year, to eliminate the competitive disadvantages currently faced by T-Mobile USA.

We are scaling up investments in our networks and continuing to expand our broadband infrastructure. These investments in the Company's future will pay off. We plan to grow again as early as in 2014, with revenue stabilizing in Germany and renewed growth in Europe and the United States. In 2014 we also expect to see an increase in total revenue as well as higher earnings compared to the prior year. Our Systems Solutions operating segment has been restructured, preparing the ground for reducing our expenditure on intragroup IT services. Finally, we plan to generate profitable growth in our business with corporate customers.

COMPARISON OF THE GROUP'S EXPECTATIONS WITH ACTUAL FIGURES.

G 13

Comparison of the Group's expectations with actual figures.

Adjusted EBITDA [a]		Free cash flow [a, b]	
2012 guidance	2012 delivery	2012 guidance	2012 delivery
■ Around **€ 18 billion**	■ **€ 18.0 billion**	■ Around **€ 6 billion**	■ **€ 6.2 billion**

[a] Expectations for 2012 were based on stable exchange rates and a comparable structure of the consolidated group. Adjusted EBITDA in 2012 includes positive exchange rate effects of EUR 0.3 billion. For the exchange rates of certain significant currencies, please refer to **TABLE T 058, PAGE 221,** in the notes to the consolidated financial statements.
[b] Before dividend payments, spectrum investment, and before AT&T transaction.

Capital expenditure (before spectrum) totaled EUR 8.0 billion in 2012 and mainly related to further rolling out broadband and expanding capacities in existing networks. In mobile communications, we invested in LTE, increased 3G network coverage, and upgraded capacity to meet increasing demand for data transfer volumes. In the fixed-network area, priority was given to expanding the fiber-optic infrastructure, to IPTV, and to the continued transition of the existing telephone network to a next-generation IP-based network. Investments in our core market in Germany remained at a consistently high level. A difficult market situation and additional financial burdens, such as the special tax in Hungary, caused most countries in the Europe operating segment to exercise restraint when it came to capital expenditure. Investments in the United States largely went towards modernizing the mobile network. Capital expenditure at T-Systems was focused on Deutsche Telekom'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).

For further explanations and information on the current finance strategy for 2013 through 2015, please refer to the section "Management of the Group," **PAGE 80 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 stakeholders (shareholders, providers of debt capital, employees, and the "entrepreneurs within the enterprise") have of the Group are fulfilled.

G 14

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

Shareholders

	2012 guidance	2012 delivery
Shareholder remuneration policy [a]	■ Total annual remuneration volume of around **€ 3.4 billion** ■ Of which minimum annual dividend of **€ 0.70 per share**	■ Proposed dividend for 2012 of **€ 0.70 per share** (€ 3.0 billion) ■ No share buy-backs for 2011 and 2012 [b]

Providers of debt capital

	2012 guidance	2012 delivery
Rating	A–/BBB+	BBB+
Relative debt	2 to 2.5 x	2.1 x
Equity ratio	25 to 35 %	28.3 %
Gearing	0.8 to 1.2	1.2
Liquidity reserve	covers maturities of the next 24 months	covers maturities > 24 months

Ambition level for 2012
Improvement of around 150 basis points

ROCE
Return on capital employed

ROCE level
2012: –2.3 %, excluding one-time effects [c]: 4.0 %
(2011: 3.8 %, 2010: 3.5 %, 2009: 3.9 %)

Staff restructuring and staff reduction	Expenses arising from staff restructuring in 2012: €1.1 billion ROCE impact: ≈ 0.7 percentage points

Employees

Investment before spectrum	€ 8.0 billion
Investment in spectrum	€ 0.4 billion

"Entrepreneurs within the enterprise"

[a] Subject to approval by the relevant bodies and the fulfillment of other legal requirements.
[b] No share buy-backs were carried out under the shareholder remuneration strategy in favor of forward-looking investments.
[c] One-time effects resulting from the cell tower deal with Crown Castle (+1 percentage point), impairment losses (–7.3 percentage points, of which –7.0 percentage points due to impairment losses recognized at T-Mobile USA).

THREE-YEAR COMPARISON OF EXPECTATIONS WITH ACTUAL FIGURES.

2010 to 2012: Key targets achieved. We expect a lot of ourselves and measure our success by our results. In 2010 we formulated clear ambitions for the next three years. TABLE T 006 provides an overview of these ambitions and their status quo.

T 006

Ambition level of the Group for 2012 (communicated in 2010).

TV customers (Group-wide)	5.5 to 6.0 million	◍
Mobile customers (Group-wide)	> 140 million	◍
Broadband retail customers in the fixed network (Group-wide)	> 18 million	●
Revenue	> € 6 billion revenue from mobile Internet	●
	Revenue stabilized in Germany	○
Save for Service 2010 – 2012	Savings of € 4.2 billion, of which net savings of € 1.8 billion in Germany and South-Eastern Europe	●
Free cash flow	Increasing compared with 2010 level of € 6.2 billion	◍
ROCE	+ > 150 basis points	○
Shareholder remuneration 2010 – 2012	€ 3.4 billion per annum; € 0.70 minimum dividend per share	●
	+ share buy-back for up to € 1.2 billion	○

● Achieved ◍ Partially achieved ○ Not achieved

2010 to 2012: Selected successes. In 2010 we formulated our Fix – Transform – Innovate strategy with the following action areas:

- Improve the performance of mobile-centric assets
- Leverage One Company in integrated assets
- Build networks and processes for the gigabit society
- Connected life across all screens
- Connected work with unique ICT solutions

We have successfully implemented this strategy in the last three years. Our most important successes are listed in GRAPHIC G 15.

For more information on our strategy, please refer to the section "Group strategy," PAGE 75 et seq.

The direction set in 2010 still applies today. Nevertheless, in June 2012, we decided to further develop, simplify, and focus our strategy and center it even more firmly on the customer.

G 15

2010 to 2012: Successes.

Fix

- Everything Everywhere joint venture: good operating performance and significant value accretion due to synergies leveraged
- United States: improved position following the termination of the agreement with AT&T
- Germany: broadband share largely stable

Transform

- One Company in Germany, Slovakia, Hungary and Croatia
- Save for Service target to save EUR 4.5 billion by 2011 achieved one year ahead of schedule
- Telekom IT established – IT expenditure to be reduced by EUR 1 billion by 2015

Innovate

- Revenue from growth areas largely on track for 2015 ambition level
- Innovation priorities defined across the Group
- Partnerships intensified

HIGHLIGHTS IN THE 2012 FINANCIAL YEAR.

Developments at senior management level.

On December 20, 2012, **René Obermann** asked the Supervisory Board to release him from his duties as the Company's Chairman of the Board of Management effective midnight on December 31, 2013. The Supervisory Board complied with this request and revoked his appointment with effect from this date by mutual agreement. The Supervisory Board also resolved to appoint **Timotheus Höttges** as Deputy Chairman of the Board of Management effective January 1, 2013, in addition to his existing duties. He is to be appointed Chairman of the Board of Management in the course of 2013, effective January 1, 2014.

Effective midnight on May 31, 2012, Dr. Manfred Balz's appointment as member for the Board of Management responsible for Data Privacy, Legal Affairs and Compliance was revoked by mutual agreement. **Dr. Thomas Kremer** was appointed as his successor in this role effective June 1, 2012.

Effective midnight on May 2, 2012, Thomas Sattelberger's appointment as member of the Board of Management responsible for Human Resources and as Labor Director came to an end. Effective May 3, 2012, the Supervisory Board appointed **Prof. Marion Schick** as member of the Board of Management responsible for Human Resources and as Labor Director.

Employees.

2012 collective bargaining concluded in Germany. In the negotiations for the 2012 round of collective bargaining for Deutsche Telekom AG, Telekom Deutschland GmbH and its service companies, and T-Systems, the parties reached agreement. As a result of this collective bargaining, the salaries of employees covered by collective agreements will gradually increase by 6.5 percent overall by 2013. The collective agreements run until the end of January and March 2014, respectively.

The German Federal Government and the Bundestag, the lower house of the German Parliament, adopted the draft 2012/2013 Federal Civil Servant Remuneration and Pension Adjustment Act (Bundesbesoldungs- und Versorgungsanpassungsgesetz). The bill provides for the transfer of the collective agreement for the federal public sector to civil servants. Pay for civil servants at Deutsche Telekom will gradually increase by 5.7 percent overall by August 2013.

Early retirement program for civil servants extended. We extended our early retirement program for civil servants in Germany and offered our civil servants a limited early retirement program until the end of 2012. Payments will be spread over the next six to seven years.

Shape Headquarters. We already launched extensive structural and personnel measures in 2012 to realign the central management and service functions of our Group. On January 1, 2013, the green light was given for our new Group Headquarters & Shared Services. The plan is to make Headquarters much more efficient, to reduce complexity, and to increase effectiveness. Compulsory redundancies have been ruled out until 2015 for employees for whom no position becomes available during the course of the reorganization.

OTE exit scheme. On November 7, 2012, OTE's Board of Directors approved a voluntary and socially responsible exit scheme which was implemented in the fourth quarter of 2012. The successful implementation of the voluntary exit scheme allows OTE to significantly reduce its operating expenses, enhance its competitiveness, and proceed with the company's transformation. The scheme's initial target was significantly exceeded, as 1,516 employees accepted the incentives offered by the company. OTE estimates the net annual cost savings from downsizing to reach about EUR 80 million. It should be noted that the voluntary exit scheme entails no burden for Greek state pension funds, as OTE bears the entire cost.

Magyar Telekom reaches agreement with trade unions. According to the terms of the agreement, the company plans to make 500 employees redundant in 2013. In addition, to achieve further efficiency improvements, organizational restructuring will take place as of January 1, 2013 and one element of social benefits will also be reduced by 25 percent. The agreement also states there will be a four-percent general increase in the base salary for the parent company employees from April 2013 to maintain the real value of wages for those who stay with the company. Based on these measures, Magyar Telekom's goal is to reduce Total Workforce Management-related costs excluding severance and capitalized employee expenses by HUF 5.8 billion (around EUR 19 million) in 2013.

Business combination of T-Mobile USA and MetroPCS agreed.

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.

As part of this transaction, Deutsche Telekom AG will contribute T-Mobile USA into the listed company MetroPCS and in return receive a 74-percent stake in the capital stock of the combined company through a capital increase. The remaining share of 26 percent will be held by the previous shareholders of MetroPCS, who will also receive a one-time cash payment of USD 1.5 billion from MetroPCS.

The transaction triggered an impairment test, which as of September 30, 2012 resulted in an impairment loss on goodwill, other intangible assets and property, plant and equipment of T-Mobile USA of around EUR 7.4 billion in total (after taxes).

For further information on this impairment loss, please refer to **NOTE 30** "Depreciation, amortization and impairment losses" in the notes to the consolidated financial statements, **PAGES 253 – 254.**

Since the transaction is, in accounting terms, structured as a reverse acquisition, the existing carrying amounts of the assets and liabilities of T-Mobile USA will be carried forward upon its closing (expected in the first half of 2013). The carrying amounts of the assets and liabilities of MetroPCS, by contrast, will be remeasured at fair value within the scope of the business combination. Upon closing, the combined company will be shown as a fully consolidated entity in the consolidated financial statements of Deutsche Telekom and its shares are expected to be traded on the New York Stock Exchange (NYSE). The company's head office will continue to be in Bellevue, Washington, and it will retain a presence in Dallas, Texas.

The transaction is subject to approval by the U.S. Department of Justice (DOJ), the Federal Communications Commission (FCC) and the Committee on Foreign Investment in the United States (CFIUS). The approval of the MetroPCS shareholders is also required. Deutsche Telekom and MetroPCS expect to obtain all the necessary approvals in the first half of 2013.

The agreed business combination offers an excellent basis for the future of the U.S. operations thanks to an improved mobile spectrum position and additional financial resources. Deutsche Telekom expects to leverage synergies with a net present value of USD 6 to 7 billion. Advantages arise from a wider selection of affordable products and services, improved network coverage, and a clear-cut technology path to one common LTE network. The combined company will be able to provide mobile services for approximately 42.5 million customers in the United States.

Corporate transactions.

T-Mobile USA receives around USD 2.5 billion for cell towers. On September 28, 2012, T-Mobile USA concluded a framework agreement with Crown Castle International Corp., Houston/United States, (Crown Castle) concerning on the one hand the leasing and use of around 6,300 cell towers and, on the other, the sale of around 800 cell towers by T-Mobile USA. In exchange for a one-time payment of around USD 2.5 billion, Crown Castle received the sole right to use and lease out the cell sites for an average of 28 years. Payment took place once the agreement was concluded in the fourth quarter of 2012. T-Mobile USA will continue to operate its mobile equipment on these cell towers and, to this end, lease back the required capacity from Crown Castle. Previously unused infrastructure is thus available for lease by third parties.

For more details on this transaction, please refer to the combined management report for the 2011 financial year **(2011 ANNUAL REPORT, PAGE 147).**

The **sale of the stake in Telekom Srbija** was completed on January 25, 2012.

Partnerships.

We have signed a partnership agreement with **Telefónica Germany** for the shared use of parts of our network infrastructure. We have increased our stake in the IT service provider **HMM Deutschland** in order to further expand our healthcare business area. One of the aims is to drive forward the digital data flow between health insurance funds, pharmacies, and medical supply stores.

Thanks to our partnership with the credit card provider **MasterCard,** we are giving a new boost to paying by smartphone. We want it to be convenient, secure and easy for customers to pay wherever they are.

In the second quarter, we entered into a partnership with the network technology provider **ANTEC Servicepool GmbH,** contractually agreeing to supply around 33,000 apartments in the Hanover region with TV and radio coverage. In the future, we plan to cover additional homes through this partnership. The partnership concluded in 2011 with the real estate company Deutsche Annington is the basis for our re-entry into the German cable market.

PAYBACK – the largest German customer loyalty program – has made us their exclusive partner for the entire telecommunications segment. More than 20 million PAYBACK customers will gain PAYBACK points when they sign a fixed-network or mobile contract.

Investments in networks and new spectrum.

LTE network roll-out in Germany. Together with the other two 800 MHz network operators, we have met the **LTE roll-out obligations in Germany** in all of the 16 federal states. The gaps have been closed – even rural regions now have access to broadband Internet. Having satisfied the roll-out obligations, we can now use the assigned frequencies in the 800 MHz range across Germany without restrictions. This enables transmission speeds of up to 50 Mbit/s.

As previously announced, by the end of 2012 we had rolled out **high-speed LTE** in Germany's 100 largest towns and cities. The high-speed version of LTE, which currently only we offer, uses the 1.8 GHz frequency range, enabling bandwidths of up to 100 Mbit/s. This exclusivity gives us an edge over our competitors in the marketing of Apple products, like the iPhone 5 and the new iPad.

LTE network roll-out in Europe. In **Hungary** we are the first company to provide mobile Internet services based on 4G/LTE mobile technology. 4G/LTE services are not only available in the capital city Budapest, but also in the entire Budapest metropolitan area and a number of other cities. In **Croatia**, too, we were the first provider to launch 4G/LTE mobile technology in March 2012 and we further increased its availability over the course of the reporting year. Cosmote **Greece** has launched the country's first commercial 4G/LTE mobile broadband network in Athens and Thessaloniki for USB modem and tablet computer users. In **Austria** we have successfully modernized our network, i.e., upgraded our GSM infrastructure and installed new transmitter technology. More than 5,500 base stations were converted to the latest multi-standard technology. We are now ready for LTE roll-out in Austria.

Successful participation in license auctions in Europe. In **Romania** our subsidiary purchased new spectrum in the frequency ranges of 0.8 GHz, 1.8 GHz, and 2.6 GHz and extended the existing licenses in the frequency ranges of 0.9 GHz and 1.8 GHz. The new licenses will be valid from April 2014 and have a term of 15 years. In **Croatia,** our subsidiary successfully participated in the allocation of the 0.8 GHz spectrum, purchasing two times 10 MHz for the roll-out of an LTE network. The license for the spectrum runs for twelve years. In the **Netherlands,** our subsidiary purchased licenses at auction for the frequency ranges from 0.9 to 1.8 GHz and in the 2.6 GHz range. All of these licenses will run until the year 2030.

Transfer of AWS spectrum licenses in the United States. In April 2012, the U.S. regulatory authority for the telecommunications market, FCC, announced its approval for the transfer of Advanced Wireless Service (AWS) spectrum licenses in the United States; this transfer was completed on May 4, 2012. These licenses were part of the compensation that AT&T had to provide to Deutsche Telekom following the termination of the agreement for the sale of T-Mobile USA.

TeraStream – the new, cloud-based IP network architecture. In the fourth quarter, we gave the green light for the pilot testing of the new TeraStream architecture in Croatia. This is 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.

DEUTSCHE TELEKOM
INNOVATION.

For more information on our new products and innovative services, please refer to the section "Innovation and product development," **PAGE 137 et seq.**

New products.

On August 31, 2012, we launched our **De-Mail** service, which allows users to send and receive documents over the Internet securely, confidentially and verifiably. Since the start of September 2012, our mobile customers in Germany have been able to surf the Internet on a smartphone at up to 100 Mbit/s using our new add-on **Speed Option LTE.** We are currently the only provider to offer such speed, and the only one to do so on the iPhone 5, among other handsets. Since October 2012, as exclusive partner for the music streaming service **Spotify,** we have been the first German telecommunications company to offer a flat-rate calling plan with the Spotify premium service as an add-on option.

More and more companies are relying on the cloud – T-Systems wins new deals.

A mega trend: the cloud. Companies in Germany and abroad are increasingly using applications and computing and storage capacities on demand via the Internet. We are pioneers in this growth market and have been offering cloud services for corporate customers since 2005. We were again successful in the reporting year. The mineral oil and gas company **Shell** extended its agreement for the purchase of global data center services, which has been in place since 2008, by five years. T-Systems will continue to provide all SAP services for Shell's global locations from within the cloud. The energy group **BP** has chosen cloud services provided by T-Systems for its employee communications; this will allow more than 83,000 BP employees around the world to access their usual communication services from anywhere at any time. T-Systems signed a deal with the Swiss industrial group **Georg Fischer** to provide global ICT services. Under the contract, which has a term of six years and three months, T-Systems will bundle Georg Fischer's IT infrastructure and manage it from the cloud. T-Systems also closed one of the largest cloud deals in its history with the tobacco group British American Tobacco **(BAT).** The deal has a seven-year term. Over the next two years, T-Systems will transfer BAT's business software into the cloud.

Glossary, **PAGE 301 et seq.**

The cloud was not the only business driver. In 2012 we successfully concluded a series of international deals and extensions to deals in other areas, too. Telekom Deutschland won automotive manufacturer **BMW** as a mobile customer with a contract that runs to the end of 2019. In addition to providing mobile cards for more than 50,000 BMW employees, the contract also includes a direct link between the mobile cards and BMW's business processes. Text messages and mobile data connections, for example, will be used as part of logistics and manufacturing processes, thereby optimizing production workflow. **Fraport** operates Frankfurt Airport, one of the world's leading air traffic hubs. We have assumed responsibility for 15,000 fixed and around 6,000 mobile lines at this airport. In addition to mobile and fixed-network technology, Fraport procures Internet access as well as data center, network and service desk services. The energy provider **RWE** Deutschland is relying on our infrastructure and services for communication with 15,000 of the digital electricity meters in Mülheim/Ruhr. To this end, we installed smart meters and the communication boxes necessary for remote reading. The "Mülheim zählt" (Metering in Mülheim) project is to date the largest smart metering project in Germany.

Awards.

In Germany, we were voted Mobile Network Operator of the Year for the thirteenth time running by readers of the trade magazine **"connect."** We were also named best mobile network operator by readers in Austria. The "connect" 2012 network test in Germany produced a clear result. Customers found us to be the best and most reliable provider of both phone calls and mobile Internet. In Austria, we were given the overall rating of "very good" in the "connect" network test and were top of the line in the category of voice quality. Our German mobile network also took first place – for the third time in a row – in another network test by the **CHIP Online** portal.

We also received recognition for our social commitment. This year, we once again made it into the two most renowned **sustainability indexes,** the Dow Jones Sustainability Index World and Dow Jones Sustainability Index Europe. Only the top ten percent of an industry are included in these indexes and hence recommended to sustainability-focused investors and fund managers as top investments.

Our national company in the Czech Republic was named best mobile communications provider in Eastern Europe by the **World Finance** magazine.

Regulatory decisions.

Integrated network strategy. On December 19, 2012, Deutsche Telekom AG submitted an application to the Federal Network Agency for an amendment to the regulatory order on the regulation of unbundled local loop lines. Our aim is to work toward a change in the regulatory framework so as to give us the greatest possible flexibility for the vectoring roll-out. Vectoring is a technology enhancement based on VDSL. The existing copper lines between households and cable distributors can remain in place. Vectoring ensures that the signal frequencies that reduced data transmission rates on the copper wire are equalized and enables transmission speeds of up to 100 Mbit/s.

For details on **regulatory decisions in 2012,** please refer to the section "The economic environment," **PAGE 84 et seq.** 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 149 et seq.**

Litigation.

The following proceedings developed positively in the reporting year: "Claim for compensation against the Federal Republic of Germany and KfW," "Year-end bonuses for civil servants," and the "Proceedings initiated by the Croatian competition authority against Hrvatski Telekom."

For more information, please refer to the section "Risk and opportunity management," **PAGE 149 et seq.**

GROUP ORGANIZATION.

■ Business activities and organization ■ Management and supervision ■

BUSINESS ACTIVITIES AND ORGANIZATION.

Business activities: Leading service provider in telecommunications and information technology. We are one of the world's leading service providers in the telecommunications and information technology industry and offer our millions of customers a wide variety of products and services for connected life and work. We have an international focus and are represented in around 50 countries. In the 2012 financial year, we generated over half of our revenue of EUR 32.4 billion outside of our home market in Germany and employed 229,686 people overall (December 31, 2012).

Our activities are guided by key trends in technology and society, which we play a pivotal role in shaping. One such trend is digital technology, which is increasingly prevalent in many areas of life. Products and services are becoming more personalized, people are more mobile than ever before, and globalization is advancing, too. There is growing convergence among the various technologies. This is the reason why we are focusing on an integrated portfolio of products with which customers can access personalized data such as music, videos, or addresses from any terminal device. Through fixed-network and mobile communications, we offer network access as well as communication and value-added services with ever-expanding bandwidths. Our innovative products and services enable people to stay in touch.

Not only do our customers in Germany receive tailor-made products and services, they also get the best network quality – and all from a single source. The T is our Group brand and will also be an integral part of the brand identity of our foreign shareholdings in the future.

In addition to our core business (traditional fixed-network and mobile access), we are tapping new growth areas with investments in intelligent networks and our portfolio of IT, Internet, and network services.

For more information, please refer to the section "Group strategy," PAGE 75 et seq.

We are systematically implementing our strategy, which was developed further in 2012, in four strategic areas of operation, focusing on three principles: compete, transform and innovate.

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 operators, or MVNOs).

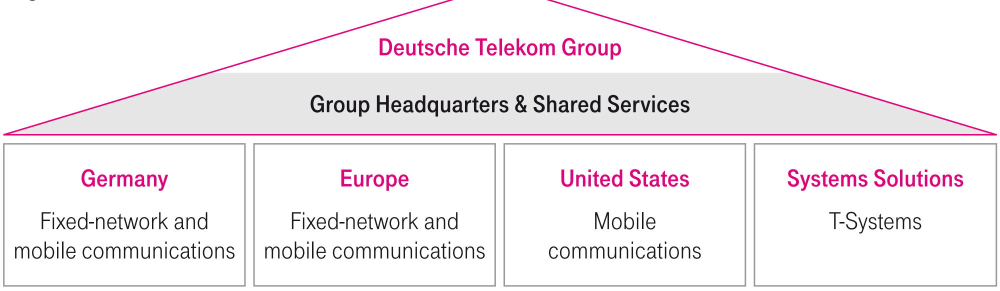
Glossary, PAGE 301 et seq.

T-Systems, our corporate customer arm, is active in the field of network-centric ICT solutions where it offers combined IT and telecommunications services. T-Systems supplies complete solutions for companies with global operations. In addition, it focuses on services such as cloud computing and IT solutions for sectors that are undergoing major changes like energy, healthcare, and the connected car.

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.

G 16

Organizational structure.



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 **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, Bulgaria, Albania, the F.Y.R.O. Macedonia, and Montenegro, as well as the UK joint venture. In addition, various national companies also offer ICT solutions to business customers. 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 **United States** operating segment combines all mobile activities in the U.S. market.

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. Its products and services offered range from standard products and IP-based high-performance networks through to complete ICT solutions.

Group Headquarters & Shared Services comprises all Group units that cannot be allocated directly to one of the operating segments. Group Headquarters is responsible for strategic and cross-segment management functions. The Shared Services unit, which provides services primarily in Germany, is responsible for all other operating functions not directly related to the operating segments' core business activities. In addition to typical services such as financial accounting, human resources services, and operational procurement, Shared Services also includes Vivento, which is responsible for providing employees with new employment opportunities as part of the workforce restructuring program, Real Estate Services, and the Mobility Solutions unit, a full-service provider of fleet management and mobility services.

New developments in 2012. Since January 1, 2012, Deutsche Telekom has pooled the tasks and functions of the Digital Services growth business as well as the Internet service provider STRATO, which as of December 31, 2011 were still largely part of the Germany operating segment, in the Digital Business Unit (DBU) under Group Headquarters & Shared Services.

Effective July 1, 2012, Deutsche Telekom reorganized the Group's IT infrastructure and transferred all internal IT units from the Germany and Systems Solutions operating segments as well as Group Headquarters & Shared Services into the new Telekom IT unit within the Systems Solutions operating segment.

For more information, please refer to **NOTE 32** "Segment reporting" in the notes to the consolidated financial statements, **PAGE 256 et seq.**

The prior-year figures have been adjusted for better comparability.

New developments in 2013. On January 1, 2013, the green light was given for our new Group Headquarters & Shared Services organization. In addition to focusing on the strategic management of the Group, the reorganization aims to improve service culture and strengthen entrepreneurship within the service functions. Furthermore, we plan to make Headquarters more efficient, reduce complexity, and enhance efficiency while bearing in mind the needs of internal customers at all times. Our new Group Headquarters is responsible for aligning and steering the Group as a whole, issuing rules and regulations, carrying out Group-wide strategic projects, and measuring their implementation and success. The newly formed Shared Services units provide services to the entire Group.

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, 2012, 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. Effective midnight on May 2, 2012, Thomas Sattelberger's appointment as member of the Board of Management responsible for Human Resources and as Labor Director came to an end. Effective May 3, 2012, the Supervisory Board appointed Prof. Marion Schick as member of the Board of Management responsible for Human Resources and as Labor Director.

Effective midnight on May 31, 2012, Dr. Manfred Balz's appointment as member for the Board of Management responsible for Data Privacy, Legal Affairs and Compliance was revoked by mutual agreement. Effective June 1, 2012, Dr. Thomas Kremer was appointed as his successor in this role.

On December 20, 2012, René Obermann asked the Supervisory Board to release him from his duties as the Company's Chairman of the Board of Management effective midnight on December 31, 2013. The Supervisory Board complied with this request and revoked his appointment with effect from this date by mutual agreement. The Supervisory Board also resolved to appoint Timotheus Höttges as Deputy Chairman of the Board of Management effective January 1, 2013, in addition to his existing duties. He is to be appointed Chairman of the Board of Management in the course of 2013, effective January 1, 2014.

Changes in the composition of the Supervisory Board. Ulrich Hocker resigned his seat on the Supervisory Board on May 24, 2012 with effect from the end of the shareholders' meeting. The shareholders' meeting elected Dagmar P. Kollmann as a member of the Supervisory Board. Also at the shareholders' meeting on May 24, 2012, the Supervisory Board members Dr. Hans Bernhard Beus, who had previously been court-appointed as a member of the Supervisory Board, and Lawrence H. Guffey, who stood for a second term of office, were elected to the Supervisory Board for the period up to the end of the shareholders' meeting that will approve the actions of the Supervisory Board for the 2016 financial year.

Michael Löffler stepped down from the Supervisory Board effective midnight on May 31, 2012. Klaus-Dieter Hanas was court-appointed as his successor with effect from June 1, 2012.

Hans Martin Bury stepped down from the Supervisory Board effective midnight on October 31, 2012. Sari Baldauf was court-appointed as his successor with effect from November 1, 2012 until the end of the 2013 shareholders' meeting. Sari Baldauf will be proposed for election at the 2013 shareholders' meeting.

Hermann Josef Becker stepped down from the Supervisory Board effective midnight on December 31, 2012. His successor, Petra Steffi Kreusel, was court-appointed to the Supervisory Board with effect from January 1, 2013 until the end of the 2013 shareholders' meeting.

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

T 007

Composition of the Board of Management as of December 31, 2012.

Members of the Board of Management	Department
René Obermann	Chairman of the Board of Management (CEO)/ United States
Reinhard Clemens	T-Systems
Niek Jan van Damme	Germany
Timotheus Höttges	Finance (CFO)
Dr. Thomas Kremer	Data Privacy, Legal Affairs and Compliance
Claudia Nemat	Europe & Technology
Prof. Marion Schick	Human Resources

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 281 et seq.**

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. Pursuant to the VorstAG explanatory memorandum (document 16/13433), the contracts of the Board of Management members that were in existence before the Act entered into force enjoy vested rights protection. These Board of Management members nevertheless have the option of voluntarily changing over to the new compensation system. As at December 31, 2012 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 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 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.

GROUP STRATEGY.

Our strategy today is the foundation for our success tomorrow

Deutsche Telekom is one of the world's leading providers of telecommunications and information technology, a position that we want to reinforce. This is no simple task; after all, the traditional access business markets are subject to intense competition. But we also see growth opportunities, for instance, in markets for mobile data usage and cloud and Internet services.

We are still on course, but the challenges are greater than ever. Our strategy defines the framework for the long-term success of our Group. We formulated the Fix – Transform – Innovate strategy in 2010 which we have been implementing successfully ever since. This focus still applies today. We will keep following the charted course. We have also decided to further develop, simplify, and focus our strategy and center it even more firmly on the customer. This can also be seen in our new strategic vision:

Deutsche Telekom – My first choice for connected life and work.

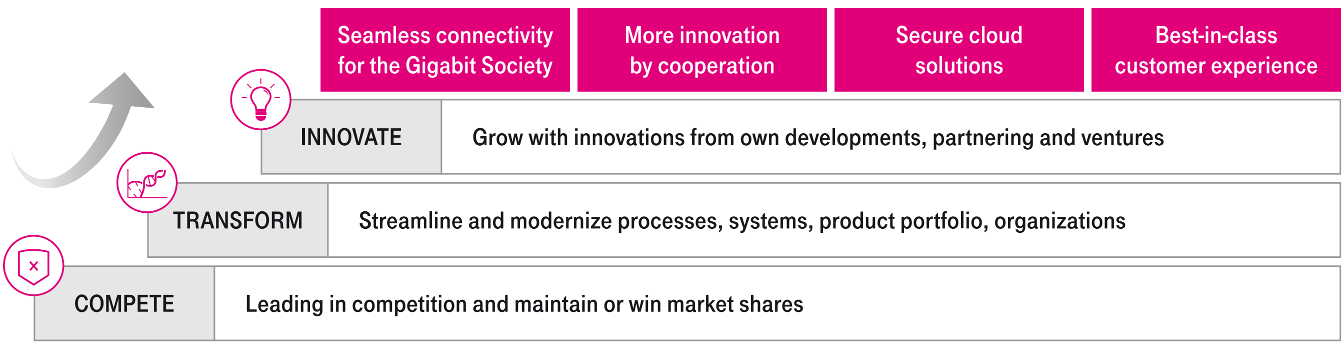
With this approach we are focusing even more firmly on the customer. Whether consumers, business customers or corporate customers – we want to be everyone's first choice. We intend to achieve this by concentrating on four strategic areas of operation as shown in GRAPHIC G 17.

In implementing these four areas of operation, we focus on three principles: Compete, Transform and Innovate. Specifically, this means:

- We **compete** for our customers to maintain or improve our market position.
- We **transform** our processes and systems to remain competitive.
- We **innovate** in all areas of our Company to achieve further growth and drive forward innovation.

G 17

Corporate strategy.



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. We will build a nationwide, high-performance network with gigabit speed through a mix of intelligent technologies. We are driving forward network roll-out both on the basis of both mobile solutions such as LTE and UMTS, and the fixed network. We are investing in networks and technologies. In the previous year alone, expenditure for fixed- and mobile-network technologies totaled more than EUR 5 billion. This is paying off. In 2012, for example, we once again won the mobile network tests conducted in Germany by the magazines CHIP Online and “connect.”

Glossary, **PAGE 301 et seq.**

In the fixed network, we are focusing on the roll-out of optical fiber and the **vectoring technology.** We have thus connected 382,000 households in 20 German cities to the optical fiber network since 2010. In future, we want 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, by using the vectoring technology on existing copper lines, to the home to realize bandwidths of up to 100 Mbit/s. We furthermore plan to share the opportunities and risks inherent in this build-out through new forms of partnership with competitors such as NetCologne, 1&1 Internet AG, and Telefónica Deutschland. The Federal Network Agency approved a corresponding pricing model in 2012 which has become known as the VDSL contingent model. In addition, we are increasingly presenting ourselves as a partner for the housing sector, thereby intensifying competition with the cable companies. In cooperation with ANTEC Servicepool GmbH and Deutsche Annington, we will supply more than 200,000 apartments with TV and radio services and offer the tenants suitable broadband packages in the coming years.

Please also refer to “Regulatory influence on Deutsche Telekom’s business,” **PAGES 88 – 89.**

Even better network coverage and higher transmission rates are the most important targets we set ourselves in mobile communications. With LTE now available in more than 100 German cities, we are already offering transmission rates of up to 100 Mbit/s. LTE transmission rates are scheduled to be available to around 85 percent of the population by 2016. The Federal Network Agency now considers the coverage obligation for rural areas throughout Germany to be met by LTE; more than 4,731 cell towers have already been put into operation for this purpose. In Europe, our customers in Austria, Hungary, Croatia, and Greece also profit from the new technology. LTE is scheduled to be launched in Poland, the Czech Republic, Montenegro, and the Netherlands in 2013.

With LTE-enabled handsets like the iPhone 5 or the Samsung Galaxy SIII LTE, we offer the optimum combination of top devices and the best network. At the same time, we are continuing to modernize our UMTS network. HSPA plus already allows us to offer speeds of up to 42 Mbit/s. Our customers also stay well connected on the move. Passengers use our services to get online while traveling on some 1,700 kilometers of Deutsche Bahn’s Intercity Express (ICE) route network and on board of six airlines.

T-Mobile USA continues to push ahead with initiatives as part of its challenger strategy, which include in particular the nationwide upgrading of its network with an investment volume of USD 4 billion. The agreed business combination with competitor MetroPCS will create a new company on the U.S. mobile market with a clear technology focus on a shared, modern LTE network and the aim of offering customers best value for money. This will enable T-Mobile USA to offer customers a wide selection of affordable products and services in conjunction with even greater network coverage. In 2013, we will also delight our customers with Apple products.

More innovation by cooperation.

DEUTSCHE TELEKOM INNOVATION.

Our Group not only makes use of its own innovations, but it also successfully integrates innovations from outside the Group. For us, innovation should be based on a three-way approach: in-house developments, partnerships, and equity investments. T-Labs, for example, is our central research and innovation unit. In our Digital Business Unit (DBU), we are focusing on product development in six business areas: communication services, media/entertainment, cloud services, advertising, the portal and display business, and payment services. The importance of platforms is increasing, especially in the Internet business. Deutsche Telekom's strength lies in setting up and managing such complex ecosystems, for example for home networking, machine-to-machine (M2M), or cloud services. We are also making use of small-scale partnerships with start-ups as well as global strategic partnerships in order to profit from external innovative power. We secure access to new business concepts and technologies through equity investments made by our venture capital company T-Venture. In addition, we have set up an incubator for start-ups called hub:raum.

In order to ensure that innovation continues to flourish in our Company, we have established a new system of innovation governance. As part of this initiative, we have set up a Product & Innovation Board which, under the lead of our CEO, makes key decisions in the area of innovations. In addition, we have set Group-wide **innovation priorities (corporate priorities),** which we are now implementing step by step in many countries. Currently, they comprise the following topics: the business marketplace with cloud applications for small- and medium-sized enterprises, the Joyn communication service, data machine-to-machine (M2M) transmission, and an ecosystem for mobile payments.

For further information on our innovation strategy and culture as well as examples of successful implementation, please refer to the section "Innovation and product development," **PAGE 137 et seq.**

Secure cloud solutions.

Cloud services are growing increasingly important and as such are a promising market for us. We have set ourselves the goal of enabling 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.

Our corporate customer arm, T-Systems, has been offering dynamic SAP services since 2005. Since then, its portfolio has been growing, via application migrations and data integration through to complex cloud services, meeting the strictest possible security standards. T-Systems runs a wide range of services and customer-specific cloud solutions within the hosting environment of 90 data centers around the world with more than 60,000 servers. 2.6 million SAP customers use our cloud services. Last year, we won a number of major deals, including BP and Georg Fischer AG. In order to offer our customers even easier and faster access to cloud services, T-Systems also entered into a strategic partnership with VMware, the world's leading provider of virtualization and cloud solutions.

Glossary, **PAGE 301 et seq.**

We also offer cloud services that are primarily tailored to the needs of our 2.2 million small and medium-sized business customers in Germany, e.g., virtual servers and security and application programs. In the reporting year, the online Business Marketplace was launched, where companies can flexibly book favorably priced business applications.

Our consumers have long since moved into the cloud. Smartphone Sync allows them to log in via any mobile device to the e-mail center in the TelekomCloud, giving them instant access to their up-dated e-mail, contact data, and schedules. The Media Center allows the customers to store their own documents, photos, videos, and music in the cloud and to access them from wherever they are. And it all works with any Internet-enabled device, whether smartphone, tablet PC, computer, or TV. The TÜV technical inspection agency agrees: Our online storage is secure, as is the customer data, since the servers are located in Germany, for example.

Since September, our consumers and business customers have been able to use our electronic letter service, **De-Mail.** De-Mail combines the advantages of the Internet with those of written communication. It is as fast and convenient as the conventional e-mail service and as secure and binding as a letter. De-Mail enables companies to transfer a large proportion of their written communication to the digital world, and enables private users to avoid having to meet in person to sign documents. Before the De-Mail service was launched, well over one million people had already reserved themselves a De-Mail address. Many well-known companies from the insurance and financial services industries have now signed up too.

Best-in-class customer experience.

We at Deutsche Telekom aim to delight our customers by offering best-in-class customer experience wherever or whenever customers come into contact with our Group – through advertising, in our Telekom shops, or through our products.

In 2012, the German Institute for Service Quality (DISQ) singled our shops out as the best mobile communication shops. We are also adopting new approaches to online support. Our “Telekom hilft” (Telekom helps) support channel on Facebook and Twitter is already very successful. To even further improve our customer service, we launched the “K1 – Kunde zuerst” (Customer first) program in Germany this year. It includes simplified order confirmation, faster software updates for Internet routers, and a special hotline to deal with escalation cases. Help on how to help yourself can be found in the free DSL Help app, which enables customers to troubleshoot faults in their broadband lines themselves, and in the “Wechselbegleiter” brochure which provides information for customers who want to switch from another provider to Deutsche Telekom, for example when they move house. The program will be continued over the coming year with additional topics.

Our Europe operating segment also launched an initiative to further enhance the customer experience. In these initiatives, it is important to take into account the differences between our subsidiaries, notably the varying levels of customer service. We have set up the program with a small group of our subsidiaries that develops concepts, implements appropriate measures, and shares its findings. T-Mobile Czech Republic will be the pilot, and a cross-functional program is under development. Hungary and Greece have already established programs to enhance customer satisfaction and are therefore also part of the core group. All other subsidiaries will benefit from the experience gained, since insights and best practices are shared in a forum.

Growth areas.

Advances in the strategic areas of operation are having a positive and direct effect on our key growth areas: mobile Internet, connected home, Internet services, T-Systems, and intelligent network solutions. Our overall objective is to increase revenue in these growth areas from EUR 15 billion in 2009 to around EUR 27 billion in 2015. We have lowered our original target by a total of EUR 2 billion, as changes in market expectations had a negative impact on the ambition level of our growth areas of Internet services and T-Systems (external revenue).

- **Mobile Internet** is our largest growth area; it includes all revenue that we generate with mobile data services. Our aim is to generate revenue of around EUR 10 billion by 2015.

- **Connected home** is another very important growth area for us. Here, we bundle all revenues that we generate with our existing double- and triple-play packages, i.e., our fixed-network-based voice, data, and TV services. This area also includes innovative products for the connected home, such as the Joyn communication service and the Qivicon home management platform. Our aim here is to generate around EUR 7 billion in revenue by 2015.

- We are also bundling all our **Internet services** in a single growth area that essentially consists of three pillars: 1. online advertising (e.g., on the web pages of the Scout group, on cell phones, and on our TV offerings); 2. the digital content of our Load family (e.g., Musicload and Videoload); and 3. what are known as near-access services, which include the roll-out of websites and the sale of security software. Our goal is to increase revenue from Internet services organically to around EUR 2 billion by 2015.

- In a further growth area, we measure all of **T-Systems' external revenues** which are bundled in the company's Market Unit, including, in particular, the business with innovative cloud services. Our aim is to generate around EUR 7 billion in total revenue in this growth area by 2015.

- The **intelligent network solutions** growth area comprises the business in socially relevant sectors that are undergoing major changes. **Energy:** With flexible, modular end-to-end solutions, we address the market needs of the energy industry. Our strength is efficiency in recording and processing mass data. **Healthcare:** Whether at the doctor's office, in hospital, in administration, or at home – we offer innovative information and communication technology to open up new pathways in prevention, care, and administration that reduce costs and improve quality. **Connected car:** With our products and services related to the connected car, we support new business models and meet economic requirements such as increased efficiency, compliance with regulations, rising numbers of electric cars, and the desire for integrated mobility concepts. Our aim is to generate around EUR 1 billion in revenue by 2015.

TABLE T 008 provides an overview of our growth areas, including target revenues.

T 008

Growth areas of Deutsche Telekom.

Revenue in billions of €	2012	Ambition level for 2015
Mobile Internet	6.4	≈ 10
Connected home	6.3	≈ 7
Internet services	1.0	≈ 2
T-Systems (external revenue) [a]	6.5	≈ 7
Intelligent network solutions (energy, healthcare, connected car)	0.1	≈ 1

[a] Excluding revenue from intelligent network solutions.

MANAGEMENT OF THE GROUP.

■ Finance strategy for 2010 through 2012 implemented ■ Finance strategy for 2013 through 2015 adopted ■ 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 stakeholders 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 and prospects for the future, and that any necessary staff restructuring will be done in a socially responsible manner.
- **"Entrepreneurs within the enterprise"** expect sufficient investment funding to be able to shape Deutsche Telekom's future business and develop products, innovations, and services for the customer.

FINANCE STRATEGY.

Please also refer to "Comparison of our stakeholders' expectations with actual figures," PAGE 62.

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, socially responsible staff restructuring, and new investment. Our three-year finance strategy for the years 2010 through 2012 has been implemented.

We presented our finance strategy for 2013 through 2015 at our Capital Markets Day in Bonn at the start of December 2012. With a clear statement on our old and new financial ratios – relative debt (ratio of net debt to adjusted EBITDA) and equity ratio – and on a liquidity reserve of 24 months, we want to maintain an A–/BBB rating. We also aim to ensure unrestricted access to the capital market. For shareholders, a dividend statement for the 2013 and 2014 financial years has been issued. 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. We plan to give shareholders the choice of a cash dividend or a dividend in the form of shares in Deutsche Telekom AG. This offers the opportunity for investors 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. We want to offer our shareholders this option for the 2012 financial year already.

Glossary, PAGE 301 et seq.

Our plans provide for much higher overall investment in the next three 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 the 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 in 2013 and 2014. Our dividend plans offer our shareholders both an attractive return and planning reliability.

G 18

Our three-year finance strategy for 2013 through 2015.

Equity

New **shareholder remuneration** policy

Dividend [a]
Financial year 2012: **€ 0.70/share**
Financial year 2013: **€ 0.50/share**
Financial year 2014: **€ 0.50/share**
Financial year 2015: to be determined

Attractive option: dividend in kind

4 STAKEHOLDER MANAGEMENT

Telco Plus

COMPETE TRANSFORM INNOVATE

Value creation

1 EFFICIENCY MANAGEMENT
Reduce indirect costs by € 2 billion [b] and increase ROCE to 5.5 % (+150 base points)

2 PORTFOLIO MANAGEMENT
No major mergers & acquisitions; strategic review of Scout group and Everything Everywhere joint venture

3 RISK MANAGEMENT
Low risk country portfolio (85 % of SOTP [c])

Debt

Undisputed **access to debt capital markets**

Rating: A–/BBB
Net debt/adjusted EBITDA: 2 to 2.5 x
Equity ratio: 25 to 35 %
Liquidity reserve:
covering maturities of the coming 24 months

4 STAKEHOLDER MANAGEMENT

[a] Subject to necessary approval by the shareholders' meeting and board resolution.
[b] Cumulative delta by 2015 vs. 2012 base line.
[c] Sum of the parts.

The finance strategy supports our corporate strategy as we transform the Group from a pure telecommunications provider into a "telco plus."

To generate a sustainable increase in value, we are also verifying all opportunities for change within our portfolio, for instance in regard to our joint venture Everything Everywhere (EE) and the Scout group. We are continuing to implement our efficiency programs in a move to cut our indirect costs by EUR 2 billion. Our professional risk management assists us in preparing the ground for a strong future of our Company in a manner that responds to the expectations of all of our stakeholders.

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 T 009 provides an overview of our key performance indicators (KPIs):

T 009

Key performance indicators.

		2012	2011	2010	2009	2008
ROCE	%	(2.3)	3.8	3.5	3.9	–
Net revenue	billions of €	58.2	58.7	62.4	64.6	61.7
Adjusted EBITDA	billions of €	18.0	18.7	19.5	20.7	19.5
EBITDA	billions of €	18.1	20.0	17.3	19.9	18.0
EBIT	billions of €	(3.8)	5.6	5.5	6.0	7.0
Free cash flow [a]	billions of €	6.2	6.4	6.5	7.0	7.0
Gearing		1.2	1.0	1.0	1.0	0.9
Relative debt		2.1	2.1	2.2	2.0	2.0

[a] Free cash flow before dividend payments, spectrum investment, and PTC and AT&T transactions.

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. **ROCE (return on capital employed)** has been our central KPI at Group level and for the individual operating segments since 2009. ROCE is the ratio of profit from operations 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 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). In the 2012 financial year, we generated ROCE of minus 2.3 percent.

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.

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

The development of these KPIs is illustrated in **TABLE T 009** "Key performance indicators," **PAGE 82.** For further details, please also refer to the section "Development of business in the Group," **PAGE 90 et seq.**

Earnings performance.

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 of different sizes.

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 2012, the focus was on introducing the Group-wide payment policy adopted in 2010 for improved liabilities management in Europe and the United States, and further improving it in Germany. We continue to work on optimizing receivables management throughout the Group, especially in our Europe, United States, and Systems Solutions operating segments. In the next few years, we intend to continue on this path we have taken, focusing on further improvements on the basis of the payment policy, receivables and inventories management at T-Mobile USA and in Europe, and working capital management at the OTE group.

THE ECONOMIC ENVIRONMENT.

■ Global economic slowdown in 2012 ■ ICT market grows in the emerging economies and stagnates in Europe ■

GLOBAL ECONOMIC DEVELOPMENT.

The global economy slowed more and more over the course of 2012. Around the globe, growth was impeded by the sovereign debt crisis resulting from the global economic crisis and the necessary consolidation of public budgets. In addition, the emerging economies also lost some momentum in the second half of 2012. At the same time, growth in many European economies was stagnating or in recession. National central banks around the world responded to this trend in fall 2012 by extending their expansionary monetary and fiscal policies. As a result of these measures, by the end of 2012 the outlook for the global economy was once again more robust than it had looked in the previous months. The main leading business and consumer confidence indexes recovered slightly by the end of 2012.

Almost all large industrial nations and emerging economies suffered a slowdown in the second half of 2012, albeit to varying degrees. In Germany, economic growth slumped in the second half of the year; however, the labor market has so far remained robust. The U.S. economy recorded moderate growth in 2012. Unemployment declined slightly over the course of the year. The economies of our Europe operating segment recorded uneven development again in 2012. In Greece, the economic situation deteriorated further. The economies of the Netherlands and the Czech Republic were recessive in 2012. In Hungary and Croatia, the recession was somewhat stronger at up to 1.7 percent. In Poland, Austria, and Slovakia, the economy developed in part moderately positively and in part relatively robustly, given the fact that GDP in these countries continued to grow. In the United Kingdom, stringent austerity measures in particular put the brakes on a more positive development.

The GDP growth rate trends in 2012 in our most important markets are listed in **TABLE T 010**.

T 010

GNP growth rates.

	Q1 2012 compared with Q1 2011 %	Q2 2012 compared with Q2 2011 %	Q3 2012 compared with Q3 2011 %	Q4 2012 compared with Q4 2011 %	Estimate for full year 2012 %
Germany	1.2	1.0	0.9	0.5	0.8
United States	2.4	2.1	2.6	1.9	2.3
Greece	(6.7)	(6.3)	(6.9)	(3.3)	(5.8)
Poland	3.5	2.3	1.9	1.1	2.2
Hungary	(1.3)	(1.4)	(1.6)	(1.9)	(1.6)
Czech Republic	(0.5)	(1.0)	(1.3)	(1.7)	(1.1)
Croatia	(1.4)	2.0	(1.9)	(1.5)	(1.7)
Netherlands	(0.8)	(0.6)	(1.3)	(0.8)	(0.9)
Slovakia	2.9	2.6	2.5	1.5	2.4
Austria	0.7	0.5	0.7	0.7	0.5
United Kingdom	0.2	(0.3)	0.0	0.4	0.1

Source: Oxford Economics, January 2013.

TELECOMMUNICATIONS MARKET.

The European initiative for information and communications technologies and entertainment electronics in Europe, EITO (European Information Technology Observatory), believes the global ICT market is on a stable growth course and expects a revenue increase of around 5.1 percent for 2012. Both the largest segment, information technology, and the telecommunications segment were growing, although with strong regional variations. The ICT industry is especially growing in the emerging economies, while it is stagnating or in recession in Europe. The weak development in Europe in the financial year was due to the increasingly tough competition and regulatory interventions, which brought with them a further drop in prices. The severe pressure to consolidate state finances has additionally led some countries to maintain special taxes for telecommunications companies in 2012 or to introduce new ones, as in Hungary for example.

In most of our core markets, the weak economic performance and the slightly falling consumer trend had only a limited impact on the ICT market. In countries where purchasing power dropped more substantially, a negative or decelerating impact was noticeable in the ICT sector.

The major market developments in our operating segments are described below.

Germany.

In Germany, there has been tough competition on the telecommunications market for years, in both the mobile communications and the fixed-network segments. The telecommunications industry is strongly affected by regulatory and political decisions.

The industry association BITKOM set telecommunications revenue for 2012 at EUR 66.4 billion, up 3.4 percent, primarily thanks to booming sales in smartphones and tablet PCs. Seven out of ten cell phones sold in Germany are smartphones. The strong growth in the smartphone and tablet PC segment creates tough competition, which is intensified by innovative data rates in mobile communications.

As in the past, there is wide variation in the development of telecommunications services. While business with mobile data services grew by 13 percent to EUR 8.5 billion, revenue from mobile calls decreased by 4 percent to EUR 12.8 billion. Business with voice services in the fixed network decreased by as much as 7.5 percent to EUR 11.3 billion. This was attributable not only to competition, but also to severe interventions by national and European regulatory authorities. Termination rates in Germany and roaming charges abroad have been falling for years. The proportion of total revenue from data services attributable to text and multimedia messages (SMS and MMS) has also been in decline for years. In 2009, it was still above 50 percent, this year it is expected to be 37 percent. In 2012, revenue from SMS and MMS in Germany is expected to remain almost stable at EUR 3.1 billion.

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. According to BITKOM, data traffic in German mobile communications doubled in the course of one year. By 2018, it is expected to be twelve times higher than the current level. This poses the challenge for the entire telecommunications market of providing the appropriate network infrastructure. In its broadband strategy, the German government has stipulated that bandwidths of at least 50 Mbit/s should be available to 75 percent of households by 2014 – regardless of the transmission technology. For local network and fiber-optic network operators, there is more and more competition from cable network operators, who continue to win market shares in the broadband market and already cover some 60 percent of German households with speeds of more than 50 Mbit/s.

New mobile rates with data and SMS flat rates mean that data and voice are converging. Thanks to the rapid roll-out of LTE, large mobile communications companies have good chances for increasing their market shares. Network quality is becoming substantially more relevant with the growing importance of data rates. In terms of broadband, LTE is no competition for the fiber-optic network. But in regions with low speeds, faster mobile solutions will grow more attractive as alternatives.

Europe.

The telecommunications markets in the countries of our Europe operating segment were again subject to tough competition in 2012. The very intense competitive environment includes traditional segments such as fixed-network and mobile communications business as well as ICT and Internet services. The already high number of existing and new market players (e.g., mobile virtual network operators, or MVNOs) increased the price pressure on our national companies, which was reflected in reduced retail prices. In addition, telecommunications revenues in European countries were impacted by the influence of public authorities, for instance, severe regulatory interventions that substantially reduced the national termination charges for mobile communications and the fixed network as well as roaming charges abroad. Under state austerity programs such as those in Greece, Hungary, and Croatia, changes in legislation had a negative impact on the telecommunications industry, e.g., infrastructure and special taxes. The telecommunications markets also suffered under the weak or restrained purchasing power in the countries of our Europe operating segment. In all countries except for Poland and Slovakia, GDP decreased or remained stable at a low level.

As a result, in all countries of our Europe operating segment, the telecommunications markets shrank or stagnated. Greece, Slovakia, and Croatia, for example, were strongly affected. In addition to the regulation-induced downward trends, consumers spent less on telecommunications owing to the current macroeconomic situation.

As in the prior year, there were two main trends in fixed-network business: broadband expansion and a diverse range of television content. High broadband coverage is a crucial competitive advantage. After all, consumers are increasingly using bundled products, e.g., broadband integrated with television. The forward-looking fiber-optic technology plays an important role in the expansion of broadband. For this reason, we are investing in the roll-out of the fiber-optic network in the countries of our Europe operating segment. In addition, ICT business on the telecommunications markets is developing into a growth driver, especially in the business customer segment. The demand for ever-faster data transmission rates is growing in mobile, too, so we are modernizing and upgrading our mobile networks in these countries by equipping them with the LTE mobile communications standard, amongst other things. For instance, in the reporting year we introduced LTE commercially in Hungary, Croatia, and Greece.

Compared with the prior year, integrated telecommunications companies offered more and more bundled mobile, broadband/television and fixed-network services in the year under review.

United States.

The slow growth of the U.S. mobile telecommunications market continued. Once again, increasing data revenue more than compensated for declining voice revenue. The market in the United States is 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 2012. This was driven by strong growth in smartphone adoption and rising postpaid average revenue per user.

Until 2011, the exclusive sale of the Apple iPhone was an important competitive advantage for AT&T. Verizon Wireless and Sprint-Nextel have also sold the iPhone in their mobile networks since February and October 2011, respectively. At our Capital Markets Day, held in Bonn in December 2012, we announced a sales partnership between T-Mobile USA and Apple. We expect this to even out the previous competitive disadvantage for T-Mobile USA in the course of 2013.

In October 2012, Deutsche Telekom announced the agreed merger with MetroPCS. In the fourth quarter, the Japanese conglomerate Softbank also announced a takeover offer for Sprint-Nextel. Sprint-Nextel in turn announced an offer to acquire the shares in Clearwire not already held by Sprint-Nextel. The regulatory authorities and the shareholders of Clearwire and Sprint-Nextel still have to approve these transactions. In January 2013, DISH, a U.S. satellite television operator, announced it would be submitting a takeover offer for Clearwire. The future development of the competitive situation in the United States will depend first and foremost on how the announced transactions will be implemented.

Systems Solutions.

The downturn of the global economy in 2012 impacted on the ICT market. The negative macroeconomic trend brought with it continued cost pressure, delayed investments, and increasing competition.

There was substantial variation in the development of the individual segments of the ICT market.

- The telecommunications market segment was relatively unaffected by the economic development. As in prior years, the market was dominated by ongoing intense competition and continued price erosion. The economic downturn is expected to have hardly any additional impact on the general downward trend, as was the case in the 2008/2009 economic crisis.
- The market for IT services grew again in 2012 following the crisis years. Recovery has been especially tangible in the area of Computing & Desktop Services. This is due not only to the development of traditional outsourcing business, but in particular to the growing success of cloud services. The IT project business largely depends on the economy. Following a sharp decline in 2009 and an equally strong recovery in 2010 and 2011, growth slackened again in the reporting year. Standard project business in the ERP (Enterprise Resource Planning), CRM (Customer Relationship Management), and SCM (Supply Chain Management) environments still recorded growth in 2012, whereas the industry-specific systems integration business declined.

Glossary, PAGE 301 et seq.

In terms of overall demand, a process of ongoing change can be observed. The growth and innovation topics of 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.

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REGULATORY INFLUENCE ON DEUTSCHE TELEKOM'S BUSINESS.

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 2012.

Regulation mainly came to bear in the following areas:

- Directives or other binding provisions at EU level; changes in legislation at national level, such as the amendment of the German Telecommunications Act (Telekommunikationsgesetz – TKG) and other regulations
- Regulation of charges
- Regulation of wholesale broadband services and investments in new networks and infrastructure (Next-Generation Network & Next-Generation Access; NGN & NGA)

Directives or other binding provisions at EU level; changes in legislation at national level, such as the amendment of the German Telecommunications Act (Telekommunikationsgesetz – TKG) and other regulations.

The European Commission announced refocusing of fixed-network regulation to encourage investments in broadband access networks. On July 12, 2012, the responsible Commissioner of the European Commission outlined key elements for the refocusing of EU telecommunications regulation. The main elements to improve the general conditions for investments in optical fiber networks are:

1. Stable prices for copper-based access products
2. Greater flexibility in setting prices for NGA wholesale products, which should no longer necessarily be based on cost-based rate regulation
3. In return, stricter requirements for the equal treatment of all customers for regulated wholesale products (non-discrimination)

This is in light of a new EU recommendation scheduled to be adopted in the second quarter of 2013 entitled "Consistent non-discrimination obligations and cost methodologies to promote competition and enhance the broadband investment environment." An initial draft was published on December 7, 2012 on the Commission's website and is currently being discussed with the Body of European Regulators for Electronic Communications (BEREC). It is not possible at present to estimate with sufficient certainty the potential impact of the recommendation on our results of operations, financial position, and cash flows.

EU roaming regulation from July 2012. As of July 1, 2012, a new EU roaming regulation entered into force, which lowered the price caps for wholesale and retail services and expanded transparency measures to cover roaming outside the European Union, too. In addition, the regulation sets down a wholesale access obligation – for example, for MVNOs – to stimulate competition through a greater variety of providers. To this end, the unbundling of roaming services and national services will enter into force from July 2014. Retail customers will then be able to conclude a second contract exclusively for roaming services with another provider, without the need for a second SIM card or new telephone number.

Amended Telecommunications Act. Due to amended EU directives, the German Telecommunications Act (TKG) was revised. The amended TKG , which entered into force on May 10, 2012, is intended to provide better incentives for investments in new infrastructure. Furthermore, it includes additional customer protection requirements. National telecommunications laws were also adjusted to reflect the EU directives in other EU member states where our subsidiaries are active.

Regulation of charges.

Regulation of mobile and fixed-network termination rates in Germany. On August 22 and August 24, 2012, the Federal Network Agency published the preliminary regulatory orders for mobile termination (MTR) and fixed-network termination (IC). Although the Federal Network Agency does not plan to further tighten regulation through a "pure LRIC" approach for rate regulation, the scope of regulation for fixed-network termination will be extended to include termination in next-generation networks. Based on these preliminary regulatory orders, the Federal Network Agency made preliminary rate decisions on November 16, 2012 and on November 30, 2012:

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- The mobile termination rate was lowered by 45 percent as of December 1, 2012 from 3.38 eurocents/min to 1.85 eurocents/min and as of December 1, 2013, to 1.79 eurocents/min.
- The fixed-network termination rate was reduced by 21 percent as of December 1, 2012 from an average 0.38 eurocents/min to 0.30 eurocents/min.

The decisions must still undergo EU-wide consultation.

For details, please refer to the section "Risk and opportunity management," PAGE 149 et seq.

Rate reduction at subsidiaries. In anticipation of the new reduced cost base resulting from the EU recommendation on termination rates becoming effective, most of our subsidiaries already cut mobile termination rates further in 2012. In the fixed network, the highest cuts in termination rates were those imposed at our subsidiaries in Greece, Romania, and the F.Y.R.O. Macedonia. At OTE in Greece and at MakTel in the F.Y.R.O. Macedonia, rates for wholesale services including unbundled local loop lines (ULLs) were reduced. Monthly charges for retail telephone lines were also reduced at MakTel. In Romania and the F.Y.R.O. Macedonia, fixed-network termination rates were reduced.

Regulation of wholesale broadband services and investments in new networks and infrastructure (NGN & NGA).

The Federal Network Agency has acknowledged Telekom Deutschland GmbH's **VDSL contingent model.** This new price model enables competitors of Telekom Deutschland GmbH to procure VDSL lines at lower prices if they enter into a purchase obligation by paying upfront for three percent of the households covered in one or more regions. After Telekom Deutschland GmbH had amended its VDSL contingent model, in particular by including a special right of termination regarding the use of other, new infrastructures (NGA), the Federal Network Agency confirmed the permissibility of this price model following consultation with the European Commission.

In **Greece,** the national regulator approved OTE's VDSL offerings for wholesale and retail customers after more than 18 months of intensive regulatory discussion. These VDSL offerings have been available since November 26, 2012.

In October 2012, the national regulator extended **Slovak Telekom's** obligation to provide infrastructure access to include not only copper wires but also optical-fiber alternatives and cable ducts. On December 17, 2012, Slovak Telekom published a corresponding standard offer as a template for the relevant wholesale agreements.

DEVELOPMENT OF BUSINESS IN THE GROUP.

■ Corporate targets achieved or exceeded ■ Adjusted EBITDA of EUR 18.0 billion ■ Free cash flow of EUR 6.2 billion ■

STATEMENT OF THE BOARD OF MANAGEMENT ON BUSINESS DEVELOPMENT IN 2012.

Bonn, February 12, 2013

We had another successful financial year in 2012. We succeeded in meeting our corporate targets with adjusted EBITDA of EUR 18.0 billion, and with free cash flow of EUR 6.2 billion (before dividend payments, spectrum investment, and before AT&T transaction) we even exceeded them. In addition, we continue to adhere to our shareholder remuneration strategy and propose to the shareholders' meeting a dividend of EUR 0.70 per share.

On October 3, 2012, we concluded an agreement with MetroPCS on the combination of our business activities in the United States. From our perspective, this transaction generates value and makes entrepreneurial sense. The combined company's improved position in terms of mobile spectrum and an expanded customer base mean that we will be able to compete more aggressively with the other national mobile carriers in the United States. Although the agreed business combination triggered the recognition of an impairment loss on goodwill, other intangible assets and property, plant and equipment totaling EUR 7.4 billion (after taxes), our equity ratio of 28.3 percent remained within the target corridor of 25 to 35 percent. We recorded a net loss of EUR 5.3 billion in the reporting year – a decline of EUR 5.8 billion from the net profit recorded in the prior year – primarily due to the recognition of the aforementioned impairment loss. Adjusted net profit decreased by EUR 0.3 billion to EUR 2.5 billion. Our net debt was reduced to EUR 36.9 billion. This reduction by more than EUR 3 billion was achieved despite dividend payments, effects in connection with the AT&T transaction, payments to external pension funds, and the acquisition of spectrum. Positive impact came from free cash flow and a payment received in connection with the cell tower deal between T-Mobile USA and Crown Castle.

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 8.0 billion, most of which went towards the continued broadband build-out and increasing capacities in existing networks. In addition, we invested EUR 0.4 billion in spectrum. In mobile communications, we invested in LTE, increased 3G network coverage, and upgraded capacity to meet increasing demand for data transfer volumes.

We have also decided in 2012 to further develop, simplify, and focus our strategy and center it even more firmly on the customer. This is reflected in our new strategic vision: "Deutsche Telekom – My first choice for connected life and work." We are focusing on our three principles Compete – Transform – Innovate and we continue to be on track. Our strategy defines the framework for our long-term success.

RESULTS OF OPERATIONS OF THE GROUP.

Net revenue.

Net revenue in the 2012 financial year was EUR 58.2 billion, slightly down by 0.8 percent compared with the prior year. Intense competition, price changes imposed by regulatory authorities, and the strained economic situation in most countries in our Europe operating segment had a negative effect. Net exchange rate effects of around EUR 1.1 billion on the proportion of net revenue generated internationally, especially from the translation of U.S. dollars into euros, had a positive impact on net revenue.

On a euro basis, our United States operating segment recorded an increase in revenue, as did our Systems Solutions operating segment. Our Europe and Germany operating segments, by contrast, recorded decreases in revenue.

T 011

Contribution of the segments to revenue.

	2012 millions of €	2011 millions of €	Change millions of €	Change %	2010 millions of €
NET REVENUE	**58,169**	**58,653**	**(484)**	**(0.8)**	**62,421**
Germany	22,736	23,206	(470)	(2.0)	24,208
Europe	14,408	15,124	(716)	(4.7)	16,840
United States	15,371	14,811	560	3.8	16,087
Systems Solutions	10,016	9,953	63	0.6	9,937
Group Headquarters & Shared Services	2,978	2,977	1	0.0	3,119
Intersegment revenue	(7,340)	(7,418)	78	1.1	(7,770)

At 36.8 percent, just 0.3 percentage points down against the prior year, our Germany operating segment again provided the largest contribution to the net revenue of the Group. The increase in revenue in the United States and Systems Solutions operating segments in conjunction with the downward or stagnating trend in revenue in the other segments resulted in an increase of 1.2 percentage points in the proportion of net revenue contributed by the United States operating segment. This is also reflected in the proportion of net revenue generated internationally, which increased year-on-year from 55.1 to 55.7 percent.

EBITDA, adjusted EBITDA.

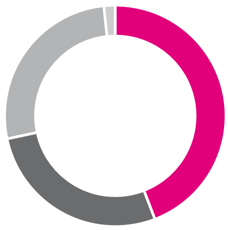
Our **EBITDA** decreased year-on-year by EUR 1.9 billion to EUR 18.1 billion. The decrease in special factors, which were down by EUR 1.2 billion, in particular had a negative effect on the development of EBITDA. Positive special factors totaling EUR 0.2 billion were included in EBITDA in 2012.

These factors consisted mainly of 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. Income attributable to a transaction carried out in September 2012 to swap AWS spectrum licenses between T-Mobile USA and Verizon also had a positive effect of around EUR 0.1 billion. A further positive effect of around EUR 0.1 billion resulted from the conclusion of litigation with Kreditanstalt für Wiederaufbau in the first quarter of 2012. Expenses in connection with staff-related measures and non-staff-related restructuring expenses had a negative impact of EUR 1.3 billion on our EBITDA in the reporting year.

For details on the revenue trends in our operating segments as well as at Group Headquarters & Shared Services, please refer to the section "Development of business in the operating segments," PAGE 104 et seq.

G 19

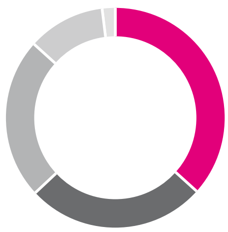
Breakdown of revenue by region.



- 44.3 % Germany
- 27.5 % Europe (excluding Germany)
- 26.8 % North America
- 1.4 % Other countries

G 20

Contribution of the segments to net revenue.



- 36.8 % Germany
- 26.4 % United States
- 23.6 % Europe
- 11.4 % Systems Solutions
- 1.8 % Group Headquarters & Shared Services

For further details on the transaction, please refer to the section "Highlights in the 2012 financial year," PAGE 64 et seq.

T 012

Contribution of the segments to adjusted Group EBITDA.

	2012 millions of €	Proportion of adjusted Group EBITDA %	2011 millions of €	Proportion of adjusted Group EBITDA %	Change millions of €	Change %	2010 millions of €
EBITDA (ADJUSTED FOR SPECIAL FACTORS) IN THE GROUP	**17,978**	**100.0**	**18,685**	**100.0**	**(707)**	**(3.8)**	**19,473**
Germany	9,165	51.0	9,553	51.1	(388)	(4.1)	9,698
Europe	4,921	27.4	5,241	28.0	(320)	(6.1)	5,748
United States	3,840	21.4	3,831	20.5	9	0.2	4,156
Systems Solutions	747	4.1	672	3.6	75	11.2	752
Group Headquarters & Shared Services	(695)	(3.9)	(617)	(3.3)	(78)	(12.6)	(872)
Reconciliation	0	0	5	0.1	(5)	n.a.	(9)

For an overview of the development of special factors, please refer to **TABLE T 013, PAGE 93.**

Special factors totaling EUR 1.3 billion had a positive effect on EBITDA in the prior year. The compensation payment from AT&T of EUR 3.0 billion had a significant impact. Expenses incurred in connection with staff-related measures and non-staff-related restructuring expenses also reduced our EBITDA in the previous year by EUR 1.3 billion.

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 104 et seq.**

Excluding special factors, **adjusted EBITDA** decreased year-on-year by EUR 0.7 billion to EUR 18.0 billion in the 2012 reporting year. Net exchange rate effects of EUR 0.3 billion, especially from the translation of U.S. dollars into euros, had a positive effect on the development of adjusted EBITDA.

Marketing expenses.

In the 2012 financial year, marketing expenses amounted to EUR 2.4 billion, an increase as against the prior-year level of EUR 2.1 billion. 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, Innovationsoffensive – Digitale Welt (Digital World innovation initiative), Move On, and LIGA total!.

EBIT.

For further details, please refer to **NOTE 30** “Depreciation, amortization and impairment losses” in the notes to the consolidated financial statements, **PAGES 253 – 254.**

Group EBIT decreased by EUR 9.4 billion to minus EUR 3.8 billion compared with the prior year, primarily as a consequence of an impairment test which resulted in a one-time non-cash impairment loss of around EUR 10.6 billion (before taxes) recognized on goodwill, other intangible assets and property, plant and equipment of T-Mobile USA in the third quarter of 2012. The impairment test was carried out following the announcement of the agreed business combination of T-Mobile USA and MetroPCS. In addition, impairment losses were also recorded on goodwill in the Europe operating segment (around EUR 0.4 billion) and on property, plant and equipment (around EUR 0.1 billion) in the reporting year. In the prior year, impairment losses recognized on goodwill totaled EUR 3.1 billion and on property, plant and equipment totaled EUR 0.3 billion. Depreciation and amortization amounted to EUR 10.8 billion in the reporting year and were therefore almost at the prior-year level.

T 013

Consolidated income statement and effects of special factors.

	EBITDA 2012 millions of €	EBIT 2012 millions of €	EBITDA 2011 millions of €	EBIT 2011 millions of €	EBITDA 2010 millions of €	EBIT 2010 millions of €
EBITDA/EBIT	**18,147**	**(3,810)**	**20,022**	**5,586**	**17,313**	**5,505**
GERMANY	**(427)**	**(427)**	**(689)**	**(689)**	**(501)**	**(501)**
Staff-related measures	(367)	(367)	(586)	(586)	(393)	(393)
Non-staff-related restructuring	0	0	(4)	(4)	(11)	(11)
Effects of deconsolidations, disposals and acquisitions	(8)	(8)	0	0	0	0
Other	(52)	(52)	(99)	(99)	(97)	(97)
EUROPE	**(204)**	**(567)**	**(246)**	**(1,286)**	**(606)**	**(1,297)**
Staff-related measures	(179)	(179)	(132)	(132)	(209)	(209)
Non-staff-related restructuring	(16)	(19)	0	0	(5)	(5)
Effects of deconsolidations, disposals and acquisitions	0	0	0	0	(355)	(355)
Impairment losses	0	(360)	–	(1,040)	–	(680)
Other	(9)	(9)	(114)	(114)	(37)	(48)
UNITED STATES	**1,479**	**(9,110)**	**(134)**	**(2,431)**	**0**	**0**
Staff-related measures	(69)	(69)	(116)	(116)	0	0
Non-staff-related restructuring	(28)	(28)	0	0	0	0
Effects of deconsolidations, disposals and acquisitions	1,558	1,558	0	0	0	0
Impairment losses	0	(10,589)	–	(2,297)	–	0
Other	18	18	(18)	(18)	0	0
SYSTEMS SOLUTIONS	**(397)**	**(409)**	**(293)**	**(313)**	**(289)**	**(297)**
Staff-related measures	(230)	(230)	(99)	(99)	(121)	(121)
Non-staff-related restructuring	(166)	(178)	(163)	(175)	(170)	(178)
Other	(1)	(1)	(31)	(39)	2	2
GROUP HEADQUARTERS & SHARED SERVICES	**(280)**	**(280)**	**2,698**	**2,698**	**(769)**	**(769)**
Staff-related measures	(241)	(241)	(224)	(224)	(281)	(281)
Non-staff-related restructuring	(13)	(13)	(22)	(22)	(100)	(100)
Effects of deconsolidations, disposals and acquisitions	(46)	(46)	(56)	(56)	(385)	(385)
Compensation from AT&T	0	0	3,000	3,000	–	–
Other	20	20	0	0	(3)	(3)
GROUP RECONCILIATION	**(2)**	**(1)**	**1**	**1**	**5**	**5**
Non-staff-related restructuring	0	0	0	0	1	1
Effects of deconsolidations, disposals and acquisitions	0	0	0	0	4	4
Other	(2)	(1)	1	1	0	0
TOTAL SPECIAL FACTORS	**169**	**(10,794)**	**1,337**	**(2,020)**	**(2,160)**	**(2,859)**
EBITDA/EBIT (ADJUSTED FOR SPECIAL FACTORS)	**17,978**	**6,984**	**18,685**	**7,606**	**19,473**	**8,364**
Profit (loss) from financial activities (adjusted for special factors)		(2,554)		(2,613)		(2,724)
PROFIT (LOSS) BEFORE INCOME TAXES (ADJUSTED FOR SPECIAL FACTORS)		**4,430**		**4,993**		**5,640**
Income taxes (adjusted for special factors)		(1,453)		(1,708)		(1,898)
PROFIT (LOSS) (ADJUSTED FOR SPECIAL FACTORS)		**2,977**		**3,285**		**3,742**
PROFIT (LOSS) (ADJUSTED FOR SPECIAL FACTORS) ATTRIBUTABLE TO						
Owners of the parent (net profit (loss)) (adjusted for special factors)		2,529		2,851		3,364
Non-controlling interests (adjusted for special factors)		448		434		378

Profit/loss before income taxes.

Profit before income taxes decreased by EUR 9.2 billion to a loss of EUR 6.2 billion year-on-year as a result of the aforementioned effects. Loss from financial activities decreased by EUR 0.1 billion year-on-year to EUR 2.4 billion, due in part to the sale of the shares in Telekom Srbija. Moreover, finance costs decreased by EUR 0.3 billion, primarily as a result of lower interest expense from bonds and other securitized liabilities.

Net profit/loss.

For tax benefit, please refer to **NOTE 25** "Income taxes" in the notes to the consolidated financial statements, **PAGE 247 et seq.**

We recorded a net loss of around EUR 5.3 billion, primarily due to the recognition of an impairment loss in connection with the agreed business combination of T-Mobile USA and MetroPCS. Tax benefit in the 2012 financial year amounted to EUR 1.5 billion.

For further information on the development of earnings, please refer to the "Notes to the consolidated income statement" in the notes to the consolidated financial statements, **PAGE 244 et seq.**

Profit attributable to non-controlling interests increased to EUR 0.5 billion, primarily as a result of the sale of shares in Telekom Srbija. Impairment losses on goodwill and property, plant and equipment in our Europe operating segment had a negative effect on profit attributable to non-controlling interests in the prior year.

Special factors.

For a reconciliation of EBITDA, EBIT, and net profit/loss to the respective figures adjusted for special factors, please refer to **TABLE T 013**, **PAGE 93.**

Special factors have an impact on the presentation of operations, making it more difficult to compare performance indicators with corresponding figures for prior periods. We adjust our figures for the purpose of transparency. In addition, statements about the future development of earnings are only possible to a limited extent unless special factors are eliminated. The adjusted values are calculated on the basis of the unadjusted performance indicators.

Average number of employees.

Average headcount decreased by 3.3 percent compared with the prior-year reporting period. Average headcount in our Germany operating segment decreased by 2.7 percent due to our socially responsible staff restructuring and reduction programs. In our Europe operating segment, downsizing programs carried out as a result of initiatives to enhance efficiency contributed to the average headcount decreasing by 3.6 percent. Most of this decrease was accounted for by Slovakia, Romania, Greece, and Croatia. In the United States operating segment, we consolidated our call center sites in 2012, among other measures. Fewer staff were employed in customer support, sales, and administration compared with the prior year. Headcount declined 12.6 percent year-on-year. The number of employees in our Systems Solutions operating segment rose 1.0 percent year-on-year, attributable in part to an increase in the in-house provision of services previously rendered by third parties and the development of production capacities abroad. Headcount at Group Headquarters & Shared Services declined 0.7 percent, mainly due to a reduction in headcount at Vivento. The Shape Headquarters initiative involved a staff restructuring and downsizing program that in 2012 was implemented largely by means of internal and external fluctuation as well as the customary socially considerate exit models. In the reporting year, the customer accounting unit with its approximately 600 employees was moved from the Germany operating segment to Group Headquarters & Shared Services.

T 014

Average number of employees.

	2012	2011	2010
Germany	68,653	70,525	76,912
Europe	57,955	60,105	65,435
United States	30,184	34,518	37,795
Systems Solutions	52,742	52,241	47,924
Group Headquarters & Shared Services	22,808	22,980	24,428
NUMBER OF EMPLOYEES IN THE GROUP	**232,342**	**240,369**	**252,494**
Of which: civil servants (in Germany, with an active service relationship)	22,920	24,810	28,066

FINANCIAL POSITION OF THE GROUP.

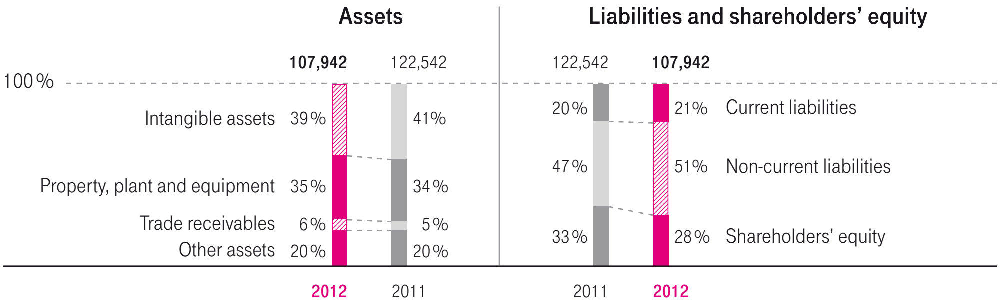
T 015

Condensed consolidated statement of financial position.

	Dec. 31, 2012 millions of €	Change millions of €	Dec. 31, 2011 millions of €	Dec. 31, 2010 millions of €	Dec. 31, 2009 millions of €	Dec. 31, 2008 millions of €
ASSETS						
CURRENT ASSETS	**15,019**	**(846)**	**15,865**	**15,243**	**23,012**	**15,431**
Cash and cash equivalents	4,026	277	3,749	2,808	5,022	3,026
Trade and other receivables	6,417	(140)	6,557	6,889	6,757	7,393
Non-current assets and disposal groups held for sale	90	(346)	436	51	6,527	434
Other current assets	4,486	(637)	5,123	5,495	4,706	4,578
NON-CURRENT ASSETS	**92,923**	**(13,754)**	**106,677**	**112,569**	**104,762**	**107,709**
Intangible assets	41,732	(8,365)	50,097	53,807	51,705	53,927
Property, plant and equipment	37,522	(4,405)	41,927	44,298	45,468	41,559
Investments accounted for using the equity method	6,726	(147)	6,873	7,242	147	3,557
Other non-current assets	6,943	(837)	7,780	7,222	7,442	8,666
TOTAL ASSETS	**107,942**	**(14,600)**	**122,542**	**127,812**	**127,774**	**123,140**
LIABILITIES AND SHAREHOLDERS' EQUITY						
CURRENT LIABILITIES	**23,008**	**(1,330)**	**24,338**	**26,452**	**24,794**	**24,242**
Financial liabilities	9,260	(959)	10,219	11,689	9,391	9,584
Trade and other payables	6,445	9	6,436	6,750	6,304	7,073
Current provisions	2,899	(318)	3,217	3,193	3,369	3,437
Liabilities directly associated with non-current assets and disposal groups held for sale	9	9	–	–	1,423	95
Other current liabilities	4,395	(71)	4,466	4,820	4,307	4,053
NON-CURRENT LIABILITIES	**54,391**	**(3,872)**	**58,263**	**58,332**	**61,043**	**55,786**
Financial liabilities	35,354	(2,745)	38,099	38,857	41,800	37,010
Non-current provisions	9,142	1,358	7,784	8,001	8,340	8,461
Other non-current liabilities	9,895	(2,485)	12,380	11,474	10,903	10,315
SHAREHOLDERS' EQUITY	**30,543**	**(9,398)**	**39,941**	**43,028**	**41,937**	**43,112**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**107,942**	**(14,600)**	**122,542**	**127,812**	**127,774**	**123,140**

G 21

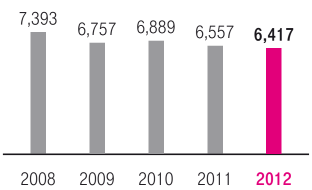
Structure of the consolidated statement of financial position. (millions of €)



For detailed information on cash and cash equivalents, please refer to **TABLE T 051** "Consolidated statement of cash flows," **PAGE 200,** and **NOTE 31** "Notes to the consolidated statement of cash flows" in the notes to the consolidated financial statements, **PAGES 255 – 256.**

G 22

Trade and other receivables.
(millions of €)



The level of **total assets** decreased by EUR 14.6 billion compared with December 31, 2011. Current assets decreased by EUR 0.8 billion and non-current assets by EUR 13.8 billion. Current liabilities declined by EUR 1.3 billion and non-current liabilities by EUR 3.9 billion.

The most important changes in the statement of financial position as of December 31, 2012 compared with December 31, 2011 are explained in more detail in the following:

Cash and cash equivalents increased by EUR 0.3 billion year-on-year.

Trade and other receivables decreased by 2.1 percent year-on-year in line with the revenue trend. Receivables sold in our Systems Solutions operating segment as part of factoring arrangements as well as ongoing process improvement measures regarding credit checking and the recovery of receivables further reduced the level of receivables.

The net carrying amounts of **non-current assets and disposal groups held for sale** decreased by EUR 0.3 billion primarily due to the sale of the shares in Telekom Srbija.

Other current assets decreased primarily as a result of reimbursement of investments in securities amounting to EUR 0.3 billion. In addition, a bond issued by our Everything Everywhere joint venture in the amount of EUR 0.2 billion was repaid.

The decrease of EUR 12.8 billion in **intangible assets and property, plant and equipment** as of December 31, 2012 was attributable to impairment losses recognized in the United States and Europe operating segments totaling EUR 11.1 billion, depreciation and amortization totaling EUR 10.8 billion, and disposals totaling EUR 1.2 billion. Of this amount, EUR 0.6 billion related to the derecognition of cell towers in connection with the agreement concluded with Crown Castle concerning the sale, lease, and use of cell sites in the United States. These effects were contrasted by additions to assets of EUR 10.5 billion. Of the additions, 60 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.

Investments accounted for using the equity method decreased slightly by EUR 0.1 billion. A significant factor was a dividend of EUR 0.5 billion received from our Everything Everywhere joint venture. This was partially offset by exchange rate effects attributable to the pound sterling amounting to EUR 0.2 billion and the recognition of two new companies (T-Mobile USA Tower and T-Mobile West Tower) amounting to a total of EUR 0.2 billion. The two companies are associated with the agreement concluded with Crown Castle.

The decrease of EUR 0.8 billion in **other non-current assets** was attributable in particular to the reclassification of AWS spectrum licenses valued at EUR 0.9 billion to intangible assets. The license package was part of the compensation from AT&T in connection with the termination of the purchase agreement for shares in T-Mobile USA.

Our **financial liabilities** decreased by EUR 3.7 billion compared with the prior year. Current financial liabilities decreased by EUR 1.0 billion and non-current financial liabilities by EUR 2.7 billion. For more information, please refer to TABLES T 016 and T 017, PAGE 98, and the accompanying explanations.

Trade and other payables remained stable at EUR 6.4 billion.

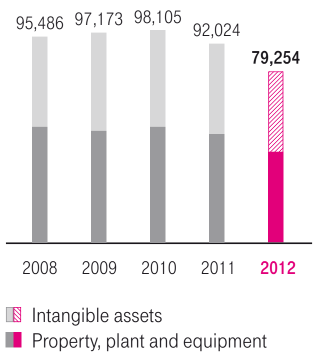
Provisions (current and non-current) increased by EUR 1.0 billion, mainly due to higher provisions for pensions. The increase is also attributable to actuarial losses, especially due to lower interest rates, in the amount of EUR 1.8 billion. This was contrasted by an increase in plan assets of EUR 750 million (allocated to Deutsche Telekom Trust e.V.).

The decrease of EUR 2.6 billion in **other liabilities** (current and non-current) is mainly attributable to the decrease in deferred tax liabilities in connection with the impairment loss on intangible assets and property, plant and equipment recognized in the United States operating segment in the third quarter.

Shareholders' equity decreased by EUR 9.4 billion to EUR 30.5 billion, due primarily to the net loss of EUR 5.3 billion, dividend payments including to non-controlling interests of EUR 3.4 billion, and actuarial losses recognized directly in equity of EUR 1.3 billion (after taxes). Currency translation effects of EUR 0.3 billion recognized directly in equity, on the other hand, had a positive effect on shareholders' equity.

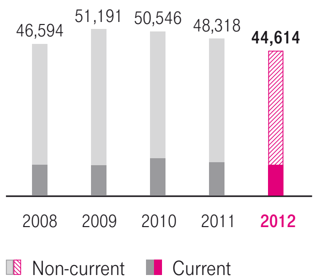
G 23

Intangible assets and property, plant and equipment. (millions of €)



G 24

Financial liabilities.
(millions of €)



T 016

Financial liabilities.

	Dec. 31, 2012 Total millions of €	Due ≤ 1 year millions of €	Due >1 year ≤ 5 years millions of €	Due > 5 years millions of €
Bonds and other securitized liabilities				
Non-convertible bonds	19,950	3,377	8,497	8,076
Commercial paper, medium-term notes and similar liabilities	13,724	1,743	6,154	5,827
Liabilities to banks	3,912	499	3,284	129
	37,586	**5,619**	**17,935**	**14,032**
Lease liabilities	1,780	652	475	653
Liabilities to non-banks from promissory notes	1,167	40	606	521
Other interest-bearing liabilities	1,551	1,296	175	80
Other non-interest-bearing liabilities	1,611	1,534	76	1
Derivative financial liabilities	919	119	721	79
	7,028	**3,641**	**2,053**	**1,334**
FINANCIAL LIABILITIES	**44,614**	**9,260**	**19,988**	**15,366**

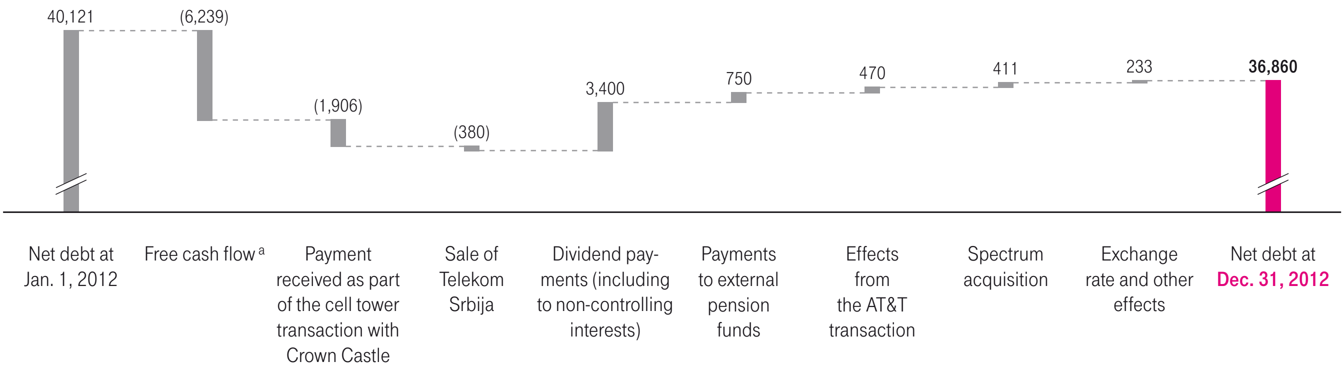
T 017

Net debt.

	Dec. 31, 2012 millions of €	Change millions of €	Dec. 31, 2011 millions of €	Dec. 31, 2010 millions of €	Dec. 31, 2009 millions of €	Dec. 31, 2008 millions of €
Financial liabilities (current)	9,260	(959)	10,219	11,689	9,391	9,584
Financial liabilities (non-current)	35,354	(2,745)	38,099	38,857	41,800	37,010
FINANCIAL LIABILITIES	**44,614**	**(3,704)**	**48,318**	**50,546**	**51,191**	**46,594**
Accrued interest	(903)	63	(966)	(1,195)	(1,175)	(988)
Liabilities from corporate transactions	–	–	–	(1,566)	(1,455)	(1,641)
Other	(754)	(139)	(615)	(467)	(444)	(518)
GROSS DEBT	**42,957**	**(3,780)**	**46,737**	**47,318**	**48,117**	**43,447**
Cash and cash equivalents	4,026	277	3,749	2,808	5,022	3,026
Available-for-sale/held-for-trading financial assets	27	(375)	402	75	162	101
Derivative financial assets	1,287	(246)	1,533	835	1,048	1,598
Other financial assets	757	(175)	932	1,331	974	564
NET DEBT	**36,860**	**(3,261)**	**40,121**	**42,269**	**40,911**	**38,158**

G 25

Changes in net debt. (millions of €)



[a] Before dividend payments, spectrum investment, and before effects from the AT&T transaction.

At the end of the financial year, the average interest rate for financial liabilities was 5.2 percent (2011: 5.5 percent).

Net debt decreased by EUR 3.3 billion year-on-year to EUR 36.9 billion. The factors responsible for this are shown in TABLE T 017, PAGE 98.

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. These primarily relate to leased property.

For further information, please refer to NOTE 34 "Disclosures on leases" in the notes to the consolidated financial statements, PAGES 264-265.

Off-balance-sheet financial instruments mainly relate to the sale of receivables by means of factoring. Total receivables sold as of December 31, 2012 amounted to EUR 1.3 billion (December 31, 2011: EUR 1.1 billion).

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 018

The rating of Deutsche Telekom AG.

	Standard & Poor's	Moody's	Fitch
LONG-TERM RATING			
Dec. 31, 2008	BBB+	Baa1	A–
Dec. 31, 2009	BBB+	Baa1	BBB+
Dec. 31, 2010	BBB+	Baa1	BBB+
Dec. 31, 2011	BBB+	Baa1	BBB+
Dec. 31, 2012	**BBB+**	**Baa1**	**BBB+**
SHORT-TERM RATING	**A-2**	**P-2**	**F2**
OUTLOOK	**Stable**	**Stable**	**Stable**

T 019

Financial flexibility.

		Dec. 31, 2012	Dec. 31, 2011	Dec. 31, 2010	Dec. 31, 2009	Dec. 31, 2008
RELATIVE DEBT						
Net debt / EBITDA (adjusted for special factors)		2.1	2.1	2.2	2.0	2.0
EQUITY RATIO	%	28.3	32.6	33.7	32.8	35.0
GEARING						
Net debt / Shareholders' equity		1.2	1.0	1.0	1.0	0.9

To ensure our financial flexibility, we essentially used two KPIs in 2012: gearing and relative debt. One component of these KPIs is net debt, which the Group uses as an important indicator for investors, analysts, and rating agencies.

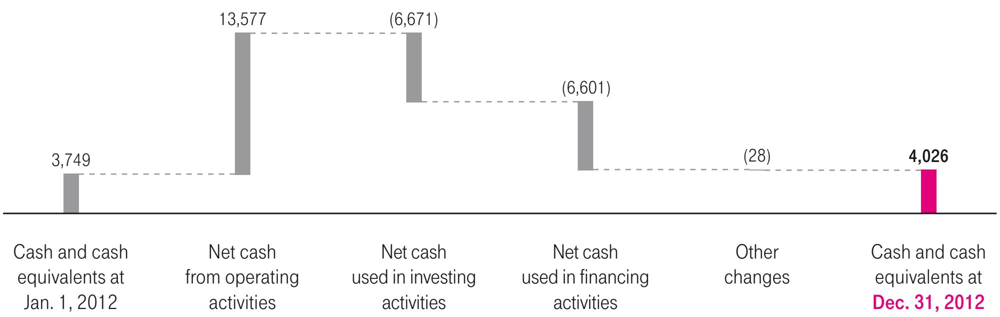
T 020

Condensed consolidated statement of cash flows.

	2012 millions of €	2011 millions of €	2010 millions of €
NET CASH FROM OPERATING ACTIVITIES	**13,577**	**16,214**	**14,731**
Effects from the AT&T transaction	470	(2,289)	–
Cash outflow as part of the PTC transaction	–	400	–
NET CASH FROM OPERATING ACTIVITIES (BEFORE PTC AND AT&T TRANSACTIONS)	**14,047**	**14,325**	**14,731**
Cash outflow for investments in intangible assets (excluding goodwill and before spectrum investment) and property, plant and equipment **(CASH CAPEX)**	(8,021)	(8,260)	(8,532)
Proceeds from disposal of intangible assets (excluding goodwill) and property, plant and equipment	213	356	344
FREE CASH FLOW (BEFORE DIVIDEND PAYMENTS, SPECTRUM INVESTMENT, AND BEFORE PTC AND AT&T TRANSACTIONS)	**6,239**	**6,421**	**6,543**
NET CASH USED IN INVESTING ACTIVITIES	**(6,671)**	**(9,275)**	**(10,711)**
NET CASH USED IN FINANCING ACTIVITIES	**(6,601)**	**(5,958)**	**(6,369)**
Effect of exchange rate changes on cash and cash equivalents	(28)	(40)	50
Changes in cash and cash equivalents associated with non-current assets and disposal groups held for sale	–	–	85
Net increase (decrease) in cash and cash equivalents	277	941	(2,214)
CASH AND CASH EQUIVALENTS	**4,026**	**3,749**	**2,808**

G 26

Changes in cash and cash equivalents. (millions of €)



Free cash flow. Free cash flow of the Group amounted to EUR 6.2 billion, EUR 0.2 billion less than in the prior year.

Net cash from operating activities in the 2012 financial year decreased by EUR 2.6 billion year-on-year to EUR 13.6 billion.

The development was primarily impacted by cash in- and outflows in connection with the termination of the agreement concluded with AT&T on the sale of T-Mobile USA. In this context, we received a compensation payment (EUR 2.3 billion) in 2011and in 2012 we recorded cash outflows (EUR 0.5 billion), EUR 0.2 billion of which were income taxes on income received in 2011. Cash outflows relating to the investigations by the U.S. authorities into contracts signed in the F.Y.R.O. Macedonia and Montenegro (EUR 0.1 billion) and effects from the development of operations had a negative impact on net cash from operating activities in 2012. Net cash from operating activities in the prior year was impacted by cash outflows for the PTC transaction (EUR 0.4 billion).

Lower net interest payments (EUR 0.4 billion), cash inflows from the agreement on the leasing and use of cell sites in the United States (EUR 0.1 billion), cash inflows from the canceling of interest rate swaps (EUR 0.1 billion), and lower income tax paid (EUR 0.3 billion) had a positive impact on net cash from operating activities in the 2012 financial year.

For information on net cash used in investing activities and net cash 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 255 – 256.**

T 021

Reconciliation for the change in disclosure of key performance indicators in 2012.

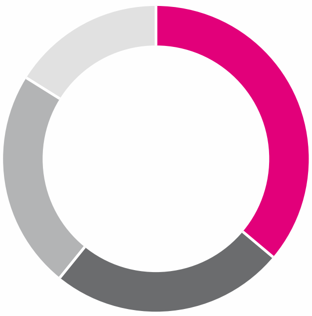
	Total revenue		Profit (loss) from operations (EBIT)	
	2011 millions of €	2010 millions of €	2011 millions of €	2010 millions of €
PRESENTATION AS REPORTED (BEFORE ADJUSTMENTS)				
Germany	24,031	25,145	4,445	4,916
Europe	15,124	16,840	780	985
United States	14,811	16,087	(710)	2,092
Systems Solutions	9,249	9,057	(43)	44
Group Headquarters & Shared Services	2,144	2,166	1,160	(2,479)
TOTAL	**65,359**	**69,295**	**5,632**	**5,558**
Reconciliation	(6,706)	(6,874)	(46)	(53)
GROUP	**58,653**	**62,421**	**5,586**	**5,505**
+/– CHANGE IN DISCLOSURE OF THE DIGITAL BUSINESS UNIT (DBU) AS OF JANUARY 1, 2012				
Germany	(830)	(946)	(86)	38
Europe	–	–	–	–
United States	–	–	–	–
Systems Solutions	–	–	–	–
Group Headquarters & Shared Services	833	953	82	(36)
TOTAL	**3**	**7**	**(4)**	**2**
Reconciliation	(3)	(7)	4	(2)
GROUP	**–**	**–**	**–**	**–**
+/– CHANGE IN DISCLOSURE OF TELEKOM IT AS OF JULY 1, 2012				
Germany	5	9	161	146
Europe	–	–	–	–
United States	–	–	–	–
Systems Solutions	704	880	(247)	(237)
Group Headquarters & Shared Services	–	–	32	39
TOTAL	**709**	**889**	**(54)**	**(52)**
Reconciliation	(709)	(889)	54	52
GROUP	**–**	**–**	**–**	**–**
= PRESENTATION AS OF DECEMBER 31, 2012				
Germany	23,206	24,208	4,520	5,100
Europe	15,124	16,840	780	985
United States	14,811	16,087	(710)	2,092
Systems Solutions	9,953	9,937	(290)	(193)
Group Headquarters & Shared Services	2,977	3,119	1,274	(2,476)
TOTAL	**66,071**	**70,191**	**5,574**	**5,508**
Reconciliation	(7,418)	(7,770)	12	(3)
GROUP	**58,653**	**62,421**	**5,586**	**5,505**

EBITDA		Adjusted EBITDA		Depreciation and amortization		Impairment losses		Segment assets	
2011 millions of €	2010 millions of €	2011 millions of €	2010 millions of €	2011 millions of €	2010 millions of €	2011 millions of €	2010 millions of €	2011 millions of €	2010 millions of €
8,892	9,109	9,599	9,618	(4,438)	(4,178)	(9)	(15)	33,522	35,334
4,995	5,142	5,241	5,748	(3,159)	(3,453)	(1,056)	(704)	37,815	46,040
3,697	4,156	3,831	4,156	(2,110)	(2,063)	(2,297)	(1)	38,075	38,316
597	667	872	948	(626)	(619)	(14)	(4)	8,751	8,855
1,956	(1,639)	(742)	(870)	(721)	(714)	(75)	(126)	101,152	107,357
20,137	**17,435**	**18,801**	**19,600**	**(11,054)**	**(11,027)**	**(3,451)**	**(850)**	**219,315**	**235,902**
(115)	(122)	(116)	(127)	69	68	–	1	(96,773)	(108,090)
20,022	**17,313**	**18,685**	**19,473**	**(10,985)**	**(10,959)**	**(3,451)**	**(849)**	**122,542**	**127,812**
(125)	5	(125)	5	33	33	6	–	(962)	(852)
–	–	–	–	–	–	–	–	–	–
–	–	–	–	–	–	–	–	–	–
–	–	–	–	–	–	–	–	–	–
125	(3)	125	(3)	(33)	(33)	(10)	–	(438)	(398)
–	**2**	**–**	**2**	**–**	**–**	**(4)**	**–**	**(1,400)**	**(1,250)**
–	(2)	–	(2)	–	–	4	–	1,400	1,250
–	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
97	83	79	75	65	63	(1)	–	18	(11)
–	–	–	–	–	–	–	–	–	–
–	–	–	–	–	–	–	–	–	–
(218)	(204)	(200)	(196)	(28)	(33)	(1)	–	557	353
–	1	–	1	32	37	–	1	(546)	(248)
(121)	**(120)**	**(121)**	**(120)**	**69**	**67**	**(2)**	**1**	**29**	**94**
121	120	121	120	(69)	(67)	2	(1)	(29)	(94)
–	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
8,864	9,197	9,553	9,698	(4,340)	(4,082)	(4)	(15)	32,578	34,471
4,995	5,142	5,241	5,748	(3,159)	(3,453)	(1,056)	(704)	37,815	46,040
3,697	4,156	3,831	4,156	(2,110)	(2,063)	(2,297)	(1)	38,075	38,316
379	463	672	752	(654)	(652)	(15)	(4)	9,308	9,208
2,081	(1,641)	(617)	(872)	(722)	(710)	(85)	(125)	100,168	106,711
20,016	**17,317**	**18,680**	**19,482**	**(10,985)**	**(10,960)**	**(3,457)**	**(849)**	**217,944**	**234,746**
6	(4)	5	(9)	–	1	6	–	(95,402)	(106,934)
20,022	**17,313**	**18,685**	**19,473**	**(10,985)**	**(10,959)**	**(3,451)**	**(849)**	**122,542**	**127,812**

DEVELOPMENT OF BUSINESS IN THE OPERATING SEGMENTS.

G 27

Share of operating segments in net revenue of the Group.

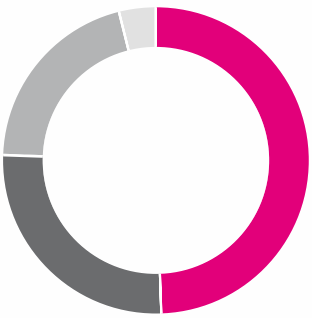


- **€ 22.7 billion** Germany
- **€ 15.4 billion** United States
- **€ 14.4 billion** Europe
- **€ 10.0 billion** Systems Solutions

Share of Group Headquarters & Shared Services of € 3.0 billion and reconciliation of € –7.3 billion.

G 28

Share of operating segments in adjusted EBITDA.



- **€ 9.2 billion** Germany
- **€ 4.9 billion** Europe
- **€ 3.8 billion** United States
- **€ 0.7 billion** Systems Solutions

Share of Group Headquarters & Shared Services of € –0.7 billion and reconciliation of € 0.0 billion.

GERMANY.

Since January 1, 2012, we have pooled the tasks and functions of our Digital Services growth business as well as the Internet service provider STRATO, which as of December 31, 2011 were still largely part of the Germany operating segment, in the Digital Business Unit (DBU) under Group Headquarters & Shared Services.

Effective July 1, 2012, we reorganized our Group's IT infrastructure and transferred all internal IT units from the Germany and Systems Solutions operating segments as well as Group Headquarters & Shared Services into the new Telekom IT unit within the Systems Solutions operating segment.

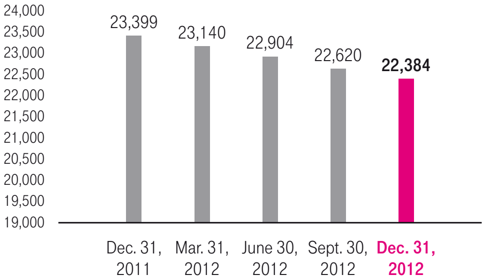
The prior-year figures have been adjusted accordingly for better comparability.

For more information, please refer to **NOTE 32** "Segment reporting" in the notes to the consolidated financial statements, **PAGE 256 et seq.**

CUSTOMER DEVELOPMENT.

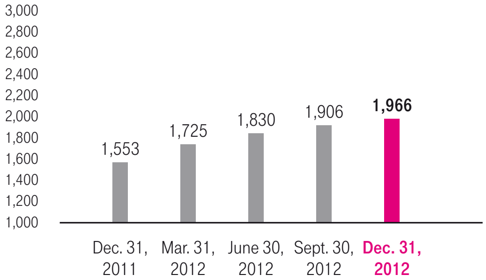
G 29

Fixed-network lines. ('000)



G 30

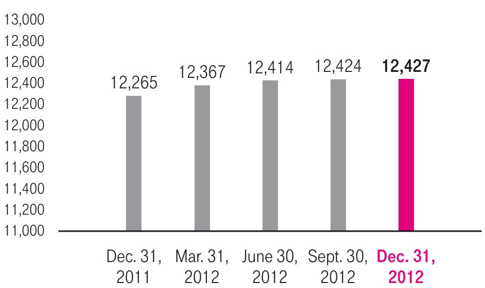
TV customers (including satellite).[a] ('000)



[a] Customers connected.

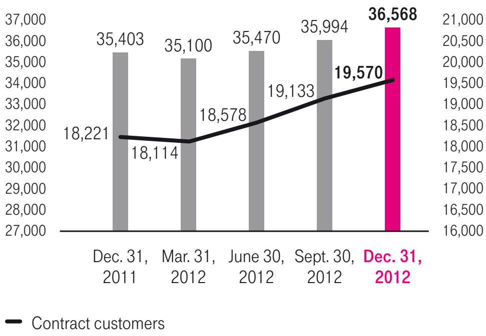
G 31

Retail broadband lines. ('000)



G 32

Mobile customers. ('000)



T 022

	Dec. 31, 2012 ’000	Dec. 31, 2011 ’000	Change ’000	Change %	Dec. 31, 2010 ’000
TOTAL					
Fixed-network lines	22,384	23,399	(1,015)	(4.3)	24,650
Retail broadband lines [a]	12,427	12,265	162	1.3	11,954
TV (including satellite)	1,966	1,553	413	26.6	1,156
Mobile customers	36,568	35,403	1,165	3.3	34,694
Contract customers [a]	19,570	18,221	1,349	7.4	17,173
Prepay customers	16,998	17,182	(184)	(1.1)	17,521
Unbundled local loop lines (ULLs)	9,436	9,598	(162)	(1.7)	9,498
Wholesale unbundled lines	1,303	1,222	81	6.6	1,037
Wholesale bundled lines	518	704	(186)	(26.4)	984
OF WHICH: CONSUMERS					
Fixed-network lines	17,789	18,763	(974)	(5.2)	19,889
Retail broadband lines [a]	10,039	9,959	80	0.8	9,705
TV (including satellite)	1,804	1,434	370	25.8	1,070
Mobile customers	29,915	29,333	582	2.0	29,153
Contract customers [a]	13,990	12,874	1,116	8.7	12,111
Prepay customers	15,926	16,459	(533)	(3.2)	17,042
OF WHICH: BUSINESS CUSTOMERS					
Fixed-network lines	3,510	3,505	5	0.1	3,624
Retail broadband lines [a]	2,062	1,973	89	4.5	1,920
TV (including satellite)	161	117	44	37.6	86
Mobile customers	6,653	6,070	583	9.6	5,541
Contract customers [a]	5,581	5,347	234	4.4	5,062
Prepay customers (M2M) [b]	1,072	723	349	48.3	479

[a] We have been reporting stationary wireless solutions under mobile contract customers since October 1, 2011.
[b] M2M: machine-to-machine.

Total.

In our Germany operating segment, we held our own in the fixed-network market in the face of regulatory interventions and intense competition by focusing on high-value business. Our mobile customer base developed positively despite intense competition.

In our German business, a number of positive trends continued in 2012. For example, we recorded increases in the number of users of our Internet-based television service Entertain, the number of mobile contract customers, and the number of VDSL lines. In the second quarter of 2011, we launched our Call & Surf Comfort via Funk product, which enables fast Internet surfing even in areas without DSL coverage. By the end of the reporting year, 124 thousand customers had already purchased this product.

Fixed network.

Telephony, Internet and TV. The number of Entertain customers had increased by 26.6 percent year-on-year to 2.0 million as of the end of 2012. As many as 299 thousand of them opted for Entertain via Sat, which has been available since September 2011.

The number of fast VDSL lines increased by as much as 48.1 percent year-on-year to 0.9 million. In the fourth quarter of 2012, we connected some four thousand customers to the fiber-optic network. At the same time, line losses in our traditional fixed network decreased by 18.9 percent compared with the prior year. Customers switched primarily to cable operators, but increasingly also to mobile products.

Mobile communications.

Mobile telephony and data services. In mobile communications, we stepped up our efforts to attract and win back customers, in particular by improving existing rate plans and introducing new ones for both contract and prepay customers. As of the end of the reporting year, the number of mobile customers increased to 36.6 million, up 3.3 percent compared with December 31, 2011.

The mobile contract customer base grew by 1.3 million in the year just ended. 569 thousand of these new customers were added in branded business under the Deutsche Telekom and "congstar" brands, while the remainder were added in the fast-growing, but much lower-revenue reseller segment (service providers). We attracted a rising number of customers in our growth area of machine-to-machine (M2M) business. The number of M2M cards increased year-on-year by 502 thousand to 2.2 million.

During the reporting year, the number of cell phones sold increased to 5.6 million. The proportion of smartphones, especially Android devices and iPhones, increased by 11 percentage points year-on-year to 73 percent.

Consumers.

Connected life across all screens. Line losses in traditional fixed-network telephony declined year-on-year in 2012. In the intensely contested broadband market, we continued to grow in line with the market. The number of pay TV packages, e.g., LIGA total!, Big TV and HD, sold as part of our television service Entertain, continued to rise.

The number of contract customers in the mobile communications portfolio increased by 8.7 percent in the reporting year compared with December 31, 2011. In particular, rate packages with integrated data flat rates for the mobile Internet (Call & Surf Mobil, Complete Mobil, and Mobile Data), especially the promotional rates included, sold well. Through these packages we migrated a large number of customers from pure voice rates to higher-value data rate plans. In the area of text messaging, we marketed our "SMS Flat all net" rate option with increasing success in 2012.

The year-on-year decrease in the number of prepay customers is largely attributable to the deactivation of inactive cards. This decline was partially compensated for, for example, through the repositioning of "congstar" in our Telekom shops.

Business customers.

Connected work with innovative solutions. The number of fixed-network lines in the Business Customer area remained stable compared with 2011 at 3.5 million. In Internet usage, customers are increasingly opting for plans with higher bandwidths such as Business Complete.

Products in the area of connected work developed positively. Accordingly, we recorded a higher number of CompanyConnect 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.

Total subscriber numbers rose by 9.6 percent compared with year-end 2011 in both M2M mobile communications and among contract customers, due not least to the market launch of new, attractive mobile rate plans with integrated flat rates for data in the business customer segment.

In 2012, we won or won back a number of business customers for our mobile services, such as BMW, Henkel, and RWE.

Wholesale.

The number of unbundled wholesale lines increased by 81 thousand, whereas the number of bundled wholesale lines declined by 186 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 162 thousand year-on-year, partly due to the market, since more and more competitors are switching to their own or other infrastructures or their customers are migrating to mobile communications.

With the “VDSL contingent model,” we will continue to work with Telefónica Deutschland, 1&1, and NetCologne to market fast VDSL lines in Germany. The model allows the partner companies to resell Telekom Deutschland VDSL lines at a preferential monthly rate. Under a series of reciprocal deals, the first of which was closed with NetCologne, the partner companies pledge to offer Telekom Deutschland a certain number of lines within their own fiber-optic infrastructures at comparable terms and conditions. The advantage of this arrangement for us is that we can improve the capacity utilization of our VDSL infrastructure. The partner companies take on part of the investment risk through their advance payments for the agreed number of lines they intend to market. Finally, the reciprocal model offers Deutsche Telekom the possibility to purchase upstream services in regions where we do not maintain our own competitive infrastructure.

DEVELOPMENT OF OPERATIONS.

T 023

		2012 millions of €	2011 millions of €	Change millions of €	Change %	2010 millions of €
TOTAL REVENUE		22,736	23,206	(470)	(2.0)	24,208
Consumers		12,217	12,497	(280)	(2.2)	13,018
Business Customers		5,661	5,615	46	0.8	5,662
Wholesale		4,035	4,209	(174)	(4.1)	4,556
Value-Added Services		367	425	(58)	(13.6)	512
Other		456	460	(4)	(0.9)	460
Profit from operations **(EBIT)**		4,345	4,520	(175)	(3.9)	5,100
EBIT margin	%	19.1	19.5			21.1
Depreciation, amortization and impairment losses		(4,393)	(4,344)	(49)	(1.1)	(4,097)
EBITDA		8,738	8,864	(126)	(1.4)	9,197
Special factors affecting EBITDA		(427)	(689)	262	38.0	(501)
EBITDA (ADJUSTED FOR SPECIAL FACTORS)		9,165	9,553	(388)	(4.1)	9,698
EBITDA margin (adjusted for special factors)	%	40.3	41.1			40.1
CASH CAPEX		(3,418)	(3,506)	88	2.5	(4,781)

Total revenue.

Revenue in 2012 was down 2.0 percent year-on-year, halving the decline in our revenue compared with 2011. This was primarily due to the downward trend in voice telephony both in the mobile and fixed-network business. The decline was partially offset by growing demand for complete packages with mobile data and TV rate plans and attractive handsets, in particular smartphones.

The successful marketing of Entertain and add-on options had a positive impact on our fixed-network business. Revenue contributed by our Germany operating segment to the connected home growth area increased by EUR 42 million to EUR 5.3 billion. However, this positive trend was not sufficient to offset the revenue decrease in voice telephony owing to line losses.

Mobile revenue rose 1.1 percent compared with 2011. Mobile service revenues declined 1.5 percent in the year under review, largely due to a decrease in voice and messaging services and visitor revenues. On top of roaming price reductions imposed by the regulatory authorities as of July 1, 2012, mobile termination charges were reduced in December 2012. Another factor that impacted negatively on revenue was the termination of an agreement with a reseller. By contrast, data revenue rose 19.6 percent to EUR 2.0 billion. A compensating effect also came from successful smartphone sales, which was reflected in increased revenue from mobile terminal equipment.

Glossary, **PAGE 301 et seq.**

The main reason for the decline in the **Consumers** area was the downward trend in voice telephony business in both the fixed network and mobile communications. In the fixed network, the revenue decrease was partially offset by growth in TV revenue (up 29.3 percent) and revenue from terminal equipment (up 29.4 percent). Mobile service revenues declined 2.3 percent year-on-year, mainly due to the lower level of voice telephony and text messaging and to fewer visitors. The decline was partly offset by strong data growth and bundling in flat-rate components. However, due to growth in mobile terminal devices – the result of strong smartphone sales – overall mobile revenues in the Consumers area remained at the prior-year level.

In the **Business Customers** area, total revenue remained stable. Growth in revenue from mobile data, broadband, IT products, and cell phones fully offset the decline in revenue from traditional fixed-network voice telephony and mobile communications.

The decline in **Wholesale** revenue – down 4.1 percent to EUR 4.0 billion – was primarily attributable to the following factors: regulatory price cuts for interconnection calls in particular (from July 1, 2011 and December 1, 2012), the declining use of interconnection calls, and a volume- and price-related decrease in revenue due to migration to state-of-the-art infrastructure platforms.

Declining revenues from **Value-Added Services** resulted from weaker use of premium rate numbers such as directory assistance services and of public telephones. In addition, the amended regulation concerning free-of-charge queuing came into effect as of September 1, 2012.

EBITDA, adjusted EBITDA.

EBITDA adjusted for special factors decreased by 4.1 percent year-on-year in 2012 to EUR 9.2 billion. It was not possible to fully offset the decline in revenue by cost decreases. The increase in direct costs was mainly attributable to higher market investments and higher interconnection costs due to the continuous offering of more valuable calling plans, e.g., through packages with minute buckets and text messages. Indirect costs were cut to an extent comparable to that in 2011. Despite the market investments we have made, the adjusted EBITDA margin remained virtually unchanged at over 40 percent.

EBIT.

Profit from operations in our Germany operating segment declined by 3.9 percent year-on-year. This was primarily attributable to the decrease in adjusted EBITDA and increased depreciation, amortization, and impairment losses, mainly resulting from the capitalization of the LTE license in the previous year.

Cash capex.

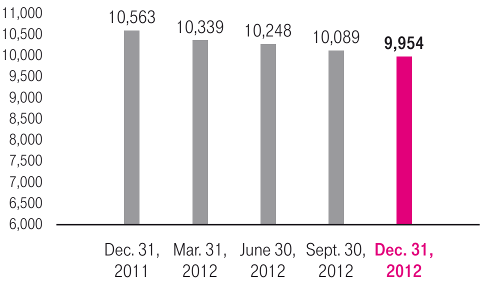
We have the best mobile network and invest in the networks of the future. We reported a year-on-year decrease in cash capex for traditional transmission paths, for example as a result of the completion of migration to modern infrastructure platforms. At the same time, we stepped up investments in our strategic focus areas such as the LTE and fiber optic roll-out as well as in all IP migration. Nevertheless, cash capex declined by 2.5 percent year-on-year.

EUROPE.

CUSTOMER DEVELOPMENT.

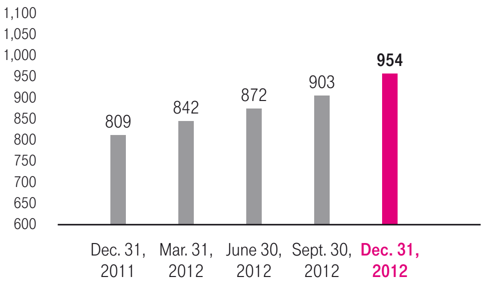
G 33

Fixed-network lines. ('000)



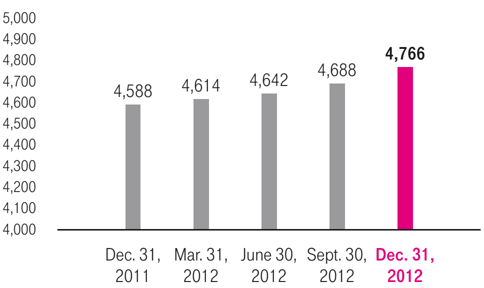
G 34

IPTV customers. ('000)



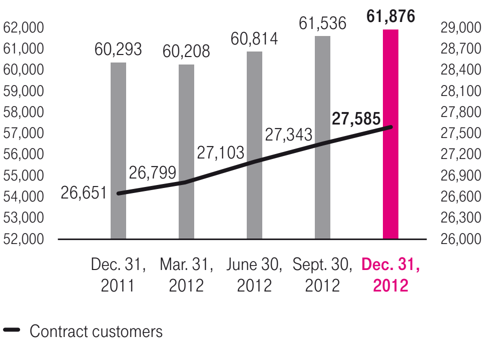
G 35

Retail broadband lines. ('000)



G 36

Mobile customers. ('000)



T 024

		Dec. 31, 2012 '000	Dec. 31, 2011 '000	Change '000	Change %	Dec. 31, 2010 '000
EUROPE, TOTAL	Fixed-network lines	9,954	10,563	(609)	(5.8)	11,337
	Retail broadband lines	4,766	4,588	178	3.9	4,353
	Wholesale bundled lines	153	153	–	–	180
	Wholesale unbundled lines	74	50	24	48.0	44
	Unbundled local loop lines (ULLs)	1,963	1,844	119	6.5	1,504
	Mobile customers	61,876	60,293	1,583	2.6	60,100
GREECE	Fixed-network lines	3,016	3,317	(301)	(9.1)	3,739
	Broadband lines	1,203	1,126	77	6.8	1,147
	Mobile customers	7,697	7,885	(188)	(2.4)	7,990
ROMANIA	Fixed-network lines	2,418	2,487	(69)	(2.8)	2,597
	Broadband lines	1,134	1,078	56	5.2	961
	Mobile customers	6,368	6,499	(131)	(2.0)	6,849
HUNGARY	Fixed-network lines	1,401	1,486	(85)	(5.7)	1,652
	Broadband lines	875	848	27	3.2	824
	Mobile customers	4,837	4,817	20	0.4	5,208
POLAND	Mobile customers	16,040	14,161	1,879	13.3	13,259
CZECH REPUBLIC	Fixed-network lines	111	100	11	11.0	69
	Broadband lines	111	100	11	11.0	69
	Mobile customers	5,498	5,381	117	2.2	5,475
CROATIA	Fixed-network lines	1,312	1,387	(75)	(5.4)	1,431
	Broadband lines	658	651	7	1.1	629
	Mobile customers	2,326	2,418	(92)	(3.8)	2,901
NETHERLANDS	Fixed-network lines	283	294	(11)	(3.7)	289
	Broadband lines	275	284	(9)	(3.2)	289
	Mobile customers	4,720	4,909	(189)	(3.9)	4,526
SLOVAKIA	Fixed-network lines	960	1,021	(61)	(6.0)	1,061
	Broadband lines	480	464	16	3.4	436
	Mobile customers	2,311	2,326	(15)	(0.6)	2,411
AUSTRIA	Mobile customers	4,104	4,060	44	1.1	3,778
OTHER [a]	Fixed-network lines	453	471	(18)	(3.8)	498
	Broadband lines	258	239	19	7.9	220
	Mobile customers	7,975	7,838	137	1.7	7,702

[a] Other includes the national companies of Bulgaria, Albania, the F.Y.R.O. Macedonia, and Montenegro.

Total.

In the 2012 financial year, our Europe operating segment showed robust development in terms of the customer base despite intense competition and the still strained economic situation in most of the countries in this segment.

In the fixed network, we increased the number of broadband lines compared with the end of 2011 thanks to the focus on rolling out broadband technology and thus partially offset the line losses in the analog fixed-network business. The mobile customer base increased year-on-year, mainly due to encouraging growth among contract customers. The number of prepay customers in the segment also increased on the back of a positive development in Poland due to a change in the deregistration procedure.

Fixed network.

Telephony, Internet and TV. As a consistent growth driver, the IPTV business recorded a substantial increase in customer figures of around 18 percent year-on-year. We further expanded the number of retail broadband customers in most countries of our operating segment by 3.9 percent to around 4.8 million lines compared with December 31, 2011 by offering innovative rate plans, such as TV plus Internet access packages. The largest absolute additions compared with the prior-year figure were achieved in Greece and Romania, due in particular to the higher number of DSL lines. We also generated marked growth in broadband lines in Hungary and the Czech Republic, primarily in broadband cable lines in Hungary and in DSL business in the Czech Republic. Around 10 million customers in our Europe operating segment used a fixed-network line as of December 31, 2012, a year-on-year decrease of 5.8 percent. This is largely the result of line losses in traditional telephony, especially in Greece, Croatia, Romania, and the F.Y.R.O. Macedonia. However, the economic situation and the resulting intense competitive pressure also caused a decline in the number of customers.

Mobile communications.

Mobile telephony and data services. We increased our total mobile customer base by 2.6 percent compared with the previous year to 62 million thanks to noticeable net contract additions. As of December 31, 2012, our contract customer base totaled around 28 million, an increase of 3.5 percent compared with 2011. This is attributable to the encouraging trend among consumers as well as the significant increase in business customers, who accounted for half of this growth. Their numbers increased in particular in the Czech Republic, Romania, and Poland. At over 8 million, business customers accounted for almost 30 percent of total contract customers in the Europe operating segment. Thanks to the continued attractiveness of smartphone use, particularly in Austria and the Netherlands, we increased the contract customer share of the total customer base in our operating segment to 45 percent.

As of December 31, 2012, the number of prepay customers increased slightly year-on-year. The number of prepay customers declined in most countries of our operating segment due to our strategy of focusing on high-value contract customers. The prepay customer base only grew appreciably in Poland by around 1.6 million, mainly due to a change in the deregistration procedure in September 2011.

DEVELOPMENT OF OPERATIONS.

T 025

	2012 millions of €	2011 millions of €	Change millions of €	Change %	2010 millions of €
TOTAL REVENUE	14,408	15,124	(716)	(4.7)	16,840
Greece	3,253	3,546	(293)	(8.3)	3,876
Romania	1,037	1,072	(35)	(3.3)	1,165
Hungary	1,429	1,438	(9)	(0.6)	1,517
Poland	1,678	1,740	(62)	(3.6)	1,839
Czech Republic	1,044	1,092	(48)	(4.4)	1,157
Croatia	992	1,084	(92)	(8.5)	1,148
Netherlands	1,664	1,747	(83)	(4.8)	1,767
Slovakia	837	886	(49)	(5.5)	934
Austria	878	924	(46)	(5.0)	983
United Kingdom	–	–	–	–	783
Other [a]	1,811	1,827	(16)	(0.9)	1,937
Profit from operations **(EBIT)**	1,484	780	704	90.3	985
EBIT margin %	10.3	5.2			5.8
Depreciation, amortization and impairment losses	(3,233)	(4,215)	982	23.3	(4,157)
EBITDA	4,717	4,995	(278)	(5.6)	5,142
Special factors affecting EBITDA	(204)	(246)	42	17.1	(606)
EBITDA (ADJUSTED FOR SPECIAL FACTORS)	4,921	5,241	(320)	(6.1)	5,748
Greece	1,210	1,300	(90)	(6.9)	1,433
Romania	289	274	15	5.5	281
Hungary	474	542	(68)	(12.5)	567
Poland	586	629	(43)	(6.8)	691
Czech Republic	486	509	(23)	(4.5)	551
Croatia	469	508	(39)	(7.7)	507
Netherlands	525	505	20	4.0	461
Slovakia	352	388	(36)	(9.3)	403
Austria	234	253	(19)	(7.5)	283
United Kingdom	–	–	–	–	167
Other [a]	299	339	(40)	(11.8)	426
EBITDA margin (adjusted for special factors) %	34.2	34.6			34.1
CASH CAPEX	(1,698)	(1,870)	172	9.2	(2,012)

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

[a] Other includes the national companies of Bulgaria, Albania, the F.Y.R.O. Macedonia, and Montenegro, as well as ICSS (International Carrier Sales & Solutions) and Europe Headquarters.

Total revenue.

In the reporting period, our Europe operating segment generated total revenue of EUR 14.4 billion, down 4.7 percent compared with the prior-year level. Around 16 percent of the decrease was attributable to negative aggregate exchange rate effects, especially from the translation of the Hungarian forint, the Polish zloty, the Czech koruna, and the Croatian kuna into euros. Adjusted for these effects, segment revenue decreased by just 4.0 percent. A significant proportion of this decrease in revenue was attributable to requirements imposed by the national regulatory authorities and the EU. Reduced mobile termination rates and roaming regulation caused substantial losses in revenue in most countries in our operating segment, with the consequence that these revenues declined faster at segment level than in the fixed network. This decrease was offset only in part by higher customer numbers and also by the slightly higher minute usage per customer in mobile operations. Price reductions due to intense competition put further pressure on our revenue from operations, as did the continued challenging economic situation, especially in Southern and Eastern European countries. Around half of the decline in revenue from operations was attributable to Greece; that said, most of the other countries also suffered revenue declines.

At segment level, there were slightly compensatory effects from growth in international wholesale business and revenue increases in the fields of broadband, television and energy. These growth areas partially compensated for the negative revenue effects from voice telephony. This shows the success of our strategy to drive forward the expansion of broadband technologies in the fixed network and in mobile communications, in combination with attractive rate plans and a broad portfolio of terminal equipment. In mobile communications, we recorded noticeable further growth in data revenue with an increase of 15 percent to around EUR 1.3 billion. Adjusted for exchange rate effects, data revenue increased by approximately 16 percent compared with the prior-year figure. Almost all countries in our Europe operating segment, but in particular the Netherlands, Austria, Poland, Romania, and the Czech Republic, contributed to this growth.

EBITDA, adjusted EBITDA.

Our Europe operating segment generated adjusted EBITDA of EUR 4.9 billion in the 2012 financial year, a year-on-year decrease of 6.1 percent. Without the overall negative exchange rate effects, especially from the translation of the Hungarian forint, the Czech koruna, the Polish zloty, and the Croatian kuna, adjusted EBITDA decreased by 5.3 percent. The decline in operations at segment level was mainly attributable to Greece, Hungary, Slovakia, Poland, and Croatia.

These decreases were partially offset by higher contributions of adjusted EBITDA in the Netherlands and in Romania.

Overall, the decrease in revenue year-on-year at segment level had a negative impact on the development of EBITDA. In addition, changes in legislation, for example as a part of national austerity programs, adversely affected our EBITDA. In Hungary, for instance, the special levy introduced as of July 1, 2012 on top of the existing special tax reduced our adjusted EBITDA.

We partially offset the negative effects from the decline in revenue by systematically reducing overheads through our efficiency enhancement measures, which are primarily reflected in lower personnel costs and costs for goods and services purchased. Also, EBITDA was positively impacted by personalizing our dialog with customers, which boosted customer retention, and by a regulation-induced reduction in interconnection costs. However, this was cancelled out by higher expenses for terminal equipment as well as in the energy business.

Development of operations in selected countries.

Greece. Revenue in Greece totaled EUR 3.3 billion in 2012, a year-on-year decrease of 8.3 percent, which was mainly attributable to the fixed-network business. Fixed-network voice revenue declined primarily as a result of line losses of around 9 percent in traditional telephony. Since regulation in the fixed-network business in Greece continues to be very strict and we did not receive the regulatory authority's approval to offer VDSL services before the end of November 2012, we were not able to proceed with customer acquisitions as planned and thus generate the associated revenue in full. Our revenue was positively impacted, however, by higher revenues in wholesale and television business. In mobile business, revenue was also down year-on-year due to lower pricing, both as a result of the regulation-induced reduction in termination rates – in August and again in mid-October 2012 – and due to competition. Overall, the continued difficult economic situation had an impact on revenue development, which is reflected in the decline in service revenues and lower terminal equipment sales.

Adjusted EBITDA decreased to EUR 1.2 billion in Greece during the reporting period, a year-on-year decline of 6.9 percent, mainly due to the decrease in revenue. We partly offset the negative effects through mobile customer acquisition and retention measures and through our programs to enhance efficiency in the mobile and fixed-network business. The success of these programs is primarily reflected in lower personnel costs, due in part to a reduced headcount and in part to the agreements concluded with trade unions.

Hungary. We generated revenue of EUR 1.4 billion in the reporting period, almost the same level as in the previous year. Adjusted for the negative exchange rate performance of the Hungarian forint against the euro, revenue from operations increased by 2.7 percent. This year-on-year increase is attributable to growth, in particular in the energy resale business. Higher overall fixed-network revenue from broadband, television, and terminal equipment sales almost offset the decline in voice telephony. In mobile communications, service revenues adjusted for exchange rate effects remained virtually constant. Price cuts due to competition as well as a regulation-induced reduction in termination rates resulted in lower revenues from voice telephony, which were partly offset by higher data revenues as a result of increased customer usage as well as a higher contract customer base overall. In addition, increased terminal equipment sales made a positive contribution to revenue, mainly since smartphones accounted for a large proportion of all terminal devices sold.

Adjusted EBITDA amounted to EUR 474 million in 2012, representing a year-on-year decrease of 12.5 percent. This decrease was due to the continued unfavorable exchange rate performance of the Hungarian forint against the euro. Excluding exchange rate effects, adjusted EBITDA declined by 9.0 percent, mainly as a result of a year-on-year decrease in revenue generated with traditional fixed-line voice services and the special levy introduced as of July 1, 2012. Our efficiency improvement programs had a positive effect on adjusted EBITDA.

Poland. Revenue in Poland totaled EUR 1.7 billion in the reporting period, a decrease of 3.6 percent compared with the 2011 figure. Adjusted for the significantly negative exchange rate performance of the Polish zloty against the euro, revenue decreased by just 1.8 percent compared with the previous year. Service revenues were down due to lower pricing as a consequence of intense competition on the Polish mobile market and the regulation-induced reduction in termination rates. We partially offset this decrease in voice telephony with a substantial increase in data revenues. In addition, increased terminal equipment sales made a positive contribution to revenue, mainly due to the successful marketing of smartphones.

Adjusted EBITDA amounted to EUR 586 million in 2012, down 6.8 percent year-on-year. Adjusted for negative exchange rate effects, the decrease was just 5.6 percent. The decline was attributable to increased customer acquisition costs as a result of marketing higher-value terminal equipment and a higher share of contract customers in the business with new customers. Furthermore, the previous year had been positively impacted by the reversal of a provision. Customer retention costs decreased due to improved measures to target our high-value contract customers, which made a positive contribution to EBITDA.

Netherlands. In the reporting period, revenue decreased by 4.8 percent year-on-year to EUR 1.7 billion. Regulation-induced decreases in revenue from voice telephony and decreases in text message revenue were partially offset by the highly successful data business. A larger contract customer base attributable to new rate plans also had a positive effect on voice telephony revenue. The terminal equipment business made a positive contribution to revenue thanks to the continued attractiveness of smartphones, in particular high-priced devices. A one-time effect in the fourth quarter of the prior year had a contrasting impact. The fixed-network business declined due to a smaller number of broadband lines compared with the previous year.

Adjusted EBITDA increased by 4.0 percent year-on-year to EUR 525 million in 2012. This positive result was achieved despite the negative effect resulting from regulation. In addition, interconnection costs decreased, also due to lower volumes. Reduced customer retention and acquisition costs as well as lower overheads, including personnel costs and costs of goods and services purchased, also contributed to the improvement in adjusted EBITDA.

EBIT.

EBIT in our Europe operating segment totaled EUR 1.5 billion in the reporting year, an increase of 90.3 percent compared with 2011 that was mainly attributable to significantly lower impairment losses recognized on goodwill. The segment also generated a positive contribution to EBIT which in most countries was due to lower depreciation and amortization as a result of investment restraints. This fully offset the negative effects from the decline in EBITDA.

Cash capex.

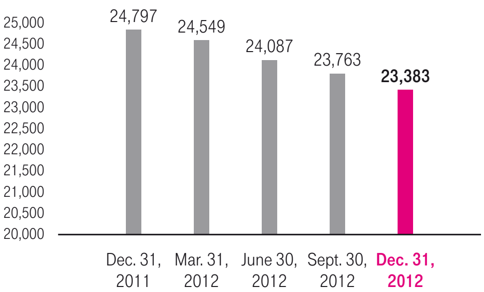
In 2012, our Europe operating segment reported cash capex of EUR 1.7 billion, a year-on-year reduction of 9.2 percent. A difficult market situation, decisions by regulatory authorities, and additional financial burdens, such as the special tax in Hungary and the real estate tax in Greece, caused most countries in our operating segment to exercise restraint in their capital spending. However, cash capex for extending existing and/or obtaining new mobile communications licenses increased in a number of countries in our operating segment.

UNITED STATES.

CUSTOMER DEVELOPMENT.

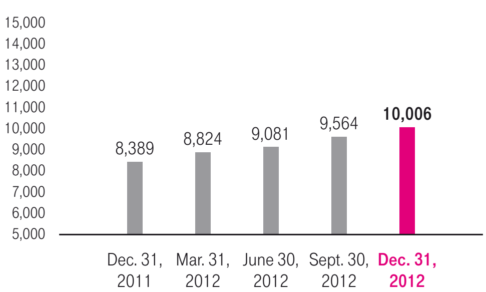
G 37

Contract customers. [a] ('000)



G 38

Prepay customers. [a] ('000)



[a] Prior-quarter amounts have been restated to conform to current-period customer reporting classifications.

T 026

	Dec. 31, 2012 '000	Dec. 31, 2011 '000	Change '000	Change %	Dec. 31, 2010 '000
UNITED STATES					
Mobile customers	33,389	33,186	203	0.6	33,734
Contract customers	23,383	24,797	(1,414)	(5.7)	26,447
Branded	20,293	22,367	(2,074)	(9.3)	24,574
Machine-to-machine (M2M)	3,090	2,430	660	27.2	1,873
Prepay customers	10,006	8,389	1,617	19.3	7,287
Branded	5,826	4,819	1,007	20.9	4,497
MVNOs	4,180	3,570	610	17.1	2,790

At December 31, 2012, the United States operating segment (T-Mobile USA) had 33.4 million customers, a net increase in customers of 203 thousand compared to 33.2 million customers at December 31, 2011. This net increase in customers in 2012 was a significant improvement compared to a net decrease of 548 thousand in 2011. In 2012, prepay customer growth more than offset contract customer losses. In 2012, T-Mobile USA lost 1.4 million contract customers compared to 1.7 million contract customers lost in 2011.

In 2012, branded contract customer losses improved due to lower branded contract customer churn, which continued to be a key strategic focus for 2012, partially offset by a decline in branded contract gross customer additions. Additionally, total machine-to-machine customers continued to grow in 2012 and totaled 3.1 million customers at December 31, 2012. In 2012, T-Mobile USA had 1.6 million net prepay customer additions compared to 1.1 million net prepay customer additions in 2011. Branded prepay customer additions improved considerably in 2012 driven by the continued success of unlimited Monthly 4G prepay plans and customer migration to prepay plans from the discontinuation of the company's FlexPay. Additionally, MVNO customers continued to grow in 2012, although at a slower rate than in 2011, and totaled 4.2 million at December 31, 2012.

Glossary, PAGE 301 et seq.

T-Mobile USA's blended churn decreased to an average of 3.4 percent per month in 2012, compared to an average of 3.6 percent per month in 2011. The year-on-year decrease in blended churn was due primarily to lower branded contract churn from a change in the mix of T-Mobile USA's contract product portfolio and the continued strategic focus on churn reduction. Compared to the prior period, branded contract churn decreased by 30 basis points to 2.4 percent. Additionally, branded prepay customer churn decreased by 30 basis points to 6.4 percent. In order to improve the branded product portfolio, the company discontinued certain products that had higher churn in 2011, such as FlexPay.

DEVELOPMENT OF OPERATIONS.

T 027

		2012 millions of €	2011 millions of €	Change millions of €	Change %	2010 millions of €
TOTAL REVENUE		15,371	14,811	560	3.8	16,087
Profit (loss) from operations **(EBIT)**		(7,547)	(710)	(6,837)	n.a.	2,092
EBIT margin	%	(49.1)	(4.8)			13.0
Depreciation, amortization and impairment losses		(12,866)	(4,407)	(8,459)	n.a.	(2,064)
EBITDA		5,319	3,697	1,622	43.9	4,156
Special factors affecting EBITDA		1,479	(134)	1,613	n.a.	–
EBITDA (ADJUSTED FOR SPECIAL FACTORS)		3,840	3,831	9	0.2	4,156
EBITDA margin (adjusted for special factors)	%	25.0	25.9			25.8
CASH CAPEX		(2,560)	(1,963)	(597)	(30.4)	(2,121)

Value and Monthly 4G plans. T-Mobile USA offers affordable 4G nationwide wireless communications services through a variety of pricing plans, including contract and no-contract service plans. In the third quarter of 2011, T-Mobile USA introduced Value plans which bring more choice and value to customers. Value plans provide wireless services without the purchase of, or upfront payment of, a bundled handset. Customers on T-Mobile USA's Value plans benefit from reduced monthly service charges by using an existing compatible device, or by purchasing a device either by paying full price at the point-of-sale or by deferring payments over a 20-month installment contract. Compared to traditional bundled price plans, T-Mobile USA's Value plans result in increased equipment revenue, benefiting net income during the period of activation, while service revenues are lower over the service contract period. In 2012, T-Mobile USA enhanced its offerings by introducing unlimited nationwide 4G data plans which can be added to any Value or traditional plan and include nationwide 4G coverage without data caps or overage fees.

In 2011, T-Mobile USA also introduced Monthly 4G plans, a branded prepaid service offering that provides customers with a variety of plan choices including unlimited talk, text, and web services on T-Mobile USA's nationwide 4G network at flat monthly rates without the requirement of an annual contract.

Total revenue.

Total revenue for the United States operating segment (T-Mobile USA) was EUR 15.4 billion in 2012, an increase of 3.8 percent compared to EUR 14.8 billion in 2011, which was due to fluctuations in the currency exchange rate. In U.S. dollars, total revenue declined by 4.1 percent year-on-year due primarily to a decrease in service revenues partially offset by an increase in equipment revenues associated with T-Mobile USA's Value plans. Service revenues declined due to a decrease in branded contract customers (contract customers excluding machine-to-machine) and changes in the customer mix towards lower priced Value rate plans. This was partially offset by strong prepay service revenue growth associated with the continued success of unlimited Monthly 4G prepay plans introduced in the second quarter of 2011. Data service revenues increased by 6.7 percent in 2012 compared to 2011, driven by increased smartphone plan adoption. Equipment sales increased by 20.4 percent, despite lower volumes, due to handset program pricing changes in connection with the T-Mobile USA's Value plans launched in the third quarter of 2011 and higher smartphone sales.

EBITDA, adjusted EBITDA.

EBITDA increased in 2012 by 43.9 percent to EUR 5.3 billion compared to EUR 3.7 billion in 2011. Adjusted EBITDA remained consistent year-on-year at EUR 3.8 billion in 2012 and 2011, due to fluctuations in the currency exchange rate offsetting the decline in local currency. Adjusted EBITDA in 2012 excludes special factors of EUR 1.5 billion, which primarily includes a EUR 1.4 billion gain recognized on the sale of wireless communication tower sites in November 2012. In U.S. dollars, adjusted EBITDA decreased by 7.5 percent, primarily due to a decline in service revenues as described above, partially offset by lower equipment subsidies in connection with handset program pricing changes from T-Mobile USA's Value plans, and lower equipment unit sales volumes. Additionally, lower roaming costs and employee-related expenses, as well as the effects of ongoing cost management programs, contributed to a decline in expenses in 2012. This combined reduction in costs was partially offset by higher marketing expenses related to new advertising and promotional campaigns launched in 2012.

For more information on the sale of cell sites, please refer to “Business combinations and other transactions” in the notes to the consolidated financial statements, **PAGES 219 – 220.**

EBIT.

EBIT declined EUR 6.8 billion in 2012 to an operating loss of EUR 7.5 billion compared to an operating loss of EUR 710 million in 2011, primarily due to impairment losses on goodwill, other intangible assets, and property, plant and equipment of EUR 10.6 billion in 2012. In 2011, T-Mobile USA recognized an impairment loss on goodwill of EUR 2.3 billion. In 2012, T-Mobile USA also recorded EUR 0.2 billion in accelerated depreciation related to network modernization initiatives.

For more information on the impairment assessment, please refer to **NOTE 30** “Depreciation, amortization and impairment losses” in the notes to the consolidated financial statements, **PAGES 253 – 254.**

Cash capex.

Cash capex increased 30.4 percent year-on-year to EUR 2.6 billion in 2012 compared to EUR 2.0 billion in 2011. In U.S. dollars, cash capex increased 20.0 percent year-on-year due to higher incurred capex in 2012 related to the network modernization transformation and the purchase of spectrum licenses, partially offset by payment timing of capital expenditures. In 2012, T-Mobile USA announced that it would invest USD 4 billion in total over 2012 and 2013 to strengthen its 4G network, as well as refarming of 1900 MHz spectrum previously used for GSM/HSPA plus beginning in 2012 and the planned launch of LTE technology in 2013. Additionally, T-Mobile USA recognized a USD 1.2 billion non-cash increase of AWS spectrum received as a result of the terminated AT&T transaction.

SYSTEMS SOLUTIONS.

For more information, please refer to **NOTE 32** "Segment reporting" in the notes to the consolidated financial statements, **PAGE 256 et seq.**

Effective July 1, 2012, we reorganized our Group's IT infrastructure and transferred all internal IT units from the Germany and Systems Solutions operating segments as well as Group Headquarters & Shared Services into the new Telekom IT unit within the Systems Solutions operating segment.

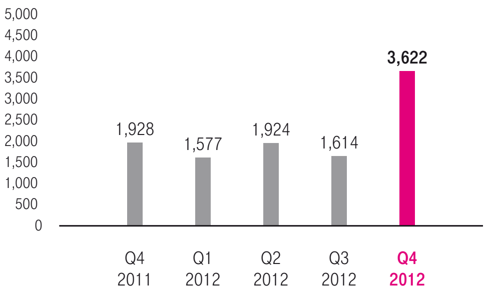
Our Systems Solutions operating segment now combines two business models: first, the Market Unit, which handles our business with external customers, focused on revenue growth, and second, our internal service unit Telekom IT, which endeavors to continuously reduce its own revenue and thereby the IT costs of our Group.

The figures for 2011 have been adjusted for better comparability.

SELECTED KPIs.

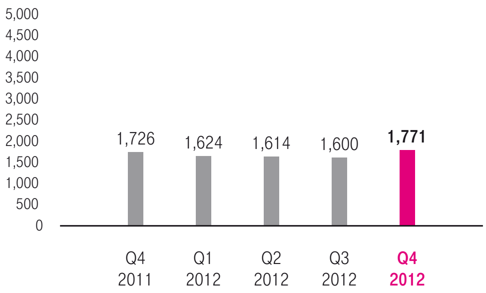
G 39

Order entry. (millions of €)



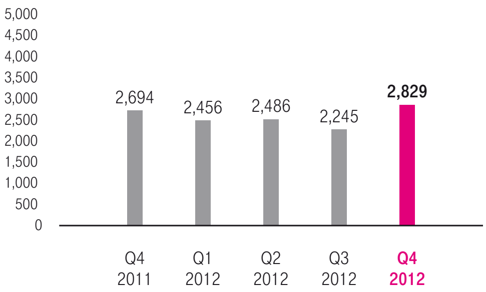
G 40

External revenue. (millions of €)



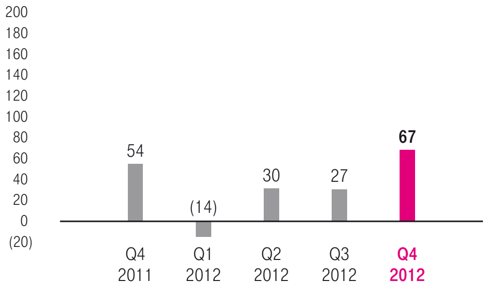
G 41

Revenue. (millions of €)



G 42

Adjusted EBIT. (millions of €)



T 028

		Dec. 31, 2012	Dec. 31, 2011	Change	Change %	Dec. 31, 2010
ORDER ENTRY	millions of €	8,737	7,396	1,341	18.1	9,281
COMPUTING & DESKTOP SERVICES						
Number of servers managed and serviced	units	57,121	58,053	(932)	(1.6)	58,073
Number of workstations managed and serviced	millions	1.93	2.00	(0.07)	(3.5)	1.95
SYSTEMS INTEGRATION						
Hours billed	millions	6.3	n.a.	n.a.	n.a.	n.a.
Utilization rate	%	85.1	n.a.	n.a.	n.a.	n.a.

Development of business.

In the 2012 financial year, order entry increased substantially year-on-year by 18.1 percent. This was due to the conclusion of major new deals, such as those with the Catalan government, Shell, Clariant, BP, Daimler, British American Tobacco, and the Swiss industrial group Georg Fischer. Our standard solutions in the growth area of cloud computing succeeded in the face of strong competition, winning us contracts with many of these corporate customers. T-Systems continued to expand its dynamic resources accordingly in the reporting period. For our customers, this means they receive bandwidth, computing capacity, and memory on demand, pay for what they use, and share the infrastructure. In another encouraging development, utilities company RWE has selected us as its partner for the largest smart metering project to date in Germany.

Glossary, **PAGE 301 et seq.**

Glossary, **PAGE 301 et seq.**

The number of servers managed and serviced declined year-on-year due to technological progress. New deals have increased demand for our ICT services. This demand is now being met by high-performance servers with improved capacity utilization. A similar trend can be seen in data centers, where consolidation is creating larger, higher-performance units.

DEVELOPMENT OF OPERATIONS.

T 029

		2012 millions of €	2011 millions of €	Change millions of €	Change %	2010 millions of €
TOTAL REVENUE		10,016	9,953	63	0.6	9,937
Loss from operations **(EBIT)**		(299)	(290)	(9)	(3.1)	(193)
Special factors affecting EBIT		(409)	(313)	(96)	(30.7)	(297)
EBIT (adjusted for special factors)		110	23	87	n.a.	104
EBIT margin (adjusted for special factors)	%	1.1	0.2			1.0
Depreciation, amortization and impairment losses		(649)	(669)	20	3.0	(656)
EBITDA		350	379	(29)	(7.7)	463
Special factors affecting EBITDA		(397)	(293)	(104)	(35.5)	(289)
EBITDA (ADJUSTED FOR SPECIAL FACTORS)		747	672	75	11.2	752
EBITDA margin (adjusted for special factors)	%	7.5	6.8			7.6
CASH CAPEX		(1,187)	(1,413)	226	16.0	(1,501)

Total revenue.

Total revenue in our Systems Solutions operating segment in the financial year amounted to EUR 10.0 billion, a year-on-year increase of 0.6 percent. This was primarily attributable to external international revenue resulting in part from deals from 2011 with Everything Everywhere, Magna, and TOTAL, and in part from the aforementioned deals concluded in the reporting year. These deals offset the general negative price trend in IT and communications as well as the slight decline in national business. External revenue was higher than in 2011, with international revenue increasing substantially by 6.3 percent while national revenue decreased by 1.8 percent.

Revenue for the Market Unit includes revenue generated with external customers plus intragroup revenue with international IT services and national services that do not fall within the remit of Telekom IT. At EUR 7.8 billion, this item was slightly above the prior-year level. In the newly established Telekom IT business unit, which pools all of the Group's internal national IT projects, revenue was slightly down against the prior year, mainly due to the Group's efforts to reduce IT costs as well as to seasonal effects in the project business.

EBITDA, adjusted EBITDA.

Adjusted EBITDA in our Systems Solutions operating segment increased by 11.2 percent in the reporting period as a result of the restructuring and efficiency enhancement program launched. The adjusted EBITDA margin improved from 6.8 to 7.5 percent. Unadjusted EBITDA declined by 7.7 percent, impacted primarily by the recognition of provisions, for example for the planned early retirement program for civil servants and other restructuring measures.

EBIT, adjusted EBIT.

Adjusted EBIT for 2012 was EUR 87 million higher than in the prior year. Among other factors, this increase is attributable to lower depreciation and amortization year-on-year in view of more efficient investing activities. The adjusted EBIT margin increased from 0.2 to 1.1 percent in the reporting period.

Cash capex.

Glossary, PAGE 301 et seq.

At EUR 1.2 billion, cash capex in 2012 was well below the prior-year level. We were able to offset cash capex for new contracts and customer relationships by lower expenditure thanks to enhanced efficiencies, for example through the continued standardization of ICT platforms. Telekom IT management aims to reduce its own cash capex 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 & SHARED SERVICES.

Group Headquarters & Shared Services performs strategic and cross-segment management functions for the Deutsche Telekom Group and is responsible for operating activities that are not directly related to the core business of the operating segments. Since January 1, 2012, Deutsche Telekom has pooled the tasks and functions of the Digital Services growth business as well as the Internet service provider STRATO, which as of December 31, 2011 were still largely part of the Germany operating segment, in the Digital Business Unit (DBU) under Group Headquarters & Shared Services.

For more information, please refer to **NOTE 32** "Segment reporting" in the notes to the consolidated financial statements, **PAGE 256 et seq.**

Effective July 1, 2012, Deutsche Telekom reorganized the Group's IT structure and transferred all internal IT units from the Germany and Systems Solutions operating segments as well as Group Headquarters & Shared Services into the new Telekom IT unit within the Systems Solutions operating segment.

The prior-year figures have been adjusted for better comparability.

Vivento, our personnel service provider, supported us once again in 2012 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, 2012, Vivento had a workforce of around 8,200 employees (December 31, 2011: around 8,500), of which around 3,600 were deployed externally, mainly in the public sector, for example at the Federal Employment Agency. Another 3,200 or so employees were employed within the Group, especially in service centers. About 1,500 employees were placed in Vivento's operational and strategic units or continued to be managed by Vivento. While Vivento took on a total of around 1,100 new employees in the reporting year, around 1,400 employees left the personnel service provider to pursue new opportunities.

DEVELOPMENT OF OPERATIONS.

T 030

	2012 millions of €	2011 millions of €	Change millions of €	Change %	2010 millions of €
TOTAL REVENUE	2,978	2,977	1	0.0	3,119
Of which: Digital Business Unit	868	843	25	3.0	961
Profit (loss) from operations **(EBIT)**	(1,786)	1,274	(3,060)	n.a.	(2,476)
Depreciation, amortization and impairment losses	(811)	(807)	(4)	(0.5)	(835)
EBITDA	(975)	2,081	(3,056)	n.a.	(1,641)
Special factors affecting EBITDA	(280)	2,698	(2,978)	n.a.	(769)
EBITDA (ADJUSTED FOR SPECIAL FACTORS)	(695)	(617)	(78)	(12.6)	(872)
Of which: Digital Business Unit	137	168	(31)	(18.5)	40
CASH CAPEX	(404)	(352)	(52)	(14.8)	(258)

Total revenue.

The total revenue of Group Headquarters & Shared Services in financial year 2012 was nearly unchanged from the prior year. The DBU's revenue increased (especially in the Scout group) while the level of internal real-estate cost allocations declined as a result of measures to make the use of floor space more efficient in the operating segments, which had a positive overall effect on the Group.

EBITDA, adjusted EBITDA.

Adjusted EBITDA at Group Headquarters & Shared Services decreased by EUR 0.1 billion year-on-year in 2012. This trend was affected by the loss of income included in the prior year, which was not matched by comparable effects in 2012. This prior-year income related to our procurement joint venture BUYIN and the reversal of a provision at the DBU. Increased income from trademark licenses had a positive effect on adjusted EBITDA.

Overall, EBITDA was negatively impacted by special factors totaling EUR 280 million in the reporting year, primarily due to expenses in connection with planned and announced staff-related measures, mainly for early retirement. The refund received from Kreditanstalt für Wiederaufbau in connection with a settlement reached in the United States in 2005 was a positive special factor. Special factors of EUR 2.7 billion had a positive effect on EBITDA in the prior year. This was essentially attributable to the termination of the agreement for the sale of T-Mobile USA to AT&T (positive special factors) and to expenses for staff-related measures, primarily for early retirement (negative special factors).

EBIT.

EBIT decreased by EUR 3.1 billion year-on-year, due primarily to the aforementioned special factors and to a decrease in adjusted EBITDA.

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 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 2012 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 a loss after taxes for the 2012 financial year of EUR 4.5 billion. The development of business in the reporting year was marked by a number of very different effects (e.g., the extension of early retirement arrangements until December 31, 2012, write-downs, particularly on the net carrying amount of T-Mobile USA, the transfer of the shares held in Polska Telefonia Cyfrowa S.A., Warsaw (PTC) from Telekom Deutschland GmbH to T-Mobile Poland Holding GmbH), 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.

T 031

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

	2012 millions of €	2011 millions of €	Change millions of €	Change %	2010 millions of €
NET REVENUE	**3,817**	**3,824**	**(7)**	**(0.2)**	**4,269**
Changes in inventories and other own capitalized costs	2	–	2	n.a.	7
TOTAL OPERATING PERFORMANCE	**3,819**	**3,824**	**(5)**	**(0.1)**	**4,276**
Other operating income	5,296	7,542	(2,246)	(29.8)	5,146
Goods and services purchased	(1,456)	(1,404)	(52)	(3.7)	(1,596)
Personnel costs	(3,327)	(3,398)	71	2.1	(3,394)
Depreciation, amortization and write-downs	(496)	(491)	(5)	(1.0)	(525)
Other operating expenses	(4,489)	(5,221)	732	14.0	(6,081)
OPERATING RESULTS	**(653)**	**852**	**(1,505)**	**n.a.**	**(2,174)**
Financial income (expense), net	(3,710)	1,214	(4,924)	n.a.	4,738
RESULTS FROM ORDINARY BUSINESS ACTIVITIES	**(4,363)**	**2,066**	**(6,429)**	**n.a.**	**2,564**
Extraordinary income (expense)	(17)	(19)	2	10.5	(24)
Taxes	(165)	(399)	234	58.6	443
INCOME (LOSS) AFTER TAXES	**(4,545)**	**1,648**	**(6,193)**	**n.a.**	**2,983**

Operating results declined by approximately EUR 1.5 billion year-on-year, while net revenue was virtually stable year-on-year at EUR 3.8 billion. The decline in operating results is due to a combination of lower year-on-year other operating income in the amount of EUR 2.2 billion and a decline of EUR 0.7 billion in other operating expenses. Other operating income in the previous year was primarily influenced by the amount of EUR 2.9 billion from the compensation paid/granted by AT&T to Deutsche Telekom in connection with the termination of the agreement on the sale of T-Mobile USA, and by the reallocation of a company within the Group in the amount of EUR 0.6 billion. The transfer of the shares in PTC from Telekom Deutschland GmbH to T-Mobile Poland Holding GmbH at fair value generated other operating income of EUR 1.5 billion in the reporting year. EUR 0.3 billion of the decline in other operating expenses is attributable to a year-on-year decrease in expenses arising from derivatives. Goods and services purchased, personnel costs, and depreciation, amortization and write-downs remained stable almost at the prior-year level in the reporting year.

The net financial income of EUR 1.2 billion recorded in the previous year declined by EUR 4.9 billion, resulting in a net financial expense of EUR 3.7 billion in the reporting year. This was largely attributable to the decrease of EUR 5.5 billion in income related to subsidiaries, associated and related companies. This decrease, in turn, was mainly the result of a loss transfer from T-Mobile Global Zwischenholding GmbH (TMGZH) amounting to EUR 7.1 billion (2011: EUR 3.3 billion). TMGZH's income/loss was largely impacted by a write-down on the net carrying amount of T-Mobile Global Holding GmbH (TMGH), whose most significant shareholding is T-Mobile USA. By contrast, net financial income/expense was positively affected by the profit transfer from Telekom Deutschland GmbH amounting to EUR 4.2 billion (2011: EUR 5.7 billion), which in the previous year had additionally been improved by a cumulative dividend payment of EUR 1.6 billion from PTC. Compared with the previous year, net interest income/expense was impacted positively by EUR 1.6 billion owing to a reduction in short-term borrowings due to a repayment of commercial paper in the financial year. Results from ordinary business activities were particularly impacted by the aforementioned effects and decreased by a total of EUR 6.4 billion year-on-year in 2012.

Extraordinary expenses amounting to EUR 17 million and a tax expense of EUR 165 million, which was particularly impacted in the prior year by the minimum tax charge on the compensation payment from AT&T, combined with the aforementioned factors resulted in a loss after taxes of EUR 4.5 billion in the 2012 financial year. Taking into account EUR 1.6 billion in unappropriated net income carried forward plus a EUR 6.0 billion withdrawal from retained earnings, unappropriated net income stood at EUR 3.1 billion.

FINANCIAL POSITION OF DEUTSCHE TELEKOM AG.

T 032

Balance sheet of Deutsche Telekom AG under German GAAP.

	Dec. 31, 2012 millions of €	Dec. 31, 2012 %	Dec. 31, 2011 millions of €	Change millions of €	Dec. 31, 2010 millions of €
ASSETS					
Intangible assets	197	0.2	326	(129)	206
Property, plant and equipment	4,266	4.4	4,698	(432)	5,034
Financial assets	81,632	84.3	81,146	486	80,876
NONCURRENT ASSETS	**86,095**	**88.9**	**86,170**	**(75)**	**86,116**
Inventories, materials and supplies	2	0.0	5	(3)	10
Receivables	8,302	8.6	8,439	(137)	11,571
Other assets	942	1.0	1,636	(694)	869
Marketable securities	–	–	–	–	14
Cash and cash equivalents	997	1.0	1,507	(510)	754
CURRENT ASSETS	**10,243**	**10.6**	**11,587**	**(1,344)**	**13,218**
Prepaid expenses and deferred charges	470	0.5	644	(174)	738
Difference between plan assets and partial retirement liabilities	9	0.0	29	(20)	12
TOTAL ASSETS	**96,817**	**100.0**	**98,430**	**(1,613)**	**100,084**
SHAREHOLDERS' EQUITY AND LIABILITIES					
Capital stock and reserves	47,357	48.9	53,307	(5,950)	53,310
Unappropriated net income	3,050	3.2	4,656	(1,606)	6,018
SHAREHOLDERS' EQUITY	**50,407**	**52.1**	**57,963**	**(7,556)**	**59,328**
Pensions and similar obligations	1,986	2.0	2,461	(475)	2,662
Tax accruals	352	0.4	515	(163)	124
Other accruals	3,127	3.2	3,578	(451)	2,903
ACCRUALS	**5,465**	**5.6**	**6,554**	**(1,089)**	**5,689**
Debt	5,540	5.7	7,153	(1,613)	6,711
Other liabilities	35,157	36.3	26,485	8,672	28,031
LIABILITIES	**40,697**	**42.0**	**33,638**	**7,059**	**34,742**
Deferred income	248	0.3	275	(27)	325
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES	**96,817**	**100.0**	**98,430**	**(1,613)**	**100,084**

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 decreased by EUR 1.6 billion year-on-year to EUR 96.8 billion.

The decrease in total assets was mainly attributable to the decline of EUR 0.7 billion in other assets and EUR 0.5 billion in cash and cash equivalents. In the prior year, other assets were significantly influenced by the recognition of a receivable of EUR 0.8 billion from AT&T for spectrum licenses to be granted in connection with the termination of the agreement on the sale of T-Mobile USA. The decrease in cash and cash equivalents is partially offset by an increase of EUR 0.5 billion in financial assets, which is largely the result of the transfer of the shares in PTC from Telekom Deutschland GmbH to T-Mobile Poland Holding GmbH amounting to EUR 1.5 billion. Equity repayments in the amount of EUR 0.4 billion (mainly Deutsche Telekom BK-Holding GmbH totaling EUR 0.3 billion) and write-downs on subsidiaries, associates and joint-ventures of EUR 0.4 billion had an offsetting effect on the development of financial assets.

The decrease in shareholders' equity and liabilities is mainly due to a reduction in shareholders' equity and the lower level of debt and accruals. Shareholders' equity declined overall by EUR 7.5 billion compared with December 31, 2011 due to dividend payments of EUR 3.0 billion for the prior year and the loss after taxes of EUR 4.5 billion in the reporting year. This resulted in an equity ratio of 52.1 percent (2011: 58.9 percent). Debt decreased by a total of EUR 1.6 billion as a result of the repayment of commercial paper. This is offset by an increase in other liabilities which is mainly attributable to the loss transfer from TMGZH amounting to EUR 7.1 billion. The decline in accruals is largely due to lower personnel accruals owing to the allocation of EUR 0.4 billion to CTA assets and to the utilization of accruals for loss contingencies resulting from the maturity of USD-denominated derivatives in the amount of EUR 0.4 billion.

T 033

Statement of cash flows.

	2012 millions of €	2011 millions of €	Change millions of €
INCOME (LOSS) AFTER TAXES	**(4,545)**	**1,648**	**(6,193)**
Net cash provided by operating activities	1,918	3,997	(2,079)
Net cash used for investing activities	66	(571)	637
Net cash provided by (used for) financing activities	(2,494)	(2,673)	179
NET CHANGE IN CASH AND CASH EQUIVALENTS	**(510)**	**753**	**(1,263)**
Cash and cash equivalents, at beginning of period	1,507	754	753
CASH AND CASH EQUIVALENTS, AT END OF PERIOD	**997**	**1,507**	**(510)**

Net cash provided by operating activities declined year-on-year by EUR 2.1 billion to EUR 1.9 billion. Against the background of loss after taxes of EUR 4.5 billion, net cash provided by operating activities in the reporting year was largely the result of the increase of EUR 7.0 billion in liabilities from cash management, offset by a cash outflow for the allocation of around EUR 0.8 billion to CTA assets for all affected companies in the Deutsche Telekom Group.

Net cash used for investing activities in the current financial year is mainly affected by equity repayments from various subsidiaries amounting to EUR 0.4 billion, offset in particular by loans of EUR 0.3 billion granted to unconsolidated subsidiaries. Cash outflows for investments in the prior year related largely to an increase in the number of shares held in OTE.

Cash outflow for financing activities mainly relates to the payment of the dividend of EUR 3.0 billion for the 2011 financial year and to the repayment of commercial paper amounting to EUR 1.6 billion. Net short- and medium-term borrowings totaling EUR 2.2 billion from Deutsche Telekom International Finance B.V., Amsterdam, had an offsetting effect.

Combined, this resulted in a decrease in cash and cash equivalents of approximately EUR 0.5 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.

■ Challenges ■ Opportunities ■ Measurable progress ■

OUR COMMITMENT TO SOCIAL RESPONSIBILITY.

Digital home and work environments promise to deliver efficiency, self-determination, and growing affluence for many people. They represent an essential element of a more climate-friendly society. The volume of data that has to be transported and processed is growing at lightning speed and, with it, energy consumption and CO_2 emission figures. We therefore see it as our duty to pursue our efforts to make transmission technologies more efficient, improve utilization of computer capacities, and bundle our processes. At the same time, we aim to tap the vast potential offered by ICT to reduce society's CO_2 footprint, above all in energy-intensive sectors. As a pioneer on the way to a networked society, we also feel responsible for guiding those who cannot keep pace with developments on their own.

Through our corporate responsibility (CR) strategy, we have been committed to our responsibility for connected life and work, to actively connecting the unconnected, and to a low-carbon society for more than five years. CR is a strategic, overarching issue involving many of the Group's functions. Responsibility for CR lies at Board of Management level. The CR unit is managed by the Chief Human Resources Officer. Each year we publish a detailed CR report, which includes data on specific CR parameters. The CR KPIs play a role similar to that of financial KPIs and thus fulfill a crucial requirement for integrated financial and CR reporting. We have followed with great interest the discussion on the SD KPIs (Sustainable Development key performance indicators) proposed by Germany's Federal Ministry for the Environment, Nature Conservation and Nuclear Safety. Nonetheless, we will continue to use and further develop our own CR KPIs, since they allow us to present a more accurate picture of our CR performance.

@ 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

RESPONSIBLE CORPORATE GOVERNANCE.

Action areas of our CR strategy. We want our CR activities to differentiate us from our competitors in the toughly contested telecommunications market. We want to be more innovative and faster than our rivals and to exploit our opportunities for growth. To this end, we focus our social commitment on three strategic action areas: connected life and work, connecting the unconnected, and a low-carbon society. We have set ourselves long-term targets for each of these CR action areas. The progress we make on the way to reaching these targets is documented in our annual reports.

Social responsibility is teamwork. We feel strongly about maintaining long-term, mutually trustful relationships with our stakeholders, since we know that many challenges can only be addressed if we work together. With this in mind, we developed a new strategy in 2011. Our aim is to take the issues put forward by our stakeholders seriously and to ensure that top quality standards are applied in our stakeholder involvement approach. In this, we are guided first and foremost by the three AA1000 principles developed by the non-governmental organization AccountAbility: materiality, inclusivity, and responsiveness. In 2012 we also drew up a guideline for our staff, the "Guide to successful stakeholder engagement" (Wegbegleiter für erfolgreiche Stakeholder-Einbeziehung). An audit conducted by PricewaterhouseCoopers (PwC) in the prior year confirmed that the systems and processes we use to involve our stakeholders comply fully with AA1000 requirements.

THE SOCIAL DIMENSION.

The fast technological change taking place in society offers a range of opportunities. However, at the same time, it represents a risk for social cohesion. As a responsible enterprise, our aims must therefore include enabling as many people as possible to participate in the information and knowledge society. To allow us to reach people in different phases and situations of their lives, we have placed our social commitment on a broad basis and focused it in our engagement@telekom program.

"Yes, I can!" initiative. With our "Yes, I can!" initiative, we fund projects in Germany that help give children and young people from difficult social backgrounds greater confidence. In 2012, we again supported numerous projects for children and young people in social hotspots. 123 of the projects submitted to the initiative received up to EUR 10,000. Since the initiative's launch in 2009, we have provided financing for over 350 projects. Each year, we make a sum of around EUR 250,000 available. Our "Yes I can!" initiative was awarded the UN Decade on Education for Sustainable Development award for the second time on February 28, 2012.

Deutsche Telekom Stiftung's commitment to education. Deutsche Telekom Stiftung is a foundation established by Deutsche Telekom AG. It now has a foundation capital of EUR 150 million, making it one of the biggest business foundations in Germany. It is dedicated to improving education levels in the STEM subjects (science, technology, engineering, and mathematics) throughout Germany.

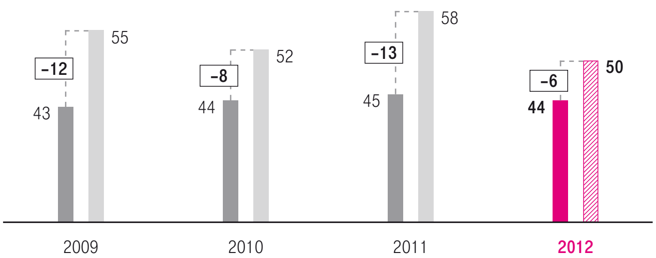
Broad-based volunteering activities. As part of the engagement@telekom initiative, we encourage our staff to do voluntary work. An Internet platform provides employees with information about current projects in which they can participate. Alternatively, they can suggest their own projects and look for project supporters. Another possibility is to apply for funding for their voluntary commitments. Numerous employees have taken advantage of this offer. By the end of 2012, more than 300 projects, project applications and requests for supporters had been received at engagement@telekom. Each year, we make a sum of EUR 250,000 available for the project.

Please also refer to GRAPHIC G 43, PAGE 133.

Social Commitment CR KPI. Awareness of Deutsche Telekom's CR commitment declined by one percentage point in 2012. At the same time, the public's view of the importance of social commitment fell appreciably from 58 to 50 percent. This reduced the difference between theory and practice to 6 percentage points.

G 43

Social Commitment CR KPI.

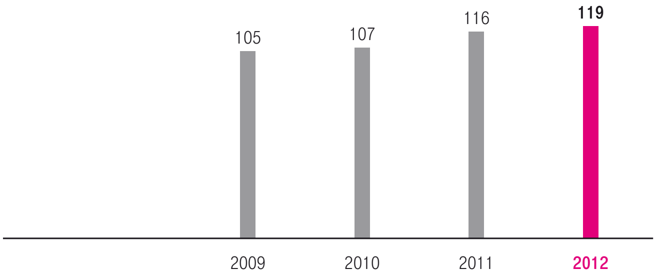


- Performance: Percentage of respondents who considered Deutsche Telekom to be committed to social issues (%).
- Importance: Percentage of respondents who considered corporate social commitment to be “important” or “very important” (%).
- Social Commitment CR KPI: Difference between the assessment of the importance of corporate social commitment and Deutsche Telekom’s performance in this area (%age points).

Source: TNS Infratest, exclusive telephone survey of 1,000 persons resident in Germany, fall 2012.

G 44

Energy Consumption CR KPI. [a]



	2009	2010	2011	2012
Revenue (billions of €)	57.6	58.4	55.4	**55.7**
Energy consumption ('000 MWh)	6,049.2	6,262.6	6,409.4	**6,636.8**

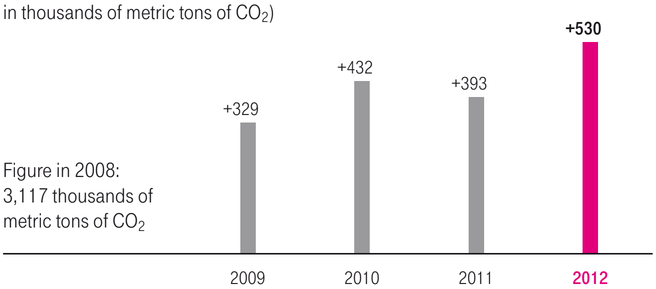
- Energy Consumption CR KPI: Ratio of energy consumption in thousands of MWh to relevant revenue in billions of €, calculated as Monetary Power Efficiency Indicator (MPEI).

[a] Calculated on the basis of appropriate estimates and extrapolations.

G 45

CO_2 Emissions CR KPI.

(Changes compared against 2008 base year in thousands of metric tons of CO_2)

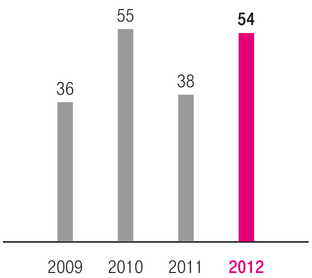


	2009	2010	2011	2012
CO_2 emissions ('000 t)	3,446	3,549	3,510	**3,647**
Changes compared against 2008 (%)	+11	+14	+13	**+17**

- Changes in CO_2 emissions (Scopes 1 and 2) compared against 2008 (base year). Emissions are measured in CO_2 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.

G 46

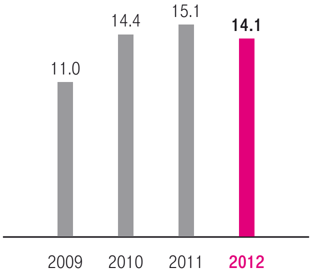
Sustainable Procurement CR KPI. (%)



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

G 47

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



- Share of Deutsche Telekom AG stock that is owned by investors whose investment strategies take environmental, social, and governance criteria into account (data taken from: Ipreo, since 2009). Please note that year-on-year comparisons may prove unreliable as the calculation base is updated annually.

ENVIRONMENTAL AND CLIMATE PROTECTION.

Used appropriately, information and communications technology (ICT) will be able to save almost 9.1 metric gigatons of CO_2 each year worldwide by 2020 by optimizing, reducing or replacing energy-intensive processes. This was the claim made by the global SMARTer 2020 study presented at the 18th UN Climate Conference in Doha in November 2012 by our Board Representative for Climate Protection and Sustainability. The savings potential is equivalent to around 16.5 percent of all CO_2 emissions and is seven times higher than ICT's own emissions. For this reason, we support consumers and business customers who are looking to optimize their energy management. A few examples that show how the carbon footprint of enterprises and consumers can be reduced with ICT are cloud services, smart clients, video conferences, and smart grids. Simultaneously, we are systematically reducing our own CO_2 emissions. To this end, we are shifting our network technology away from the traditional telephone network over to the Internet protocol, replacing second generation mobile technology with new technologies and improving the utilization and energy efficiency of our data centers.

Please also refer to GRAPHIC G 44, PAGE 133.

The **Energy Consumption CR KPI** increased slightly compared with the prior year, as the Group's electricity consumption increased by around 3 percent. The corresponding revenue remained largely stable over the same period – the relevant revenue generated by the Group units included in CR reporting accounted for 96 percent of the Group's net revenue. The constant growth in data volumes is another reason for the increased electricity consumption. Nevertheless, our considerable efforts to save energy and to increase energy efficiency prevented the increase in energy consumption from being much higher.

Please also refer to GRAPHIC G 45, PAGE 133.

The **CO_2 Emissions CR KPI** rose by around 4 percentage points on the previous year and by 17 percent compared with the 2008 base value. Changes in the figures reported for 2008 through 2011 over those quoted in the combined management report for 2011 result from adjustments made to the report parameters (deconsolidation of the former T-Mobile UK subsidiary in the 2008 figures and inclusion of three new companies (Globul Bulgaria, Cosmote Romania, and AMC Albania in the data for 2008 to 2011)), corrected presentation of a figure for the 2008 base year in last year's chart (1,500 instead of 3,195 thousand metric tons of CO_2), and a few corrections in the basic energy consumption figures for 2011. At the end of 2012, IEA completely revised the emission factors it had published for emissions resulting from electricity consumption. This was taken into account for the 2012 emissions and resulted in a rise in the emissions figure.

Glossary, PAGE 301 et seq.

Calculations are based on Scopes 1 and 2 of the Greenhouse Gas Protocol (GHG). They relate to both direct and indirect emissions. Indirect emissions as defined in GHG Scope 3 have not been included here. They include CO_2 emissions resulting from our business travel.

Carbon footprint. In 2012 we developed a concept to record our indirect emissions as defined in GHG Scope 3. At the end of the reporting period, we submitted our draft for review by a verification company of international repute. The results are expected by mid-2013. We continue to participate in industry initiatives to ensure that our data can be compared with that of other companies. With support from Öko-Institut e. V., we also developed a guideline for calculating product carbon footprints (PCF).

FROM VALUE CHAIN TO VALUE CYCLE.

Responsibility in the supply chain. Through our guidelines and voluntary commitments, we require our suppliers to comply with minimum social and ecological standards. Our Group's Code of Conduct and its Social Charter contain an explicit reference to this and deploy a series of tools to ensure compliance with these standards. Before we enter into a business relationship, we use a pre-qualification questionnaire on the Supplier Management Portal to ask potential suppliers about their CR and voluntary commitments. Later on, we expect the voluntary disclosure of further details where necessary and may conduct social audits on site with a supplier's consent. We also work with our competitors within a joint audit cooperation (JAC) and take part in a broad array of programs designed to improve the conditions under which raw materials are extracted and processed and products manufactured.

Innovations in supply chain management. In September 2012 a new version of our Supplier Management Portal (SMP) went into service. A new feature is a points system for supplier evaluation, which permits a graded reaction if suppliers do not comply with the rules. One important element of our supply chain management system is E-TASC. We use the supplier data recorded with it to determine the Sustainable Procurement CR KPI. Since 2012, we have also included suppliers from the SMP alongside suppliers and social audits recorded in E-TASC.

Glossary, **PAGE 301 et seq.**

The **Sustainable Procurement CR KPI** measures the share of procurement volume we obtain from suppliers where one or several companies of the corporate group have been audited for compliance with our social and environmental standards. This also includes audits carried out with upstream suppliers. In this way, we focus above all on suppliers that are of strategic relevance and have an increased CR risk. Collaboration with our suppliers is based on dialog and cooperation on equal terms.

Please also refer to **GRAPHIC G 46, PAGE 133.**

We have significantly increased the procurement volume that we audited for compliance with our sustainability criteria. As the procurement volume covered by SMP is now integrated as a supplier self-assessment figure in KPI calculations, the percentage of the order volume covered has risen by 16 percentage points to 54 percent.

SUSTAINABILITY RATINGS AND AWARDS.

As in previous years, we were again listed in leading indexes and rankings for socially responsible investment (SRI) in the reporting year. These include the Dow Jones Sustainability World and Europe Indexes, the FTSE4Good Index and the STOXX Global ESG Leaders Index. As another bonus, we improved our company's results in several ratings. For instance, we were once again commended as a Prime Company by rating agency Oekom in the reporting year, and climbed within the Swiss SAM agency rating by another three points to 82 points (of a maximum of 100). **TABLE T 034** provides an overview of T-Share listings in the leading sustainability indexes.

T 034

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

Rating agency	Indexes/ratings/ranking	Successfully listed in index			
		2012	2011	2010	2009
SAM	DJSI World	✓	✓	✓	✓
	DJSI Europe	✓	✓	✓	✓
Oekom	"Prime"	✓	✓	✓	✓
VIGEO	ASPI	✓	✓	✓	✓
	ESI	✗	✓	✓	✓
imug/EIRIS	FTSE4Good	✓	✓	✓	✓
Sarasin	DAX Global Sarasin Sustainability	✓	✓	✓	✓
CDP	Carbon Disclosure Leadership	✗	✗	✗	✗
	Carbon Performance Leadership (new since 2010)	✗	✗	✓	n.a.
MSCI[a]	MSCI Global Climate	✗	✓	✓	✓
Newsweek 2011 Green Rankings	Rank Germany #5, Global #41, Technology #7	✓	✓	✓	n.a.
STOXX	STOXX Global ESG Leaders (new since 2011)	✓	✓	n.a.	n.a.

[a] Previously RiskMetrics/KLD.

✓ Successfully listed ✗ Not listed

Please also refer to GRAPHIC G 47, PAGE 133.

In 2012, 12 percent of Deutsche Telekom AG's shares were held by investors who take SRI/ESG criteria into account at least partially in their investment decisions. 2 percent of T-Shares were held by investors who give priority to SRI/ESG aspects when managing their funds.

INNOVATION AND PRODUCT DEVELOPMENT.

- More innovation through cooperation

EXPLOITING OPPORTUNITIES IN GROWTH AREAS.

DEUTSCHE TELEKOM INNOVATION.

To further improve our competitive position and secure the future of our company, we need to strengthen our capacity to innovate. 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 access to new products and services so that ideally they say: “Deutsche Telekom – My first choice for connected life and work.”

We see very promising opportunities for generating revenue in our key growth areas: mobile Internet, connected home, Internet offers, T-Systems, and intelligent networking solutions. It is now up to us to exploit the opportunities offered by these growth areas and to maximize their potential. The fact that we now include the growth areas in our corporate targets underlines their importance for us. We have done this to encourage all management staff and their employees to place the same focus on our future products and services as they do on those of today.

For more information on our growth areas, please refer to the section “Group strategy,” **PAGE 75 et seq.**

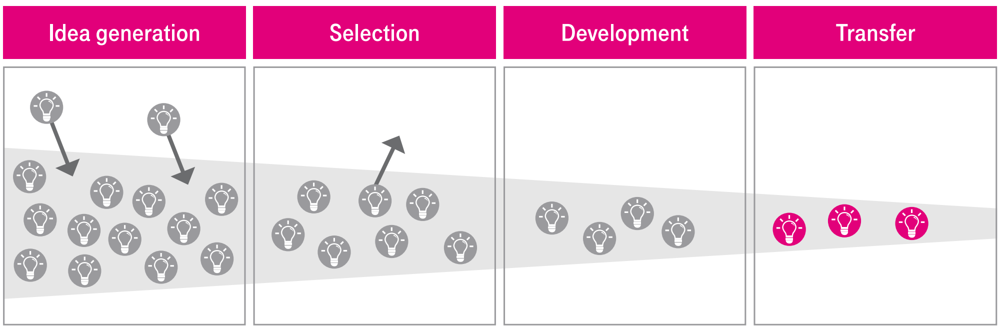
The basis for innovative applications and services remains unchanged, namely a high-speed broadband infrastructure for the fixed and mobile networks. The volume of data that is transported and stored is growing astronomically. In the coming years, it will therefore be vital for us to go on investing heavily in infrastructure. Group capex including MetroPCS is planned to grow to around EUR 9 to 10 billion in the next three years, bringing the total up to almost EUR 30 billion. The focus will be on Germany, where activities will center around building out the LTE network as well as rolling out optical fiber and vectoring technology in the fixed network. On top of that, we plan to launch a hybrid solution that combines LTE and vectoring, thereby increasing bandwidths. Our customers in Austria, Hungary, Croatia, and Greece will also profit from LTE. In 2013, LTE is scheduled to be launched in Poland, the Czech Republic, Montenegro, and the Netherlands. In the United States, the roll-out of the national LTE network is on the agenda.

Glossary, **PAGE 301 et seq.**

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 culture that fosters innovation. Our plan is therefore to create a dynamic innovation culture which gives our growth areas the best chance to prosper. Key elements of this culture include fast decisions and implementation on the basis of lean internal processes, creative potential, promoting and challenging new ideas, and entrepreneurial initiative.

G 48

Deutsche Telekom’s innovation process.



Please also refer to GRAPHIC G 48, PAGE 137.

Clear process structures give ideas the scope they need to grow and transform into innovative products and services. 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 Creation Center 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.
- 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.

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 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.

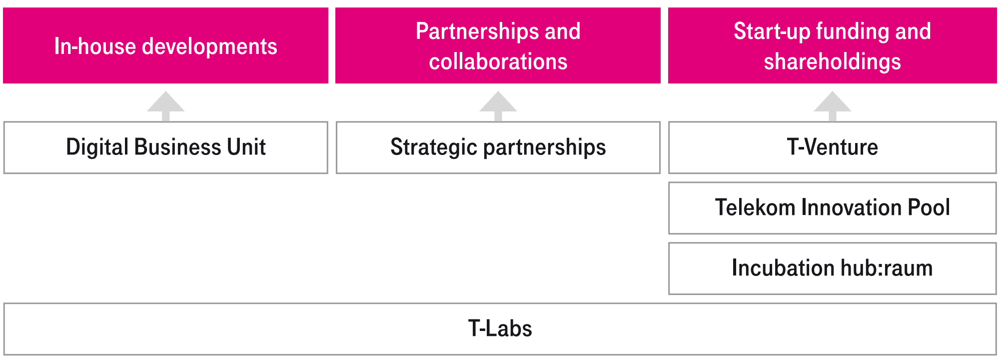
Innovation governance. We have set up an innovation governance concept to manage innovation processes in the Group and promote our innovation culture. It includes the new Portfolio & Innovation Board, which makes sure we get our priorities right. The board is headed by our CEO and identifies and selects 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. Corporate priorities have been set in this respect and will be introduced successively in all national companies. They 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.

THREE-PRONGED INNOVATION STRATEGY.

We plan to generate growth from innovation in three different ways: from in-house developments, from partnerships, and from company shareholdings. As GRAPHIC G 49 shows, we approach innovation with a three-pronged strategy. The central focus is always on the benefit for our customers.

G 49

Growth through innovation.



T-Labs: Our own powerhouse of ideas.

With our central research and innovation unit, Telekom Laboratories – T-Labs – we operate our own research and development facilities at various locations, including Berlin, Darmstadt (Germany), Tel Aviv (Israel), and Silicon Valley (USA). There, around 400 experts and scientists from various disciplines develop and test new technologies, cooperating closely with international universities and research institutes.

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. In the course of the reporting year, our T-Labs helped develop new products that include:

- **Mobile Wallet:** Mobile Wallet turns your cell phone into a wallet. Our customers can pay for products or buy tickets for events or local public transport with their cell phone using near field communication (NFC). NFC is a wireless transmission technology enabling contactless data exchange between devices at close range.
- **Business Marketplace:** Small and medium-sized enterprises can order innovative and secure software solutions for standard business applications from the cloud. The online cloud platform means small enterprises are able to afford highly professional solutions without the need for hardware or software investment, as the services they order are all billed on a per-usage basis. We are the single source of contact for the customer, from ordering to support and billing. Our Business Marketplace range of services was used by some 10,000 customers at the end of 2012.
- **De-Mail:** De-Mail enables secure electronic communication that is legally equivalent to paper-based mail and as easy to use as e-mail. Messages and documents can be sent online in a way that is legally binding, confidential, and tamper-proof. Delivery can be confirmed if required.
- **Remote Control app:** Our Remote app turns smartphones into remote controls for Entertain TV.

T-Labs also established new start-ups such as Trust2Core.

Please also refer to the section “Open innovation – Integrating new external trends,” PAGE 140.

In-house developments.

Digital Business Unit – Gaining pace in the market. With the realignment of our Innovation & Product Development unit, we have paved the way for more growth. The Digital Business Unit (DBU) consists of six business areas: Core Telco Products, Media, Cloud Services, Portals & Advertising, Classifieds, and Payment. It contributes toward an increase in the revenue we generate with online services and the mobile Internet. The DBU’s task is to ensure that we deliver the right products to the right customers through suitable channels in our different markets. All six areas are built 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 for their products to succeed in the market. This gives us the chance to get ready for the future and bring innovative products and services to market at even greater speed than before.

Partnerships and cooperations.

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 which offer us new possibilities. Partnerships and cooperations are therefore a basic element of our innovation strategy.

"Innovation by cooperation" is one of the four focuses of our Group strategy. We benefit from the external innovation capacity made available to us through strategic partnerships and cooperations. Some examples are described below:

- In September 2012 we launched our exclusive high-speed version of LTE for iPhone 5 and the new iPads by Apple.
- We collaborate with MasterCard in the area of mobile payments.
- We have joined forces with Spotify to offer our customers an attractive add-on option and special rate packages containing the music streaming service.
- In our cooperation with Telefónica and Vodafone, we work together on the new Joyn communication service.
- Qivicon, the vendor-independent platform for the smart home, enables partners from the energy, consumer electronics, and household appliance sectors to offer a secure, flexible infrastructure for the connected home.

Please also refer to the section "Group strategy," PAGE 75 et seq.

Glossary, PAGE 301 et seq.

We also collaborate successfully with other business enterprises and institutions on intelligent network solutions, one of our main growth areas:

- **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 taken numerous smart metering orders and, together with RWE, ABB, and EnBW, are driving growth in the smart grid.

- **Healthcare:** We made especially good progress in 2012 in networking in the healthcare sector. We signed groundbreaking contracts, for example with Heil- und Hilfsmittel GmbH at the Barmer Ersatzkasse health insurer and the Association of General Practitioners in Germany (Hausärzteverband), but also internationally with the Raffles Medical Group in Singapore and Presbyterian Healthcare Service in the United States. Together with our partners, we also brought health monitoring products such as a smart home emergency call system and Fitbit, a wireless fitness coach, to market.

- **Connected car:** We cooperate with our customers and specialist partners to develop pilot projects and solutions to integrate the automobile into an increasingly networked society. In fact, our applications do far more than simply use the car as a moving end device. A pilot project with the Hamburg port authorities, for instance, uses smartphones and tablet PCs to keep traffic moving. The object is to optimize traffic and logistics processes in order to handle large volumes of goods in the port. In 2012 we also reached agreement on a strategic technology partnership with Deutsche Bahn in the area of fleet management. In a pilot project in Friedrichshafen, we show how it will be possible to integrate connected electric cars in the power grid.

DEUTSCHE TELEKOM INNOVATION.

Start-up funding and shareholdings.

Open innovation – Integrating new external trends. 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 startup companies over the last 15 years. T-Venture is one of the most active corporate venture capital funds in Germany and is positioned among the top five worldwide. Its volume currently stands at EUR 410 million. Since its inception we have acquired over 180 minority shareholdings, have supported these companies in their development over a specific period and, in some cases, later withdrew once the companies in question went public.

T-Venture currently holds interests in around 90 companies. The following examples show that this bears fruit:

- **MyTaxi** by Intelligent Apps GmbH is a mobility platform that is widely known above all in Germany through its highly successful MyTaxi app. Alongside the app, the myTaxi software revolutionizes the entire cab market with its automated order process, direct contact with cab drivers, and the elimination of dispatchers. MyTaxi also reports increasing success at international level. T-Venture was the company's first provider of seed financing as far back as summer 2010 and has supported the company in its outstanding development ever since.

- **CipherCloud** provides data security solutions for cloud applications. CipherCloud's technology enables secure usage and full control over data in private, hybrid, and public cloud applications, thereby eliminating the data privacy and regulation concerns commonly seen in cloud applications. Besides this, CipherCloud detects malware and prevents the propagation of infected files. This guards against hacker attacks as well as against the potential manipulation of external cloud applications.

In mid-2012, we established **Deutsche Telekom Innovation Pool GmbH** (TIP) to enable us to integrate young companies as majority shareholdings in the Deutsche Telekom 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. One example is Trust2Core GmbH, which was founded in 2012 as a spin-off from T-Labs.

Furthermore, we provide targeted support for companies starting up in business. To help us do so, we launched a so-called incubator **– hub:raum –** on May 8, 2012. By networking people and capital, we want to promote innovative business ideas and build up new business. We support talented young founders with telecommunications infrastructure, technical development platforms and startup financing – all supervised by experienced mentors. We as a company benefit from the dynamics of these startups.

Experiencing ideas.

T-City. T-City was established as our future lab in 2007. Together with the city of Friedrichshafen, we work to make tomorrow's world a hands-on experience with more than 40 seminal projects from the energy, healthcare, and traffic sectors.

T-Gallery. In order to experience our developments, we recommend a visit to our innovation forum, the T-Gallery in Bonn. Prototypes of future products and services are showcased here along with global developments in the area of connected life and work.

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 Deutsche Telekom's IPR (intellectual property rights) agenda. On the one hand, the scope for action in the Group's business areas must be maintained. On the other, mechanisms need to be put in place to enable open innovation through cooperation and partnerships.

National and international IPRs are vital for these types of activity. We are dedicated to generating our own IPRs in the context of our research and development activities as well as in product and technology development. In the reporting year we filed 151 patent applications, taking the total number of IPRs held by the Group to around 7,600 (2011: 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. Deutsche Telekom has put in place a professional patent law management process to keep our IPR assets safe. We are also 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 with the aim of increasing productivity and providing more effective IT support for business processes. In 2012, research and development expenditure in the Deutsche Telekom Group amounted to EUR 65.9 million, which is less than in the previous year. As the parent company, Deutsche Telekom AG bears part of the Group's research and development expenditure. At EUR 52 million, this amount was slightly above the prior-year figure of EUR 48 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 company shareholdings. For example, we currently have a fund of EUR 410 million available for such projects in our T-Venture company.

Deutsche Telekom's investments in internally generated intangible assets to be capitalized were down year-on-year at EUR 78.0 million. These investments predominantly relate to internally developed software, mainly for our Systems Solutions operating segment. In the reporting year, some 2,400 employees (2011: around 2,200) 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.

T 035

Expenditure and investment in research and development.

	2012 millions of €	2011 millions of €	2010 millions of €	2009 millions of €	2008 millions of €
Research and development expenditure	65.9	121.4	145.6	205.5	172.4
Investments in internally generated intangible assets to be capitalized	78.0	122.4	162.2	232.5	413.6

EMPLOYEES.

HR STRATEGY.

Deutsche Telekom's Group strategy centers around four strategic areas of operation: "Seamless connectivity for the Gigabit Society," "More innovation by cooperation," "Secure cloud solutions," and "Best-in-class customer experience." This, in turn, provides the framework for our human resources strategy. We also make allowance for any external factors that could influence the focus of our HR strategy, including mega-trends such as globalization, individualization, sustainability, and demographic change, as well as the current competitive landscape. The fundamental requirement for achieving our corporate targets is a motivated, focused workforce. This is the basis on which our human resources vision was formulated: "HR accelerates the success of the company and its employees."

Please also refer to the section "Group strategy," **PAGE 75 et seq.**

HR strategy program.

Our three strategic directions "productivity," "performance," and "power" are elementary HR themes for leveraging the corporate strategy. Specifically, this means that:

- Having employees with the right skills, the right attitude, in the right place and with the right cost/capacity ratio helps to boost our **productivity** and competitiveness.
- Inspiring leadership, personal and organizational advancement, appropriate rewards for good **performance** and the fair handling of performance issues are all pivotal to the company's successful on-going transformation.
- Agile corporate structures, modern work environments, and entrepreneurial attitudes and actions enhance our innovative **power.**

For 2013, we have formulated four key themes, the so-called HR Big 4, which translate our HR vision and strategic directions into more specific terms.

Big I – "We manage our internal and external employee structure to maximize productivity." The aim here is to optimize our deployment of internal and external employees for ultimate productivity. Within the context of Total Workforce Management, quantitative and qualitative planning of the internal and external workforce is carefully fine-tuned with regard to cost, capacity, skills, demography, and location. Additionally, 2013 will see the launch of a targeted cost management system for our external employees.

Big II – "We anchor inspiring leadership principles to encourage and reward top performance." This theme focuses on developing a new performance management system at top management level which will streamline the formerly separate processes of target and performance management and help to differentiate and inspire achievements. We are also redefining our concept and understanding of leadership in line with the challenges of the current and future working environment. We are working on an appropriate leadership concept and a raft of ancillary measures to give our managers the best possible support for their work.

Big III – "We design modern work environments where professional experience and knowledge can be shared and enhanced." We are conscious of the extremely diverse expertise existing within our Group, and are mindful that this knowledge could be more extensively shared within the context of contemporary work environments. We help our employees to make the most of these opportunities. A dedicated internal project team is already working on a project entitled "Future Workplace" to analyze and assess various aspects of the future workplace and devise pioneering concepts for our Group. Moreover, we are creating an environment where all employees can keep or bring their knowledge up to date, explore new fields, and be equipped to handle the challenges of their roles.

Big IV – "Our promise: clear and simple processes." This area covers all activities within the Human Resources department. We are committed to ensuring that our HR processes, offerings, and products are clearly and simply structured, in the interests of the user. To this end, our entire global product and service portfolio underwent a critical review in 2012. We are continuously refining our cross-segment HR work so as to support our customers – employees and executives – as effectively as possible. Alongside a customer-centric portfolio, our success can also be attributed to seamless interaction within our triple-role HR model, whereby our HR Competence Centers carry out steering tasks, the HR Business Partners give advice on strategic HR topics, and our Group HR Services provide business-centric HR services. We are continuing to optimize our HR portfolio, internal organization and collaboration within HR in 2013, under the headings "Lean HR" and "HR category and product management."

DEUTSCHE TELEKOM
INNOVATION.

DIVERSITY MANAGEMENT AND HEALTH & SAFETY MANAGEMENT.

Diversity and women's quota. 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 diversity as the precursor to innovation and customer orientation and as the driving force behind the transformation of our corporate culture toward an open, flexible company. Diversity management aims to foster an awareness of social diversity within the company, whereby diversity is recognized and encouraged among the workforce as a corporate strength. Diversity and corporate success go hand in hand. Teams with a strong mix of nationalities, ages, and genders tend to be highly successful on the national market, and especially on the international market.

In 2010, we were the first DAX 30-listed company to introduce a women's quota in management. By the end of 2015, we want at least 30 percent of senior and middle management positions worldwide to be held by women. We now have a global program in place to implement this quota at every stage of the talent pipeline, from recruitment and executive development programs and assessment centers through to the appointment to Group-internal supervisory committees.

Deutsche Telekom's diversity efforts acknowledged. In the year under review, we received a number of awards for our successful activities to improve diversity within the Group and establish an integrative corporate culture. In 2012, a national competition to find Germany's most family-friendly employer praised Deutsche Telekom for its comprehensive work-life balance concept. The Max Spohr prize recognized our determination to view the sexual identities of our employees as an advantage which should be consciously perceived and actively utilized. The Landschaftsverband Rheinland Regional Council also awarded us the distinction of "disability-friendly employer."

Women in management on the rise. A quick glance at our recent past indicates a significant improvement since the women's quota was introduced. The proportion of women in management positions across the Group increased from 19 percent in February 2010 to 24 percent in December 2012. Compared to December 2011, the figure underwent a slight 0.7-percent drop owing to a reorganization (including the sale of parts of the company) at T-Mobile USA. In all other segments the figure continued to rise, as in previous years. Since 2010, we have also consistently increased the proportion of women in our supervisory boards, particularly on the employers' side. In 2010, women accounted for 17.7 percent of employers' representatives in Germany, rising to 24.8 percent by the end of 2012. Over the same period, we have achieved an equally positive effect in our international supervisory boards, where the proportion of women on the employers' side increased from 7.4 to 25.5 percent. Furthermore, two out of the 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 2012.

Striking a healthy balance between work and leisure. Our work-life@telekom program is designed to systematically improve the balance between work and home life. In the year under review, we continued to extend the range of options available. Since 2010 we have increased the number of company childcare places in Germany by 212 to a total of 559, and the number of places for schoolchildren during the school holidays from 170 to 300. We have also set up seven new parent-and-child offices at locations across Germany and are planning to create at least ten more over the coming year to cushion any childcare shortfalls. Free assistance is available to help employees find local childcare places, as is an emergency child-minding service. A rising number of male employees, too, are taking time out to take care of their children, a trend that is reflected in a twofold increase in the number of men opting for more than two months' parental leave. In mid-2011, 11.3 percent of the employees who took parental leave were men; by the end of 2012, the figure had risen to 22.1 percent.

Health & safety management services. Our multi-disciplinary team of experts adopts an overarching, systematic approach to occupational health & safety and fire protection. This includes designing uniform Group-wide H&S and fire protection products and processes to comply with statutory requirements, and making continuous improvements to employee safety. As well as ensuring compliance with the health and safety legislation and implementing target group-specific measures, we also devise projects and Group-wide prevention campaigns to promote health competence and awareness among the workforce – from special mental health schemes such as stress prevention seminars to conventional corporate healthcare offerings such as flu jabs, colon cancer screening, information on nutrition, exercise and relaxation, and a full health check with our company physicians. Some 130 company physicians and 120 health and safety specialists are on hand to assist with the health and safety concerns of our employees. Additionally, employees can also take advantage of a free, confidential, personal consultation with one of 50 or so counselors on psychosocial issues.

Mental health. We believe that our managers have a pivotal role to play in preventing mental illness. A raft of guidelines and information sheets helps them to understand their own influence on their employees' health and to use suitable tools when dealing with psychological disorders, stress, and burnout. We also offer all our managers a web-based training course on mental health. This e-learning program sensitizes our managers to identify potential mental stress in themselves and their employees early on, so that support can be offered without delay.

All our employees can benefit from a broad range of workshops on mental health issues, stress prevention, and advice on healthy living. Our innovative workshop on mental resilience is particularly popular among employees. We also offer one-to-one psychosocial counseling on all aspects of stress, addiction, conflict, change, leadership, and health. Our free telephone counseling service provides fast, unbureaucratic assistance with work-related and personal problems. It is particularly important to tackle mental illness in its early stages before it becomes chronic, bearing in mind that psychological disorders impair employees' ability to perform well in their jobs, incurring high costs for employers long before absenteeism becomes a problem.

International health & safety. Providing the best possible protection for our employees is our pivotal concern. We support the Group-wide approach of our occupational health and safety team with a uniform international health, safety & environmental management system. 29 national companies are already integrated into the system, and nine more will be linked in during 2013. This has paved the way for uniform Group-wide standards in occupational health and safety. The system is based on the following international standards: OHSAS 18001, ISO 14001 and ISO 9001 on health, safety, environmental protection, and quality. 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 health, safety & environmental management system also helps us to maintain our global telecommunications infrastructure in the event of a crisis.

STAFF RESTRUCTURING.

For details, please refer to the section "Development of business in the Group," **PAGE 90 et seq.**

For further information, please refer to our Human Resources Report: **WWW.TELEKOM.COM/HR-REPORT**

The relentlessly fierce competition in our industry, coupled with a difficult economic situation in our core markets, necessitated further staff restructuring and efficiency improvements in 2012, toward an effective, future-oriented workforce.

WORKFORCE STATISTICS.

T 036

Headcount development.

Employees in the Group		Dec. 31, 2012	Dec. 31, 2011[c]	Dec. 31, 2010[c]	Dec. 31, 2009	Dec. 31, 2008
TOTAL		**229,686**	**235,132**	**246,777**	**259,920**	**227,747**
Of which: Deutsche Telekom AG[a]		30,637	33,335	35,855	49,122	44,645
Germany operating segment		67,497	69,574	70,902	81,336	85,637
Europe operating segment		56,468	58,010	63,338	71,163	39,140
United States operating segment		30,288	32,868	37,760	40,697	38,031
Systems Solutions operating segment		52,847	52,170	51,742	46,021	45,862
Group Headquarters & Shared Services		22,586	22,510	23,035	20,703	19,077
BREAKDOWN BY GEOGRAPHIC AREA						
Germany		118,840	121,564	123,174	127,487	131,713
International		110,846	113,568	123,603	132,433	96,034
Of which: other EU Member States		63,244	64,257	68,941	76,196	45,115
Of which: rest of Europe		9,422	9,736	9,991	10,061	7,908
Of which: North America		31,037	33,511	38,467	41,235	38,621
Of which: rest of world		7,143	6,064	6,204	4,941	4,390
PRODUCTIVITY TREND[b]						
Net revenue per employee	thousands of €	250	244	247	251	263

[a] On account of the spin-off of the fixed-network business, these figures are not comparable with the figures for the previous year.
[b] Average number of employees.
[c] Figures for prior-year periods of the operating segments and the Group Headquarters & Shared Services have been adjusted.

T 037

Personnel costs.

		2012 billions of €	2011 billions of €	2010 billions of €	2009 billions of €	2008 billions of €
Personnel costs in the Group		14.6	14.7	15.1	14.3	14.1
Special factors[a]		1.1	1.1	1.0	0.5	1.1
Personnel costs in the Group adjusted for special factors		13.5	13.6	14.1	13.8	13.0
Net revenue		58.2	58.7	62.4	64.6	61.7
ADJUSTED PERSONNEL COST RATIO	%	**23.2**	**23.1**	**22.5**	**21.4**	**21.1**
PERSONNEL COSTS AT DEUTSCHE TELEKOM AG UNDER GERMAN GAAP[b]		**3.3**	**3.4**	**3.4**	**4.0**	**3.9**

[a] Expenses for staff-related measures (for detailed information, please refer to the section “Development of business in the Group,” **PAGE 90 et seq.**).
[b] 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.

HR DEVELOPMENT.

We believe in life cycle-based HR and organizational development and offer our employees various options to accommodate individual personal and professional circumstances. In addition to our vocational training programs we also operate our Start up! program for ambitious new recruits, and career development opportunities for experts and managers. In future, our lifelong learning scheme will make better use of our older employees' valuable experience and develop additional dedicated offerings. Learning methods are also evolving: conventional face-to-face training courses are being replaced by innovative formats such as "leadership labs" for managers, which combine management theory and experience-based learning in a real-life context. In carefully selected contexts, our learning on demand courses have been extended to include purpose-developed smartphone apps. Meanwhile, our in-house Telekom Social Network likewise plays an important role in knowledge transfer.

Vocational training/cooperative degree courses. For many years, we have ranked among the largest vocational training providers in Germany. In the year under review, more than 3,200 young people were given the opportunity to experience our high-quality vocational training and cooperative degree courses. Nationwide, competent young people can train in eleven different training programs and nine cooperative study programs in cooperation with ten partner universities. In the academic year 2012/2013, the total number of apprentices and students was around 9,300, including some 1,200 students on cooperative degree courses.

The Group's own HfTL University of Applied Sciences in Leipzig is a key provider of higher education and professional development courses, particularly in the technology sector. In the year under review, around 70 percent of the 340 graduates from our on-campus and cooperative study programs at all cooperating universities were subsequently offered positions within the Group, including 72 graduates from HfTL alone.

Advanced training programs extended, with a particular emphasis on expert development. CAMPUS, our modular expert development system, has been designed to help us meet the business's strategic development requirements more effectively.

CAMPUS@Telekom – Facts and figures:

- We currently have eight Group-wide programs specializing in different areas, such as finance and controlling, project management, and sales.
- CAMPUS has enabled us to reduce and consolidate our existing range of training initiatives by around 40 percent, from 1,800 to around 1,100 in total.
- The initiatives are closely linked to Go ahead!, our standardized expert development and career program, and are available at three different levels (basic, advanced and professional).

Bologna@Telekom – Part-time Bachelor's and Master's degree courses. Our Bologna@Telekom initiative encourages talented employees to study for a Bachelor's or Master's degree alongside their work. We support top performers who have been working for the company for at least two years by granting them ten days' leave of absence for examinations (per academic year) and funding 50 percent of the course fees.

Bologna@Telekom – Facts and figures:

- Each year, we award around 200 Bologna scholarships to carefully selected employees. We currently support around 600 employees while they complete their course.
- The first 33 employees graduated under this scheme in 2012.
- Since 2011, we have also supported employees wishing to study part-time for a doctorate.

RISK AND OPPORTUNITY MANAGEMENT.

■ Risk early warning system ■ Identification of opportunities ■

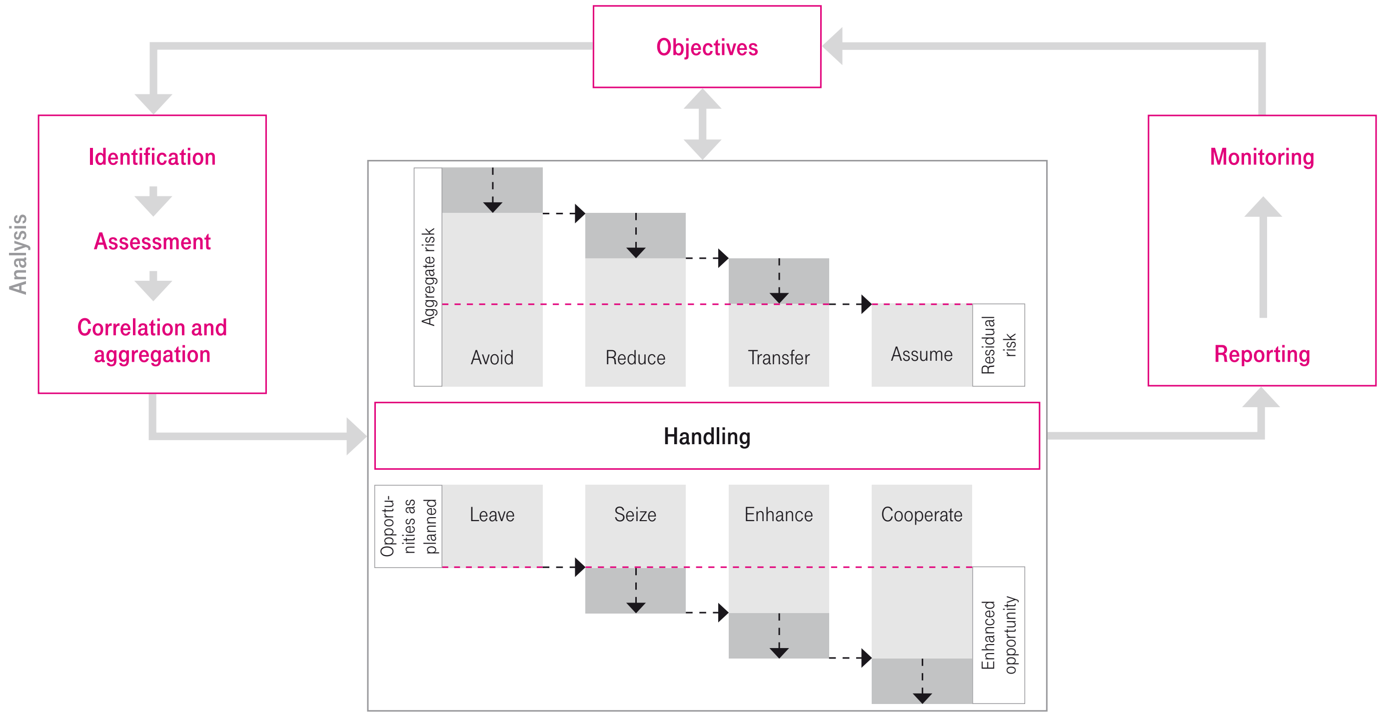
RISK AND OPPORTUNITY MANAGEMENT SYSTEM.

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.

Our risk and opportunity management system is based on our standard process (please also refer to GRAPHIC G 50), starting with the definition of the desired risk profile. Once opportunities and risks have been identified, we move on to analyze and assess them in more detail. This also includes aggregating opportunities and risks depending on their probability of occurrence and magnitude. 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, constantly monitored, and evaluated. All steps are traversed again and again, and modified to reflect the latest developments and decisions.

G 50

The risk and opportunity management system.



Our risk and opportunity management system covers all strategic, operational, and financial risks and opportunities. The aim is to identify these early on, monitor them, and manage them in accordance with the desired risk profile. The Group Risk Management & Insurance unit has central responsibility for the methods and systems used in an independent risk management system that has been standardized across the Group and for the associated reporting.

In addition, our Group Controlling unit has established a Group guideline 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. Furthermore, the system foresees the systematic identification of strategic opportunities that provide input for the Group's financial planning.

Our financial transactions are subject to the principle of risk minimization. This also applies to the use of derivative financial instruments, which we use to hedge interest rate and currency exposures that could have an effect on cash flow as well as other price risks. We do not use them for trading or other speculative purposes. We record all financial transactions and risk items in a central treasury system and inform Group management about them on a regular basis. Depending on the type and volume of the financial transaction, prior approval is required from the Board of Management, which is also regularly briefed on the scope and magnitude of the current risk exposure. We use various simulations that ideally cover conceivable market developments to the largest possible extent to assess the impact of various market factors. We use selected derivative and non-derivative hedging instruments to hedge market risks. However, we only hedge risks that affect cash flows.

Our Internal Audit unit reviews the functionality and effectiveness of the risk management system at regular intervals. The external auditor mandated by law to audit the Company's annual financial statements and consolidated financial statements 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.

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. The report assesses individual risks and opportunities in relation to their impact on EBITDA, both in terms of magnitude and probability of occurrence. Moreover, actions to be taken are identified and measures suggested or initiated.

This information forms the basis for the Group risk report to the Board of Management. This report presents individual material risks as a portfolio and ranks them according to their impact on EBITDA, draws correlations, and presents them using a simulation process. The analysis also takes in a number of qualitative factors which could have a bearing on our reputation and help to determine the overall risk. The Board of Management informs the Supervisory Board accordingly. The Audit Committee of the Supervisory Board examines the risk report at its meetings. If any unforeseen risks arise outside regular reporting of key risks and opportunities, they are reported ad hoc.

Professional risk management is more important than ever. In response to the financial crisis in 2008, we expanded our risk management system and significantly enhanced the early warning component. Around three years ago we started to produce "risk cockpits" as an additional risk monitoring and analysis tool for the Board of Management alongside quarterly risk reports. 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 give a better up-to-date view of economic activity than a quarterly publication of gross domestic product ever could (please also refer to GRAPHIC G 51).

We develop various scenarios based on the entire system of indicators of macroeconomic trends and taking into account political and legal developments, and calculate the potential effects on the results of operations, financial position, or cash flows of the Group. With the risk cockpit, we have developed a tool that creates greater transparency about our risks, assesses the relevance of these risks, and prioritizes them. This is essential if we are to focus on all the risks that need to be managed and counter them quickly and effectively when things do not develop as planned.

G 51

Extract from the risk cockpit.

Economic trends.

		Germany	United States	Greece	Poland	Hungary	UK
Leading[a]	Composite leading indicator	98.9 | 99.0	101.0 | 100.6	99.8 | 99.5	100.3 | 100.0	99.0 | 99.0	100.7 | 100.0
	Consumer climate	5.8 | 5.9	72.9 | 79.2				
	Trend						
Coincident[b]	GDP	0.5 % | 0.9 %	1.9 % | 2.6 %	-3.3 % | -6.9 %	1.1 % | 1.9 %	-1.9 % | -1.6 %	0.4 % | 0.0 %
	Consumer spending	0.6 % | 0.1 %	1.9 % | 1.9 %	-3.6 % | -8.4 %	0.4 % | 0.1 %	-3.0 % | -3.1 %	1.3 % | 1.3 %
	Industrial output	-1.7 % | -1.1 %	2.1 % | 3.4 %	1.2 % | -3.2 %	-1.2 % | 1.5 %	-2.8 % | 0.2 %	-2.0 % | -1.8 %
	Trend						
Lagging[b]	Unemployment	6.9 % | 6.8 %	7.8 % | 8.0 %	26.2 % | 25.6 %	13.2 % | 13.0 %	10.6 % | 10.4 %	7.7 % | 7.8 %
	Consumer prices	2.0 % | 1.9 %	1.9 % | 1.7 %	1.1 % | 1.3 %	3.0 % | 3.9 %	5.6 % | 6.1 %	2.6 % | 2.4 %
	Trend						

[a] Current month | Corresponding month in prior quarter.
[b] Q4 2012 | Q3 2012, compared with the respective prior-year quarter.

Sources: OECD, destatis, BEA, Oxford Economics, GfK, Conference Board, Bloomberg.

Identifying opportunities. 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 opportunity:

- Opportunities with external causes that cannot be influenced, e.g., the revocation of additional taxes in Europe.
- Opportunities created internally, for example by focusing our organizational structure on innovations (e.g., establishment of the Digital Business Unit (DBU), T-Labs, T-Venture), growth areas and products, and business relationships and collaborations from which we expect synergies.

In 2012 we gave our planning process a more efficient structure so as to give us greater scope. This puts the organization in a position to seize new opportunities and generate new business. The preliminary plans of our operating segments form the basis for the actual 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 and their strategic and financial evaluation play a substantial role during this phase, which is closely supervised by our innovation unit, the DBU. During the decision-making rounds that take place on a daily basis during the planning phase, the results of this "brainstorming" are either rejected, passed back to the working groups for revision, or adopted and transferred to the organization.

THE RISKS.

For information on our opportunities, please refer to the section "The opportunities," **PAGE 167 et seq.**

Of all the risks and opportunities identified for the Group, the following section examines those risk areas or individual risks and opportunities that could, as it stands today, materially affect Deutsche Telekom's financial position and results and, by way of the profits and losses of the Company's subsidiaries, also Deutsche Telekom AG's financial position and results of operations. Our business operations may also be impacted by other factors that we are not currently aware of or significant changes in factors we do not currently deem to be critical. To the extent possible and economically viable, we obtain Group-wide insurance cover for insurable risks.

Economic environment.

The sovereign debt crisis continued to have a significant impact on economic performance in 2012. The European Central Bank (ECB) and the U.S. Federal Reserve (Fed) have massively increased liquidity since the late summer of 2012. Although this has calmed the capital markets, the sovereign debt crisis remains a significant risk for economic development. Significant uncertainty is still attached to both the long-term development of sovereign debt as well as the performance of national economies, especially in the European crisis states Greece, Portugal, Ireland, Spain, and Italy. 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. The "fiscal cliff" problem in the U.S. budget, which was unresolved in 2012 and not yet finally resolved at the start of 2013, also poses a risk for economic development in the United States, although now with a much lower probability of occurrence.

Risks to economic development could manifest themselves in different ways in some of our core countries, where consumers and business customers could increasingly restrain their consumption if the economy continues to slow down 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.

In late 2012, the ECB and the U.S. Federal Reserve extended their expansionary monetary policies, increasing the risk of accelerating price rises in the United States and many eurozone countries in the medium term.

Industry and competition.

Prices for voice and data service decreased again in 2012 in the fixed network and in mobile communications. Aside from price reductions imposed by the regulatory authorities, e.g., for interconnection, mobile termination, and international roaming, this was primarily due to intense competition in the telecommunications industry and cannibalization effects from technological progress.

Competitive pressure increased further, especially in the fixed network. Regional telecommunications carriers further increased their market coverage. The trend of mobile communications replacing fixed-network communications is unbroken.

In the fixed-network 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 require them to neither build out a network nor lease unbundled local loop lines from Deutsche Telekom.

In certain regions, competitors are additionally 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 expect prices in mobile voice telephony and mobile data services to decline further, which could adversely affect our mobile revenue. Among the reasons for the decrease in prices are discount operators that are expanding in Germany and elsewhere in Europe.

During the reporting year, we were the smallest of the four national mobile providers in the United States. Thanks to the agreed business combination with MetroPCS, the new company can achieve a better market position and 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.

Products, services, and innovations.

Ever shorter innovation cycles confront the telecommunications sector with the challenge of bringing out new products and services at increasingly closer 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. But new and refined smartphones and above all mobile data services (such as mobile payment, connected car, or smart metering) will be new sources of mobile Internet revenue.

Regulation.

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.

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 therefore face ex-post control of anti-competitive practices in Germany in the market for fixed-network telephone lines and related packages. We also have to offer our competitors wholesale services at prices set by the regulatory authority on the basis of a strict cost review. Examples of this kind of regulated service include access to unbundled local loops, bitstream access, and fixed-network and mobile termination. Our European subsidiaries are also subject to corresponding regulatory regimes in the fixed-network and mobile areas.

Furthermore, the European Commission is issuing recommendations which are not directly binding but do have to be taken into account by the national regulatory authorities.

- According to the 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.

For details, please refer to the section "Regulatory influence on Deutsche Telekom's business," PAGES 88 – 89.

- For 2013, the European Commission plans to issue a new recommendation on non-discrimination obligations and costing methodologies. In this context, non-discrimination relates to the equal treatment of all recipients of regulated services. Depending on the precise content of this recommendation, it could give rise both to risks in terms of increased regulation and to opportunities due to more stable regulatory requirements.

For details, please refer to the section "Regulatory influence on Deutsche Telekom's business," PAGES 88 – 89.

- 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.

Network neutrality. To this day, there is still no generally accepted and, at the same time, technically appropriate definition of the term “network neutrality” and it is increasingly becoming a subject of public debate. There are even demands from some quarters that all data packets should be treated in exactly the same way, both in technical and in commercial terms. Content and application providers in particular expect network operators to continue expanding their transport capacities and their infrastructure in the years to come. There is a risk of regulation restricting the scope for introducing new business models on the Internet.

Assignment of frequencies. In mobile communications, 2013 will again see the extension of expiring licenses and the assignment of new frequency usage rights in a number of European countries. This will give rise to risks from uncertainty with regard to the scope and availability of future spectrum as well as the costs of acquiring frequency resources. These risks relate, for example, to the appearance of new competitors and above all to the potential reservation of frequency sub-ranges for new competitors.

Below we describe a number of important ongoing and future spectrum allocation proceedings:

- In **Hungary,** spectrum was allocated to a new state-owned mobile communications company in the spring of 2012. The conditions of the licenses stipulated that market launch had to come before the end of 2012. Established network operators were obligated to offer upstream services to this potential new market player. On September 17, 2012, a Hungarian court ruled that the state-run company Magyar Posta’s participation in the 0.9 GHz auction was unlawful. The Hungarian regulatory authorities were ordered to annul the results of the auction. As such, we expect the results of the auction to be revoked in 2013 and the spectrum reassigned, possibly together with frequencies from other ranges (0.8 GHz, 1.8 GHz, 2.1 GHz, and 2.6 GHz). This would give Magyar Telekom another opportunity to increase its frequency resources as planned.

- In **Germany,** the Federal Network Agency plans to make a decision by mid-2013 on the process to amend regulation of the 0.9/1.8 GHz rights (extension of licenses or reallocation by auction) from 2017. No new spectrum allocation process or date for this has been set as yet.

- In the **Czech Republic** and in the **Netherlands,** spectrum auctions were held for a number of different frequency ranges. Our national subsidiaries took part in these auctions. In the Netherlands, the auction ended on December 14, 2012 with the acquisition of spectrum in the 0.9 GHz, 1.8 GHz and 2.6 GHz ranges. The auction in the Czech Republic is not yet complete.

- In **Croatia,** the tender process for the 0.8 GHz spectrum (three licenses for 2 x 10 MHz each) was carried out in September 2012. Hrvatski Telekom successfully secured one of the licenses, with the relevant usage rights allocated to the company on October 29, 2012 for the period until December 18, 2024.

- Additional 1.8 GHz (2 x 25 MHz) spectrum was advertised for tender in **Poland** in fall 2012. We expect Polska Telefonia Cyfrowa (PTC) to be allocated 2 x 10 MHz of the available spectrum in February 2013. The authority is further planning to stage an auction for the 0.8 GHz and 2.6 GHz frequencies in the second half of the year.

- In **Slovakia,** the allocation of 0.8 GHz, 1.8 GHz and 2.6 GHz spectrum is planned for the second half of 2013.

- In **Austria,** a frequency auction for the 0.8 GHz, 0.9 GHz and 1.8 GHz ranges is expected for fall 2013.

- As in the **Netherlands** and the **Czech Republic,** new carriers are expected to compete for the spectrum to be allocated in the 2013 auctions, too, and that frequency sub-ranges will be reserved exclusively for new competitors.

Intensified regulation for international subsidiaries. Regulation is also on the increase internationally. Magyar Telekom (Hungary) was obligated to provide access to all elements of its fixed-line access network and to give the market at least six months' notice of its fixed-network build-out. In Croatia, in a decision by the national regulator on March 21, 2012, the regulation of Hrvatski Telekom and Iskon Internet was extended to include the retail market for broadband Internet access as well as the broadcast of television programs, both with ex-ante rate regulation. In October 2012, the regulatory authority in Montenegro began to review the need to regulate the retail market for broadband (ADSL) and mobile communications and is preparing corresponding price regulation. In Hungary, an amendment to the Telecommunications Act was adopted on November 17, 2012, which has negative consequences for Magyar Telekom in relation to retail contracts, has resulted in requirements and legal remedy in connection with future spectrum allocation proceedings and has impacted negatively on the role of Magyar Telekom as a universal service provider. In Poland, the Telecommunications Act was amended. The final text specifies, to the detriment of Polska Telefonia Cyfrowa (PTC), that the Polish regulatory authority does not have to revise certain spectrum auctions held in 2007 – despite clearly contrary court rulings. In the Czech Republic, the national regulator is planning to impose access obligations on all mobile network operators in order to establish mobile virtual network operators (MVNOs) as additional market players.

According to regulatory decisions or preliminary drafts by the competent regulatory authorities, mobile termination rates will be reduced further in 2013 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.

For information on administrative court proceedings, please refer to **PAGE 162.**

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 decisions made by the national regulatory authority. The regulatory authority must then decide again on the rates for past periods. It is generally not clear in this context whether and to what extent rates will be revised.

For more details, please refer to "Highlights in the 2012 financial year," **PAGE 64 et seq.,** and **NOTE 30** "Depreciation, amortization and impairment losses" in the notes to the consolidated financial statements, **PAGES 253 – 254.**

Business combination of T-Mobile USA and MetroPCS.

Deutsche Telekom and the U.S. mobile company MetroPCS agreed to combine their business activities in the United States.

The combined entity will be able to compete more aggressively with other national mobile operators in the United States thanks to an improved mobile spectrum position and additional financial resources. The transaction will create a combined entity on the U.S. mobile market with the objective of providing value leadership. It will make it possible to offer customers a wider selection of affordable products and services, improved network coverage, and a clear-cut technology path to one common LTE network.

The transaction is subject to approval by the U.S. Department of Justice (DOJ), the Federal Communications Commission (FCC), and the Committee on Foreign Investment in the United States (CFIUS). The approval of the MetroPCS shareholders is also required. Deutsche Telekom and MetroPCS expect to obtain all the necessary approvals in the first half of 2013. If the authorities refuse to approve the transaction and if, as a result, it cannot be consummated, Deutsche Telekom would have to make a compensation payment of USD 250 million to MetroPCS.

The risk of a competing bid for MetroPCS by one or more third parties cannot be ruled out. Should MetroPCS receive such a competing bid and then recommend to its shareholders to accept the bid, Deutsche Telekom would be able to terminate the agreement with MetroPCS and claim a compensation payment of USD 150 million from MetroPCS. In mid-October and thereafter, Deutsche Telekom AG also received notification of a number of class action suits that were filed in the United States against the business combination of MetroPCS and T-Mobile USA. Two are pending in the U.S. state of Texas; another class action suit representing four individual suits was filed in the state of Delaware. All of these are also directed at Deutsche Telekom AG and T-Mobile USA. Lawsuits of this nature are common in connection with business combinations in the United States and there is currently no reason to assume they could lead to the prohibition of the merger.

Personnel.

In 2012, 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.

For further details on major litigation in connection with personnel, please refer to the section "Legal risks," **PAGE 160 et seq.**

Civil servants' right to return to Deutsche Telekom AG. 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 some 2,643 civil servants who are entitled to return to Deutsche Telekom in this way. On the assumption that all these civil servants were to return to us in 2013, the maximum risk is around EUR 0.2 billion per year. This risk can be reduced by compensation payments, for example, but not completely eliminated.

Risks from IT/NT infrastructure.

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.

Our IT/NT infrastructure comprises all buildings (network nodes), communication services (networks), and hardware and software used for information processing. 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 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.

DEUTSCHE TELEKOM INNOVATION.

Data privacy and data security.

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 minimize 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 the honeypots is exchanged with public and private bodies to enable future attacks to be detected and prevented.

Cyber crime and industrial espionage are on the rise. We are addressing these risks with new 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 work continuously on making security a fixed development component for new products and information systems. This means more intensive and mandatory security tests, which we intend to establish as a standard within the industry.

@ We provide regular reports on the latest developments in these areas on our website at **WWW.TELEKOM.COM/DATAPROTECTION** and **WWW.TELEKOM.COM/SECURITY.**

Health and the 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 on 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., reduction of 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 Radiological 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.

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. For example, we have introduced a KPI-based supplier evaluation system, which includes KPIs with a certain predictive quality. In this way we can identify supplier risks early on, and introduce risk reduction measures in good time.

Legal risks.

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Major ongoing litigation.

Major ongoing litigation. Deutsche Telekom is party to several 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.

- **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 Chairman of the arbitral tribunal stood down as of March 31, 2012. At the end of October 2012, following administrative proceedings, Dr. Wolfgang Nitsche was named as his successor. The proceedings will thus continue in the near future.

- **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. On May 16, 2012, the senate of the Frankfurt Higher Regional Court ruled in the model proceedings ("Musterverfahren") on the third public offering (DT3) that there were no errors in the prospectus for Deutsche Telekom AG's third public offering and that Deutsche Telekom is not liable. This decision is not final and legally binding. The plaintiffs' side – lead plaintiffs and summoned third parties – has filed an appeal ("Rechtsbeschwerde") against the decision with the Federal Court of Justice.

- **Eutelsat arbitration proceedings.** As part of the arbitration proceedings being conducted against Deutsche Telekom AG by Eutelsat S.A. 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. Eutelsat claims to have this usage right for a longer period of time. Eutelsat S.A. also requested clarification concerning the term of an agreement concluded between Deutsche Telekom AG and Eutelsat S.A. on the use of this orbital position by an Eutelsat satellite. Furthermore, Eutelsat S.A. asserted claims to various payments depending on the term of said agreement. Deutsche Telekom AG is no longer active in the satellite business; it was transferred a number of years ago to Media Broadcast GmbH, a company with which it is no longer associated. Following intensive negotiations, the parties signed a settlement agreement on February 7, 2013 to terminate the proceedings.

- **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. Both actions are still pending before the Cologne Regional Court in the first instance. 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.

- **Claims for damages due to price squeeze.** Various competitors had 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. In April 2012, two further competitors, QSC and DOKOM, asserted their claims in court of EUR 7 million and EUR 4.5 million, respectively, plus interest. The action brought by QSC was withdrawn after the parties settled; the DOKOM action is still pending before the court of first instance. The Cologne Regional Court dismissed actions brought by Versatel (approximately EUR 70 million plus interest) and M-Net (approximately EUR 27 million plus interest) in the first instance in a ruling on November 9, 2012. Versatel has given notice of appeal against this dismissal. The ruling against M-Net is now final and legally binding, as M-Net as a consequence of a settlement refrained from appealing. On January 17, 2013, the Cologne Regional Court ruled in favor of the claims by NetCologne (approximately EUR 73 million plus interest) and EWE Tel (approximately EUR 82 million plus interest) on the merits of the cases, but rejected part of the claims as barred under the statute of limitations. In 2012, the actions brought by Hansenet (claiming approximately EUR 126 million plus interest) and Vodafone (claiming approximately EUR 223 million plus interest) were also withdrawn after settlements were reached in both cases.

- **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, which KDG puts at approximately EUR 273 million plus interest. 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 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 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 final, because competitors 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, and 2003 and for the ULL one-time charges from 2001, 2002, and 2003. In 2012, the rate approvals for the ULL monthly charges from 2005 and the ULL one-time charges from 2004 and 2005 were revoked. A number of competitors filed new suits against the new decisions on the ULL one-time charges from 2001 and 2002, which only applied to the former complainants. Under a ruling dated December 21, 2012, the new decision on the ULL one-time charges from 2002 concerning the termination charges was revoked, but otherwise the claim was dismissed.

  - **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 April/May 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. The legal basis for this frequency auction in April/May 2010 was a general order issued by the Federal Network Agency on October 12, 2009 (a Decision of the President's Chamber). Several mobile companies, cable operators, and broadcasters have filed actions to rescind this general order with the Cologne Administrative Court. Telekom Deutschland GmbH has not filed a complaint itself and is not involved in the proceedings. The actions brought by the cable companies and broadcasters have been dismissed with final and binding effect. The German Federal Administrative Court found that the rights of the complainants were not infringed by the disputed Federal Network Agency ruling. Only the later allocation of frequencies to the mobile communications operators could result in an infringement of rights. All complainants have also appealed against the allocation of frequencies to Telekom Deutschland GmbH; this has not yet been ruled upon. In actions brought by mobile operators, the German Federal Administrative Court referred the proceedings back to the administrative court for a second hearing and decision on the grounds that the facts relevant to a decision were insufficiently clarified. No final ruling has yet been made.

    - **Extension of GSM frequency usage.** In an administrative act issued on July 31, 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. E-Plus, Telefónica, and Airdata objected to the Federal Network Agency's decision to extend the usage period. Telefónica later withdrew its objection; E-Plus' objection proceedings have meanwhile been suspended. Airdata's objection was rejected by the Federal Network Agency. Airdata has lodged an appeal against the rejection, which is still pending before the Cologne Administrative Court.

- **Shareholder litigation.** In connection with these two aforementioned proceedings on the allocation of spectrum, in 2011, a shareholder 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 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. In its ruling on January 6, 2012, the court dismissed the claim in the first instance. The Cologne Higher Regional Court rejected the appeal against this judgment in a ruling on September 11, 2012 and refused leave to appeal. The shareholder has lodged a complaint against the non-allowance of appeal with the Federal Court of Justice.

- **Patent risks.** Like many other large telecommunications and Internet providers, Deutsche Telekom is exposed to a growing number of intellectual property rights (IPR) disputes. For Deutsche Telekom, there is a risk that it may have to pay license fees and/or compensation. Some disputes may result in cease-and-desist orders. The proceedings listed below are of particular importance from Deutsche Telekom's point of view:

  - **Mobile communications patent litigation.** The patent management company IPCom GmbH & Co. KG filed an action against Deutsche Telekom AG and various members of the Board of Management of Deutsche Telekom as well as Telekom Deutschland GmbH for alleged infringement of patents that are supposedly essential to certain standards in the field of mobile communications. In addition to damages, IPCom is seeking abstention from the use of patents in connection with important mobile services, which could lead to their deactivation. Seven infringement proceedings relating to five different patents are currently pending. On April 24, 2012, the Düsseldorf Regional Court ruled in favor of the claim by IPCom GmbH & Co. KG against Telekom Deutschland GmbH concerning a patent infringement in connection with the sale of UMTS-enabled devices manufactured by HTC and Nokia. On April 25, 2012, the European Patent Office in Munich fully revoked the disputed patent. Both decisions are not final and legally binding yet. We have appealed against the ruling of the Düsseldorf Regional Court and expect that it will not be enforced. IPCom filed an appeal against the ruling of the European Patent Office. The hearing is to be held on March 7, 2013. In further proceedings concerning a patent for a voice encoding technique, an agreement was reached with IPCom on July 18, 2012: IPCom has waived all claims against the Deutsche Telekom Group arising from this patent and withdrawn its patent infringement suit. In return, Deutsche Telekom has withdrawn its rescission suit against the patent. Further legal disputes with IPCom are still pending. It is currently not possible to estimate the total financial impact of the disputes with sufficient certainty. Several nullity suits and opposition proceedings are running in parallel to the infringement proceedings to review the validity of the patents that IPCom alleges have been infringed.

- **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 plaintiff 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 claiming compensation for damages of EUR 176 million arising from an allegedly unlawful termination of services by OTE – mainly interconnection services, unbundling of local loops, and leasing of dedicated lines. The hearing was set by the competent court for February 17, 2011, but was postponed to May 30, 2013.

- **MetroPCS.** In connection with the agreed business combination of T-Mobile USA with MetroPCS Communications, Inc., Deutsche Telekom AG received notice in October 2012 and thereafter of several class actions filed in the United States against this business combination. Two are pending in the U.S. state of Texas; another class action suit representing four individual suits was filed in the state of Delaware. All of these are also directed at Deutsche Telekom AG and T-Mobile USA. Actions of this nature are common in connection with business combinations in the United States and there is currently no reason to assume they could lead to the prohibition of the merger.

- **Year-end bonus for civil servants.** In November 2004, the Federal Republic of Germany 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 now has 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.

- **Reduced pay tables.** With the entry into force of the reform of civil service law (Dienstrechtsneuordnungsgesetz) on February 11, 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. Some civil servants also appealed the new, reduced pay tables. In a ruling on December 15, 2009, the Stuttgart Administrative Court decided in two court proceedings to present the question of whether § 78 of the Federal Civil Service Remuneration Act is constitutional to the Federal Constitutional Court for decision. The Federal Constitutional Court proposed to the Stuttgart Administrative Court to withdraw the question, making reference to the ruling made to abolish the bonus payment; the Stuttgart Administrative Court has since withdrawn its question from the Federal Constitutional Court. Some complainants have withdrawn their actions; others have been rejected by the court. We consider it unlikely that recourse will be taken to the courts in the cases still pending.

Furthermore, Deutsche Telekom intends to defend itself and/or pursue its claims resolutely in each of these court, conciliatory, and arbitration proceedings.

Concluded actions:

- **Contingent asset – Claim for compensation/reimbursement sought from the Federal Republic of Germany and KfW.** Following a ruling of the Federal Court of Justice in 2011 in favor of Deutsche Telekom, the state-owned KfW-Bankengruppe (KfW) refunded the costs and related interest incurred by Deutsche Telekom for a settlement in a class action by shareholders in the United States. In early April 2012 Deutsche Telekom received the total amount claimed – including accrued interest – of approximately EUR 96 million on the basis of a contractual agreement concluded in March 2012. In addition, Deutsche Telekom was successful in claiming EUR 20 million to be paid to the D&O (Directors and Officers) insurers from which Deutsche Telekom had already received a refund in anticipation of the KfW payment. This concludes the legal dispute.

  KfW also paid a refund of EUR 32.3 million, including interest of around EUR 7.8 million, to Deutsche Telekom following an out-of-court settlement. In doing so, it agreed – provided no material error was found in the prospectus – to take on Deutsche Telekom's legal defense costs in the German prospectus liability proceedings relating to Deutsche Telekom's third public offering (DT3).

- **Proceedings initiated by the Croatian competition authority against Hrvatski Telekom.** On October 24, 2012, the Croatian competition authority AZTN closed the proceedings against Hrvatski Telekom (HT) and other mobile communications providers concerning alleged collusion in violation of anti-trust law relating to the introduction of a state levy on mobile communications, which it had opened in September 2011. Since the statutory waiting period elapsed in January 2013 the decision has been final and legally binding.

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, associates and joint ventures are subject to various proceedings under anti-trust or competition 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 Polska Telefonia Cyfrowa (PTC) and other Polish telecommunications companies of price fixing in breach of anti-trust law and imposed a fine of PLN 34 million (approximately EUR 8 million). PTC 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 PTC on January 2, 2012 for an alleged breach of consumer protection law.

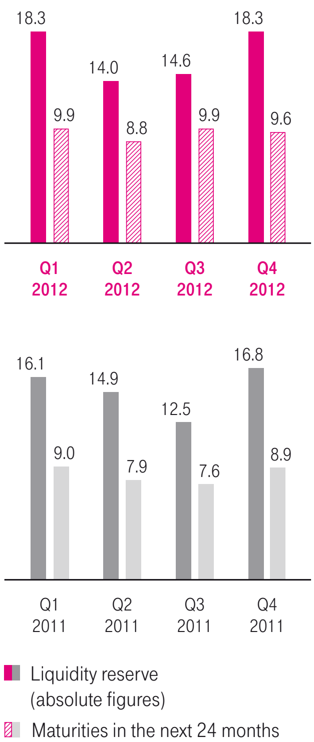
European Commission proceedings against Slovak Telekom and Deutsche Telekom. The European Commission decided on May 8, 2012 to send a statement of objections to Slovak Telekom and Deutsche Telekom. In this statement of objections, it communicates its preliminary opinion that Slovak Telekom, in which Deutsche Telekom AG 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.

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 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.

Search at T-Mobile Netherlands. Following a search of T-Mobile Netherland's (TM NL's) premises on December 6, 2011, the Dutch anti-trust authority NMa initiated proceedings against TM NL and other Dutch mobile communications providers. The providers are accused of anti-competitive collusion on rates and sales channels. TM NL considers these accusations to be unfounded, but is assisting the authority with its inquiries.

G 52

Liquidity reserve and maturities in 2012 compared with 2011.
(billions of €)



Financial risks.

Most of our financial risks arise from liquidity, credit, currency, and interest rate risks. High-risk financial investments by subsidiaries, in particular in banks in Southern and Eastern Europe, exist on account of operational requirements and transfer restrictions. We monitor and manage these risks by means of regular analysis and evaluation of the investment risks.

To ensure the Group's and Deutsche Telekom AG's solvency and financial flexibility at all times, we maintain a liquidity reserve in the form of credit lines and cash. 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. and are forwarded within the Group as internal loans.

GRAPHIC G 52 shows the development of our liquidity reserve in relation to maturity dates. As of the end of 2012 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, 2012, 22 banks had granted us credit lines totaling EUR 13.2 billion. A new line was agreed in 2012; one credit line expired in 2012. From today's perspective, access to the international debt capital markets is not jeopardized. Deutsche Telekom issued a bond amounting to USD 2.0 billion (around EUR 1.5 billion) in 2012 as well as several MTNs amounting to the equivalent of around EUR 1.5 billion.

As of December 31, 2012, 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.

Impairment of Deutsche Telekom's assets.

The value of the assets of Deutsche Telekom AG and its subsidiaries is reviewed periodically. In addition to the regular annual measurements, specific impairment tests may be carried out, for example where changes in the economic, regulatory, business, or political environment suggest that the value of goodwill, intangible assets, or property, plant and equipment might have decreased. These tests may lead to the recognition of impairment losses that do not, however, result in cash outflows. This could impact to a considerable extent on our results, which in turn may negatively affect the T-Share price.

For a detailed explanation, please refer to the section "Summary of accounting policies – Judgments and estimates" in the notes to the consolidated financial statements, **PAGE 215 et seq.**

Sales of shares by the Federal Republic or KfW.

As of December 31, 2012, the Federal Republic and KfW jointly held approximately 32.0 percent in Deutsche Telekom AG.

It is possible that the Federal Republic will continue its policy of privatization and sell further equity interests, including shares in Deutsche Telekom AG, in a manner designed not to disrupt the capital markets and with the involvement of KfW. On May 16, 2008, KfW issued a five-year exchangeable on shares of Deutsche Telekom AG. Exchangeables are debt certificates that the holder can exchange during a pre-determined period and at a pre-determined conversion price for shares in another company (in the case of the KfW exchangeable referred to here, for registered shares in Deutsche Telekom AG). If the conversion price is exceeded, KfW may exchange the exchangeables submitted to it for shares in Deutsche Telekom AG. If the holders of the exchangeables exercise the conversion option, it must exchange them. When the exchangeables mature, KfW has the right to pay them out in Deutsche Telekom shares. The exchangeable has a volume of EUR 3.3 billion and a conversion price of EUR 14.9341. 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 short-term impact on the price of the T-Share.

Management's assessment of the aggregate risks 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 2012 compared with the previous year. Our major challenges particularly include the economic and 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.

THE OPPORTUNITIES.

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 evaluation play a major role in our annual planning process. Our operating segments and the Digital Business Unit have been given greater scope to seize new opportunities that arise in connection with general business conditions and our entrepreneurial actions and to translate them into new business.

Our medium-term planning process focuses on opportunities that are of strategic importance for the Group. In this context we distinguish between two types of opportunity:

- Opportunities with external causes that cannot be influenced, e.g., the withdrawal of additional taxes in Europe.
- Opportunities created internally, for example by focusing our organizational structure on increased investment in research and development as well as growth areas and products, or also through business relationships and collaborations, from which we expect synergies.

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 bit rates. At our Capital Markets Day in Bonn at the start of December 2012, we presented our plans and opportunities for growth. We primarily want to invest heavily in modern broadband networks in Germany, the United States, and Europe to set ourselves clearly apart from many other companies in our industry. From 2013 onwards, as part of our integrated network strategy we will set about an additional LTE roll-out. We will expand and strengthen our position in the fixed-network segment through high capital expenditure on fiber to the curb (FTTC). And with vectoring, we will be able to bring higher bandwidths to the customer.

Glossary, **PAGE 301 et seq.**

For further details, please refer to the section "The economic environment," **PAGE 84 et seq.**

In this context, the environment in which we operate is set to change. The European Commission has announced a refocus of fixed-network regulation in order to stimulate investment in broadband access networks. In our view, this constitutes a significant improvement compared with the approaches that had been under discussion since fall 2011, which included, among other measures, a substantial reduction in access charges. Stable and predictable general conditions and price flexibility are basic prerequisites for long-term investment in modern broadband networks.

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. But new and refined smartphones and above all mobile data services (such as mobile payment, connected car, or smart metering) will be new sources of mobile Internet revenue.

Through regulations rolled out Group-wide, we have firmly embedded data privacy and security in our corporate culture and our products and made it a guiding principle for our employees. The Data Privacy Advisory Council, which comprises leading data privacy experts and representatives from politics, academia, industry, and independent organizations, continued its successful work again in 2012. In its meetings, the Council discussed subjects such as cloud computing and intelligent networks (energy and connected car).

Glossary, **PAGE 301 et seq.**

Below is an overview of the major opportunities which we have identified for our operating segments and which result from the general business environment and our own entrepreneurial action.

In Germany, we will accelerate the LTE roll-out. By 2016, 85 percent of the population should be able to use this mobile technology. At the same time, we are expanding the fiber-optic network. Again, by 2016 around 65 percent of the population should have access to it as a result of the integrated network strategy. This will enable greater coverage than in the cable operators' networks. Deployment of the new **vectoring technology,** provided a corresponding regulatory framework is in place, will increase VDSL data transmission rates to up to 100 Mbit/s. On December 19, 2012, Deutsche Telekom AG submitted an application to the Federal Network Agency for an amendment to the regulatory order on the regulation of unbundled local loop lines.

The aim is to change the regulatory framework such that we can make a significant contribution to meeting the federal government's broadband targets through the extensive use of vectoring. Similar changes to the national regulatory order have already been made in other European countries. Furthermore, we want to combine optical fiber and LTE in a hybrid box in the future, which will enable download rates of up to 200 Mbit/s and upload rates of up to 90 Mbit/s. Another key growth area is De-Mail, introduced in 2012, which transmits digital letters via secure communications channels in a manner that is legally and technically secure. The market for communication between machines (M2M) with areas of application such as the connected car, container tracking, fleet management, or meter reading by local energy providers also opens up new potential for growth.

In the United States, besides the opportunities arising from the business combination with MetroPCS, our focus is above all on the modernization of our network. We are investing some USD 4 billion in the roll-out of the LTE network alone. The agreed business combination with MetroPCS will help T-Mobile USA to substantially improve its position regarding mobile spectrum in major metropolitan areas such as New York City. From 2014 we are going to roll out LTE with a bandwidth of at least 2x20 MHz in 90 percent of the top 25 markets. In addition, the business combination with MetroPCS will enable T-Mobile USA to consolidate its position in the fast-growing prepay segment. Finally, from 2013 T-Mobile USA will start selling Apple products, a key element that was previously missing from our U.S. strategy.

In the Europe operating segment, stronger collaboration across the national companies aims to leverage economies of scale and raise economic efficiency by centralizing shared tasks. We will also focus more on the growth markets of B2B/ICT, mobile data revenue, and television. However, the path to high bandwidths in mobile communications requires further steps. First, through new mobile frequencies. In some countries, we have successfully taken part in auctions to extend existing licenses or acquire additional spectrum. Second, network partnerships in Poland, the Czech Republic, and Austria are helping us to increase network coverage and capacity.

T-Systems marked a significant milestone in July 2012 with the launch of Telekom IT, where the Group's internal IT activities in Germany are now pooled. The aim of the new unit is to sustainably reduce the Group's IT costs by EUR 1 billion by 2015. In external business, T-Systems is focusing even more squarely on cloud-based solutions. Experts are forecasting annual average growth rates in this market of 17 percent through 2017, which is significantly higher than the growth rate of 2 percent per year projected for the traditional ICT business.

Besides these areas of activity in our operating segments, we have identified business opportunities in establishing and expanding cross-segment partnerships, such as BUYIN, the procurement joint venture between Deutsche Telekom and France Télécom-Orange. Strategic partnerships are also promising when it comes to opening up further market potential or collaborating on innovation and product development. There are few markets in which the speed of innovation is as fast as in the IT and telecommunications sector. Any company wanting not only to keep up, but to drive new innovations forward should strategically complement its own ideas with those generated by external partners. Intelligent approaches can often be cleverly combined – so that the sum of their parts gives rise to an even greater overall customer experience. That is why we are engaging in a rising number of partnerships. All companies, whether global corporations, small start-ups, or entrepreneurs are welcome to join us on a level playing field. These partnerships will mainly be based on three models: collaborations with major established partners, financial investments, or partnerships with start-ups. This produces a win-win situation for all parties. We can integrate innovations from outside the Group. Our customers are able to share in the latest developments and ideas. Our partners benefit from access to our Group's communication and Internet services as well as our sales channels and distribution capacities.

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.

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 annual financial statements of Deutsche Telekom AG 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, 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 processes are selected based on risk factors. They are then reviewed for effectiveness in the course of the year, generally by way of external audits. In order to ensure a high-quality accounting-related ICS, Internal Audit is closely involved in all stages of the process.

SIGNIFICANT EVENTS AFTER THE REPORTING PERIOD.

Cooperation with Sky. In early January 2013, we signed an agreement with Sky Deutschland concerning an extensive partnership. For the 2013/2014 Bundesliga season, we will offer the program packages from Sky Deutschland to our Entertain IPTV customers for the first time. From mid-2013, Entertain customers will be able to 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. The arrangement runs until mid-2017.

Issuance of a euro bond. Deutsche Telekom AG issued a bond in the amount of EUR 2 billion on January 10, 2013 via its Dutch financing subsidiary Deutsche Telekom International Finance B.V. There are two tranches to the bond: an 8-year tranche with a volume of EUR 1.25 billion and a coupon of 2.125 percent, and a 15-year tranche with a volume of EUR 750 million and a coupon of 3.25 percent. The issuance forms part of the Company's general corporate financing. It does not increase the level of our net debt. The bond will be shown under non-current financial obligations as of the issuance date.

Extension of the early retirement scheme to 2013 resolved. Our Board of Management resolved in January 2013 to extend the early retirement scheme for civil servants to 2013. This will incur expenses of EUR 0.6 billion in 2013.

Share buy-back in January 2013 in connection with the share matching plan. Deutsche Telekom AG brought the share buy-back program resolved by the Board of Management on December 18, 2012 to an end on January 16, 2013. In the period from January 2 to 16, 2013 a total of 268,295 shares with a total acquisition volume of EUR 2.4 million were acquired as part of the program (average price per share: EUR 8.92); this concluded the buy-back of shares in the Company. As a result, treasury shares of EUR 0.7 million were openly deducted from issued capital (imputed value of EUR 2.56 per share) and the retained earnings of the Group decreased by around EUR 1.7 million. The shares were bought back as part of the Deutsche Telekom compensation plan to implement the share matching plan.

Workforce restructuring in Germany. The management of Telekom Deutschland GmbH decided in January 2013 to introduce a special severance program for staff working in steering and centralized functions in the Germany operating segment that will run through June 30, 2013. Deutsche Telekom will also offer early retirement arrangements above all for civil servants for these functions. This gradual workforce reduction will enable Telekom Deutschland to manage the process in a responsible, socially considerate manner. We expect this to make a significant contribution to lowering our personnel costs.

ULL application. On January 22, 2013, Deutsche Telekom filed an application with the Federal Network Agency for a monthly charge of EUR 12.37 for the provision of the unbundled local loop (ULL) line. For the first time, the approval period will be three years, with an option to extend it for a further three years (until December 31, 2019). The current charge of EUR 10.08 will expire on June 30, 2013.

OTE bond issue. OTE S.A. issued a bond on January 30, 2013 in the amount of EUR 0.7 billion via its UK financing subsidiary OTE PLC. The bond has a five-year term and a coupon of 7.875 percent. The issuance forms part of the Company's general corporate financing. It does not increase the level of our net debt. The bond will be shown under non-current financial liabilities as of the issuance date. The bond generated considerable interest among investors and demonstrates the markets' confidence in OTE's strategy. The success of the issuance is also a positive sign for Greek companies' access to the global finance markets.

Sale of Hellas Sat. On February 7, 2013 OTE, which is part of the Europe operating segment, entered into an agreement to sell its shares in its subsidiary Hellas Sat for EUR 0.2 billion. The sale is expected to be completed in the first half of 2013. The sale proceeds and the impact on net profit are not likely to be material.

For details on the **Eutelsat arbitration proceedings, claims for damages due to price squeeze,** on **claims relating to charges for shared use of cable ducts,** and on the concluded **proceedings initiated by the Croatian competition authority against Hrvatski Telekom,** please refer to the section "Risk and opportunity management."

Please also refer to **PAGE 149 et seq.**

OTHER DISCLOSURES.

The Statement is available to the public on Deutsche Telekom's website **(WWW.TELEKOM.COM).**

CORPORATE GOVERNANCE STATEMENT IN ACCORDANCE WITH § 289a HGB.

The Corporate Governance Statement in accordance with § 289a HGB forms part of the combined management report.

CLOSING STATEMENT BY THE BOARD OF MANAGEMENT ON THE DEPENDENT COMPANY REPORT.

Since the Federal Republic of Germany, as minority shareholder of Deutsche Telekom AG, represents a solid majority at the shareholders' meeting due to the average level of attendance, Deutsche Telekom is a dependent company of the Federal Republic of Germany in accordance with § 17 (1) AktG.

Deutsche Telekom is not subject to any control or profit and loss transfer agreement with the Federal Republic of Germany. Under § 312 AktG, the Board of Management of Deutsche Telekom AG has therefore prepared a dependent company report describing relations between the controlling entity and dependent companies. The Board of Management issued the following statement at the end of the report: "The Board of Management hereby declares that under the circumstances known to the Board of Management at the time the corporate transactions were performed, the Company received appropriate remuneration for such transactions. The Company did not perform or omit any actions on behalf of, or on the instructions of, the controlling company or any dependent companies."

LEGAL STRUCTURE OF THE DEUTSCHE TELEKOM GROUP.

For information on the share capital in accordance with § 289 (4) No. 1 of the German Commercial Code (Handelsgesetzbuch – HGB), please refer to **NOTE 15** "Shareholders' equity" in the notes to the consolidated financial statements, **PAGES 242 – 243.**

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 nevertheless restricted in relation to treasury shares (around 2 million as of December 31, 2012) and trust shares (around 19 million as of December 31, 2012). The trust shares are connected with the acquisition of VoiceStream and Powertel (now T-Mobile USA) in 2001. As part of these acquisitions, Deutsche Telekom AG issued new shares from authorized capital to trustees for the benefit of holders of warrants, options, and conversion rights, among others. As regards the shares issued to trusts, the trustees in question waived voting rights and subscription rights and, in general, dividend rights for the duration of the trusts' existence. The shares issued to the trusts can be sold on the stock exchange on the instruction of Deutsche Telekom AG if the beneficiaries do not exercise their options or conversion rights or if these expire. The proceeds from the sale accrue to Deutsche Telekom AG.

Buy-back of Deutsche Telekom 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 § 71d and § 71e 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 are to 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 are also to be used for purposes for which an exclusion of subscription rights is intended, but can also be withdrawn or sold through the stock market or by way of an offer to all shareholders. The shares are to be available 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 treasury shares through the use of equity derivatives.

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 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 disapply shareholders' preemptive 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 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 **(2009/I authorized 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 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 disapplied. 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 share capital has been contingently increased by up to EUR 31,813,089.28 as of December 31, 2012, composed of up to 12,426,988 new no par value registered shares **(contingent capital II).** The contingent capital increase is exclusively for the purpose of meeting subscription rights to shares from stock options granted in the period until December 31, 2003 to members of the Board of Management of the Company, to members of second-tier management, and to other executives, managers, and specialists of the Company and to members of the boards of management, members of management, and other executives, managers, and specialists at lower-tier Group companies in Germany and other countries, on the basis of the authorization for a 2001 Stock Option Plan granted by resolution of the shareholders' meeting on May 29, 2001. It will be implemented only to the extent that the holders of stock options exercise these options.

The share capital was contingently increased by up to EUR 1,100,000,000 as of December 31, 2012, 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

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 (5) 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 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 Everything Everywhere 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.

In addition to Deutsche Telekom AG, 68 German and 167 foreign subsidiaries are fully consolidated in Deutsche Telekom's consolidated financial statements (December 31, 2011: 64 and 174). Twelve associates (December 31, 2011: 10) and eight joint ventures (December 31, 2011: 7) are also included using the equity method.

The principal subsidiaries of Deutsche Telekom AG are listed under "Principal subsidiaries" in the "Summary of accounting policies" section in the notes to the consolidated financial statements, **PAGE 220.**

Business combinations. Deutsche Telekom did not effect any material business combinations in the 2012 financial year.

DEVELOPMENT OF REVENUE AND PROFITS.[1]

ECONOMIC OUTLOOK.

By the end of 2012, the stimulus plans of the European Central Bank (ECB) and the U.S. Federal Reserve (Fed) had substantially calmed the financial markets and economic confidence indexes were showing the first signs of a positive trend. However, we expect that the slowdown in the main industrial and emerging economies that was triggered by the consolidation measures will continue to impact negatively on national economies in the first few months of 2013.

Provided the sovereign debt and banking crisis does not deteriorate again, the expansion of the global economy could accelerate in the course of 2013, supported primarily by increased growth in the emerging economies. The eurozone economies could also recover slightly throughout 2013, underpinned in particular by the German economy.

T 039

GDP forecasts for 2013.

	2013 compared with 2012 %
Germany	0.7
United States	1.8
Greece	(4.3)
Poland	1.5
Hungary	0.0
Czech Republic	(0.2)
Croatia	0.3
Netherlands	(0.4)
Slovakia	1.7
Austria	0.9
United Kingdom	1.0

Source: Oxford Economics, January 2013.

The economic outlook in our core markets continues to vary greatly. After two strong years in 2010 and 2011 and moderate growth in 2012, growth in Germany's economy is forecast to slow down in 2013. The Ifo Institute forecasts real GDP growth for Germany of 0.7 percent, most of which is expected to be the result of positive developments in the second half of 2013. Other studies expect limited growth of 0.3 to 0.5 percent. Germany's relatively strong competitive position, however, is likely to remain safe in 2013. The labor market is also expected to remain stable in 2013, supported among other things by exports, which are expected to revive in the second half of the year.

Current estimates for 2013 for the United States expect a growth rate of up to 2 percent, primarily due to further rises in private consumption as well as a recovery on the real estate market. The unemployment rate is anticipated to again decrease slightly in 2013 to an average of 7.8 percent. But overall, growth in employment is still slower than in past recovery phases. It is crucial for further progress that politicians agree a long-term path for fiscal consolidation.

Economic growth in our core markets in Poland, Austria, and Slovakia is predicted to cool off yet continue to grow at a moderate pace in 2013, with annual growth rates of between 0.5 and 2.2 percent. Stagnation or a slight recession and in turn, a difficult economic situation is expected for 2013 in the economies in the Netherlands, the Czech Republic, and Hungary. Greece is expected to remain mired in recession in 2013, with current forecasts predicting average growth rates of minus 4.3 percent.

MARKET EXPECTATIONS.

For 2013 and 2014, we expect the **German** telecommunications market to decline overall, while competition remains intense, with cable companies increasingly competing with the industry's traditional providers. We expect the mobile market to decline slightly in 2013, driven by the reduction in termination charges. The regulation-induced decrease in revenue will be compensated primarily by the continued increase in use of mobile data services. The rising popularity of smartphones and tablet PCs will drive mobile data and Internet usage as well as mobile data revenues in the coming years. In the fixed-network market we expect no more than a slight increase in broadband lines. Traditional voice revenues will continue to decline. By contrast, we anticipate growth in related segments such as TV, De-Mail, and cloud services. Demand for telecommunications products from small and medium-sized enterprises is expected to continue to grow, especially in mobile data transmission and automated machine-to-machine data exchange.

The **European markets (excluding Germany)** are dominated by tough competition between market players from the traditional telecommunications industry and cable companies. We expect that decisions by regulatory authorities will continue to put pressure on the markets in the coming year and negatively impact revenue, especially in voice telephony. The allocation of mobile frequency licenses in several countries of our segment, for example, will noticeably increase the number of new market players. We also anticipate sharp cuts in termination charges, which are expected to affect all countries of our Europe segment. Despite all this, we expect to partially compensate the decline in traditional voice revenue through the rise of our growth areas, such as broadband and TV. The growing popularity of smartphones and tablet PCs in particular will drive up demand for higher bandwidths. We have also identified clear potential for growth in the business customer segment of ICT and in Internet services. In 2013, the economic crisis will continue to impact on a number of Southern and Eastern European markets in which we operate. For example, governments in several countries in our Europe segment will still endeavor to improve their financial situation through fiscal policies to our detriment. Such action could also have a dampening effect on private consumption, which would reduce the market volume. Overall, we expect telecommunications markets in the Europe segment to return to moderate growth from 2014.

The **United States mobile market** continues to be characterized by intense competition among the major mobile carriers while the economic recovery in the United States currently results in lower unemployment figures and an expected rise in consumer spending. In the context of the competitive and economic environment in the United States, the telecommunications market is expected to experience growth in no-contract product offerings and revenues from mobile broadband data services. This revenue growth is expected to offset declining revenue from providing voice and text services.

Due to the slight recovery anticipated in the global economy, we expect the growth trend in the **ICT market** to increase further in 2013 and 2014. We anticipate that the ICT market will continue to be dominated by ongoing cost pressure, delayed investment, and strong competition. Overall demand is constantly changing. The topics of cloud services, big data (storage, preparation, processing and analysis of large volumes of data), intelligent networks, and mobilizing business processes (use of mobile devices in a company's business processes) in particular are increasingly transforming the market.

We expect the markets in our market segments to develop in different ways:

- **"Telecommunications":** The macroeconomic trend has only a limited impact on the telecommunications market segment. As in previous years, we expect this market to be highly contested and that prices will continue to fall.

- **"IT services":** After slowing down slightly in the reporting year, the market for IT services is expected to recover again in the following years. IT services mainly comprise outsourcing and the IT project business:

  - "Outsourcing": The outsourcing business in Computing & Desktop Services recovered further in 2012, and this trend is set to continue in the near future. This is due not only to traditional outsourcing activities, but also to the increasing success of cloud services, the provision of IT services over the Internet.

  - "IT project business": In the reporting year, growth slowed due to the macroeconomic trend. Based on current forecasts, however, a significant recovery is expected in the IT project business. Growth is primarily driven by ICT security, big data and cloud services.

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 start of December 2012 we presented, among other things, our expectations for 2013 through 2015. The statements below contain the information communicated there, which we still stand by.

We will continue to drive forward Deutsche Telekom's evolution from a pure telecommunications company to a "telco plus." As we want to be our customers' first choice for connected life and work, we will increasingly invest in our future and return to growth by 2014. For the period 2013 through 2015, our strategic focus entails the following core messages:

- In Germany, we aim to stabilize our revenues from 2014.
- In Europe and the United States, we want to return to slight growth from 2014.
- In our innovation unit, the Digital Business Unit (DBU), we are aiming for double-digit growth.
- In the Systems Solutions operating segment, we want to grow profitably in our business with corporate customers and reduce overall expenses in intragroup IT services.

In order to achieve our aims, we will invest more in our networks and expand our broadband infrastructure, especially in Germany and the United States. Overall, the Group is aiming for a total **investment volume** (excluding spectrum investments) of EUR 9.8 billion, with MetroPCS being included for the full 2013 financial year based on a pro forma calculation.

Around EUR 6 billion is earmarked for rolling out the broadband infrastructure in the German fixed network with optical fiber and for vectoring between 2013 and 2020. However, our investments in the high-speed fixed network require a reliable, innovation-friendly regulatory environment in Europe. In mobile communications, we are focusing on the LTE standard. In addition, T-Mobile USA and Apple have signed an agreement under which T-Mobile will start selling Apple products in 2013. These initiatives aim to increase revenue and earnings by 2014:

Glossary, PAGE 301 et seq.

- After a decline in 2013, we expect the Group's total revenue to increase year-on-year (including MetroPCS on a like-for-like basis) by 2014. In our Germany segment, we expect that revenue will stabilize and in our Europe segment, we plan to return to organic growth, i.e., excluding the effects of regulatory decisions, exchange rates, and special government measures like additional taxes. In the United States we plan to return to growth in 2014, supported not only by the planned investments but also by our agreement with Apple, which will enable us to offer the popular smartphone models with excellent network quality and coverage. Our business with external corporate customers in the Systems Solutions operating segment is to grow profitably.

- Not least due to the market investments required in connection with our deal with Apple, the Group's adjusted EBITDA (including MetroPCS on a like-for-like basis) is expected to decline year-on-year to around EUR 18.4 billion in 2013. We expect adjusted EBITDA to grow again year-on-year in the following year, thanks to the positive impact of our investment measures and initiatives.

- The Group's free cash flow for 2013 is anticipated to reach around EUR 5 billion, mainly due to increased investments and the implementation of our challenger strategy on the U.S. market, including the arrangement with Apple. By 2015, the Group's free cash flow is to reach around EUR 6 billion (including MetroPCS).

We intend to continue leveraging economies of scale and synergies in the future, through partnerships or appropriate acquisitions in markets where we are already represented. There are no plans, however, for major acquisitions or expansion in emerging markets. We will strategically review our partnerships and equity investments such as Everything Everywhere and Scout with a view to goodwill maximization.

We will accompany the above measures and initiatives with cost-cutting programs, especially targeting indirect costs, in order to achieve profitable growth. In this way, we want to increase our total return on capital employed (ROCE) to 5.5 percent by 2015.

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, therefore, a dividend of EUR 0.50 per dividend-bearing share is to be paid for each of the financial years 2013 and 2014. The plan is to give shareholders the choice of a cash dividend or a dividend in the form of shares in Deutsche Telekom AG.

The general mood on the international finance markets in 2012 was again dominated by the European debt crisis, which meant that some countries had difficulties refinancing their due debts. A stable market environment is initially anticipated for 2013. Financial market development is expected to be dominated by the introduction of suitable additional measures to address the debt crisis.

Deutsche Telekom continues to enjoy outstanding access to international capital markets and thanks to its continuous issuing activities is in a position to place issues on these markets at short notice and at any time. 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 in 2013 and in subsequent years:

- Rating: A– to BBB
- Ratio of net debt to EBITDA: 2 to 2.5 x
- Equity ratio: 25 to 35 percent

For more information on the bond issued in January 2013, please refer to "Significant events after the reporting period," PAGES 172 – 173.

In 2012, Deutsche Telekom successfully placed bonds and medium-term notes (MTNs) of a total volume of more than EUR 3 billion on the international capital markets at attractive conditions. Repayments totaling EUR 3.9 billion in bonds, MTNs, and promissory notes will be due in 2013. We issued a bond in the amount of EUR 2 billion at good conditions in January 2013.

At the end of 2012, the rating agencies Fitch, Moody's, and Standard & Poor's rated us as a solid investment grade company at BBB+/Baa1/BBB+. 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 2012, we had a comfortable liquidity reserve of around EUR 18.3 billion. For 2013, too, we plan to maintain a liquidity reserve that is able to cover all maturities of the next 24 months. To maintain its liquidity, Deutsche Telekom will carry out borrowings on the capital market in 2013. 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 domestic reporting units, and other investment income. 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 going forward, net income is a major factor in this connection. Based on the described expectations for our operating segments and the resulting effects for 2013 and 2014, and taking into account existing retained earnings, Deutsche Telekom AG also expects to distribute a corresponding dividend for the next two financial years.

Expectations up to 2015. The expectations for the Group and the operating segments up to 2015 are shown in TABLE T 040, PAGE 183, 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.

T 040

		Results 2012	Expections 2013	Expections 2014[e]	Expections 2015[e]
REVENUE					
Group	billions of €	58.2	slight decrease		
Group (including MetroPCS)			slight decrease	slight increase	slight increase
Germany	billions of €	22.7	slight decrease	stabilization	stable development
Europe	billions of €	14.4	decrease	stabilization	slight increase
United States (in local currency)	billions of USD	19.8	stabilization		
United States (in local currency) including MetroPCS			stabilization	slight increase	slight increase
Systems Solutions	billions of €	10.0	stable development	slight increase	slight increase
Of which: Market Unit	billions of €	7.8	increase	increase	increase
EBITDA (ADJUSTED FOR SPECIAL FACTORS)					
Group	billions of €	18.0	around 17.4		
Group (including MetroPCS)	billions of €		around 18.4	slight increase	slight increase
Germany	billions of €	9.2	around 8.9	slight decrease	stable development
Europe	billions of €	4.9	around 4.7	stabilization	slight increase
United States (in local currency)	billions of USD	4.9	around 4.7		
United States (in local currency) including MetroPCS	billions of USD		around 6.0	slight increase	increase
Systems Solutions	billions of €	0.7	around 0.8	slight increase	slight increase
INVESTMENTS[a]					
Group	billions of €	8.0	around 8.6		
Group (including MetroPCS)	billions of €		around 9.8	slight decrease	around 9.5
Germany	billions of €	3.5	around 3.4	around 4.1	around 4.3
Europe	billions of €	1.6	around 1.7	around 1.7	around 1.7
United States (in local currency)	billions of USD	2.9	3.3 to 3.4		
United States (in local currency) including MetroPCS	billions of USD		4.7 to 4.8	around 3.0	around 3.1
Systems Solutions (Market Unit)	billions of €	0.5	around 0.6	around 0.6	around 0.7
ROCE	%	(2.3)			target 2015: around 5.5
Free cash flow[b]	billions of €	6.2	around 5	slight increase	around 6
Dividend per share[c,d]	€	0.70	0.50	0.50	re-visit
EPS adjusted for special factors	€	0.59			target 2015: around 0.8
Equity ratio	%	28.3	25 to 35	25 to 35	25 to 35
Relative debt		2.1 x	2 to 2.5 x	2 to 2.5 x	2 to 2.5 x
Rating		BBB+	A–/BBB	A–/BBB	A–/BBB

[a] Before any investments in spectrum.
[b] Free cash flow before dividend payments and spectrum investment and before AT&T transaction.
[c] Additional option for shareholders: choice of cash dividend or dividend in the form of shares in Deutsche Telekom AG.
[d] Subject to approval by the relevant bodies and the fulfillment of other legal requirements.
[e] Expectations for 2014 and 2015 include MetroPCS.

T 041

Exchange rates.

Croatian kuna	HRK	7.52/€
Polish zloty	PLN	4.18/€
Czech koruna	CZK	25.14/€
Hungarian forint	HUF	289.17/€
U.S. dollar	USD	1.29/€

We have based our forecast on the exchange rates shown in TABLE T 041.

TABLE T 042 provides a summary of our model calculations and analyses of the key potential external factors.

T 042

Factors which might have an impact on results.

External factor	Current trend	Impact on results
Intensity of competition in the telecommunications sectors in the United States and Europe [a]	↓	–
Regulation of mobile communications in Europe [a]	↓	–
Regulation of fixed network in Europe [a, b]	↑	+
Development of exchange rates: U.S. dollars	↔	o
Development of exchange rates: European currencies	↔	o
Macroeconomic trends in Europe [a] and the United States	↔	o
Price pressure in telecommunications markets	↓	–
Inflation	↔	o
Euro crisis	↔	o
Additional taxes (in Europe/the United States)	↓	–
ICT market	↑	+
Data traffic	↑	+

[a] Europe including Germany.
[b] 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.

↑ Improving
↔ No change
↓ Deteriorating

\+ Positive
o None
– Negative

EXPECTATIONS FOR THE OPERATING SEGMENTS.

Germany.

We expect that broadband demand for our innovative products, such as cloud services or TV across all screens, will continue to rise substantially both in mobile communications and in the fixed network. We are aiming for a mobile market share of around 35 percent in mobile service revenues and market leadership in the number of broadband lines at around 43 percent in Germany by 2015. For this reason, we will substantially increase our investments in broadband networks, products and customer services measured by the customer satisfaction index TRI*M[a] in Germany over the next few years in order to improve our competitiveness. We will focus on the accelerated LTE and fiber-optic network roll-out in Germany, concentrating specifically on the following points:

- Accelerated LTE roll-out up to a coverage of 85 percent of the population in 2016.
- Expansion of the fiber-optic network in the same period with the aim of being able to supply around 65 percent of households with FTTC. Deployment of the new vectoring technology will increase FTTC data transmission rates to up to 100 Mbit/s. This technology will be rolled out provided a corresponding regulatory framework is in place.
- In the future, an innovative hybrid technology will bundle the transmission capacities of the fixed and mobile networks intelligently, allowing additive use to be made of the maximum available bandwidth.

While we are driving forward investments in new technologies, we are also reducing investments in old technologies and thus clearly laying the foundation for innovation and growth.

In the Germany operating segment, we expect revenue to undergo a slight decrease year-on-year in 2013, mainly as a result of regulatory decisions (e.g., termination charges, interconnection, and roaming in mobile communications), but also due to declining revenue in traditional voice telephony and the wholesale fixed-network business.

In 2014, we aim to stabilize revenue against the prior year. In particular, the revenue trend is to be boosted by our attractive bundle products in mobile communications, which increasingly come with a high-quality device, as well as our television service Entertain, based on our expanded fiber-optic infrastructure in the fixed network. At the same time, we will drive forward innovative cloud solutions and other innovative product ideas, especially in the growth areas of mobile Internet and the connected home.[b] This is how we plan to offset the decline in traditional business activities.

We expect adjusted EBITDA for the Germany operating segment to decline slightly year-on-year in 2013 and 2014 due in part to lower revenue in 2013 and an increase in direct costs as a result of increased market investments over the next few years. By continuing our systematic cost management of indirect costs through the optimization of our processes and systems, we are aiming for an adjusted EBITDA margin of around 40 percent.

As announced at our Capital Markets Day in December 2012, we expect the medium-term trends for the Germany operating segment shown in TABLE T 043:

T 043

Mid-term ambition level.

Market	No. 1 in mobile service revenue market share ≈ 35 %	2015
	No. 1 broadband market share ≈ 43 %	2015
	No. 1 in TV growth	2012 through 2015
Quality	Customer loyalty index ≈ +10 %	2015 vs. 2012
Financials	Stable total revenue	2014
	Connected home revenue [b] +2 %	2015 vs. 2012
	EBITDA margin ≈ 40 %	2012 through 2015

[a] TRI*M (measuring, managing and monitoring) is a standardized indicator system for customer satisfaction based on customer surveys.
[b] This includes all revenues that we are set to generate with our existing double- and triple-play packages, i.e., our fixed-network voice, data, and TV services (including add-on options and excluding sales-related reductions).

Europe.

As described in the section on market expectations for 2013, we expect a strained market situation for our Europe operating segment.

Our national companies operate in a highly competitive environment. Most of them are virtually saturated, and line losses are the order of the day in the traditional fixed-line business. Prices are pushed down by decisions made by regulatory authorities, such as the repeated reduction in termination charges in mobile communications or decisions regarding wholesale fixed-line business. In addition, the competition is intensified by the allocation of additional and existing mobile spectrum to new potential market players.

Despite these difficult competitive circumstances, in most markets in this segment we aim to continue defending our strong earnings. Depending on our national companies' respective market position, we will work to retain market leadership in our "senior leaders" Greece, Hungary, Croatia, and the F.Y.R.O. Macedonia, both in fixed-network and mobile business. By contrast, in Romania, Slovakia and Montenegro – our "junior leaders" – we want to use our strong position in the fixed-network segment and drive forward mobile business. In our mobile-only companies, the "mobile runner-ups" in Poland and the Czech Republic, we intend to achieve market leadership. We also support the activities of our equity investments in the Netherlands, Austria, and Albania to grow as "smart attackers" in order to increase shareholder value.

In line with our vision "Deutsche Telekom – My first choice for connected life and work," we are working to delight our customers through a consistent user experience and the communication of digital content across all screens (television, computer, laptop, or mobile handset). This is supported by an attractive service portfolio, for example with modular and flexible bundled offers on intelligent devices. Innovative data and content services for smartphones and laptops complete the portfolio. Broadband access is particularly important for high-speed surfing, 3D television, high-definition movies, and value-added services.

One clear focus of our business will be on new growth areas. In the broadband and TV segments, we will augment the television service for our customers with a range of our own content and content provided by partners. We are also developing new products and services for the mobile Internet, such as the mobile wallet. This service was launched commercially in Poland at the end of 2012. Furthermore, our subsidiary in Poland will work to support other countries in the segment in introducing the mobile wallet.

Our strategy assumes that intelligent ICT solutions will become increasingly important. In the business-to-business (B2B) market, we will therefore offer powerful ICT services for small and medium-sized enterprises as well as corporate customers in the Europe segment. In this connection, we are working on standardized platforms across all national companies, for instance the development of an M2M platform in Austria. We also want to have a stronger position in the consumer segment with impressive cloud solutions.

To make this happen we are planning to transform the business model, in particular through IP transformation, i.e., a transformation from the traditional PSTN world to a new IP era. This will help us to create a simplified and standardized network and thus establish the foundation for an e-company with a promising future. We already forged ahead in 2012 with our two companies in Croatia and the F.Y.R.O. Macedonia. The main advantages are the automated generation of services and products as well as the substantial reduction in costs for equipment, for example, and lower energy consumption.

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The aim is to achieve seamless interplay between all access technologies. We will therefore focus investments on further developing the network infrastructure. In mobile communications, we are concentrating our efforts on introducing LTE as the fourth-generation mobile technology in Austria, Hungary, Croatia, and Greece, as well as various other countries in our segment. For this purpose, we will also participate in frequency auctions in the coming year. At the same time we are going to invest in building out the UMTS networks and making them HSPA plus-ready in most of the countries in the operating segment. More investments are to be made in the fixed network to increase broadband coverage. Furthermore, in the integrated markets, we are planning to offer customers the greatest possible bandwidth experience by bundling fixed-network and mobile data streams in a hybrid access product. We intend to launch this technology in at least one country in our Europe segment by 2014. Another technology milestone is TeraStream, a concept centering around a cloud-based IP architecture. In December 2012, an initial field test with consumers was successfully carried out in Croatia. In Greece too, we are planning to introduce a broadband network gateway (BNG) by 2015 as a preliminary stage for TeraStream. Further investments are planned to improve customer service and make processes more efficient.

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Our revenue and earnings may be adversely affected by changes in legislation, for instance in connection with government austerity programs. The special taxes, for instance, will not only impact negatively on revenue and/or earnings in Hungary, but also in Slovakia and Montenegro in 2013, restricting the potential for investment in these markets. Exchange rate effects could also adversely affect earnings on a euro basis. However, cost-cutting measures and strategic initiatives are anticipated to compensate to some extent for any negative effects. We will continue to increase productivity by cutting costs, which will entail headcount reductions in some of the countries in our segment. We also intend to look into the possibility of more network cooperations with competitors in certain countries of our Europe operating segment.

From January 1, 2013, tasks and functions of Group Technology and the Global Network Factory, which were previously managed by Group Headquarters & Shared Services, will be pooled and reported under the Europe segment. For the Europe operating segment, we expect the relocation of the aforementioned activities to result in unchanged revenue but slightly higher adjusted EBITDA.

In view of the aforementioned general parameters, we expect revenue and adjusted EBITDA in the Europe operating segment, based on constant exchange rates and also based on assumptions about regulation (e.g., reduction in termination charges), new market players, spectrum auctions, etc., as well as the same organizational structure – to decrease year-on-year in 2013. In 2014, we expect revenue and adjusted EBITDA to stabilize compared with 2013.

As announced at our Capital Markets Day in December 2012, we expect the medium-term trends for the Europe operating segment shown in **TABLE T 044**:

T 044

Ambition level for 2015.

	Financial stability in Europe	Technology leadership	
Operating free cash flow (adjusted)	Stable	All-IP migration in Croatia and F.Y.R.O. Macedonia	All-IP transformation
		All-IP migration launched in other countries	
Total revenue [a]	€ 14 billion	TeraStream trial in Croatia to start by end of 2012	TeraStream/BNG [c]
		BNG introduction in Greece ongoing until 2015	
Cumulative indirect opex reduction by 2015 [b]	€ 0.6 billion	Maximum bandwidth experience by bundling fixed and mobile data streams, launch in at least one country 2014	Hybrid access [d]
Operating ROCE	Further improvement	Mass market product by 2015	Mobile wallet

[a] Adjusted, organic revenue development only, based on assumptions regarding regulation (esp. MTR cuts), new entrants/spectrum auction, etc.
[b] Baseline 2012.
[c] Broadband network gateway.
[d] Integrated Network Strategy.

United States.

In 2013, T-Mobile USA will continue to execute on its challenger strategy which is further accelerated by the planned combination with MetroPCS. Key elements of this strategy include providing amazing 4G services through advantaged spectrum and a next-generation LTE network deployment. Additionally, the challenger 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, including the launch of Apple products.

T-Mobile USA continues to focus on the investment in and enhancement of network quality and coverage, and in particular further upgrade of its mobile broadband communications network to roll out the latest generation of LTE services in 2013. As a result, T-Mobile USA does not expect further significant investment in spectrum licenses in 2013 and 2014. However, the addition of MetroPCS will deepen spectrum holdings in top service areas with LTE and HSPA plus (1.9 GHz) coverage expanding to more than 200 million U.S. citizens by the end of 2013.

T-Mobile USA expects total revenues in local currency to be broadly stable in 2013 on a stand-alone basis. On a pro forma basis, including MetroPCS, we expect to see total revenues increase in 2014 with a projected five-year compound annual growth rate of 3 to 5 percent (five-year CAGR (compound annual growth rate) from

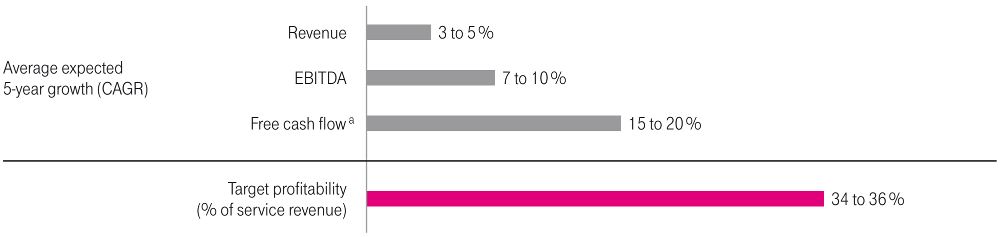
2012 through 2017). Results in 2013 are expected to be positively impacted by growth in no-contract products and non-voice services but be adversely affected by declining service revenue from customers moving to unlimited Value plans that at the same time benefit equipment revenues due to lower equipment subsidies.

On a stand-alone basis, T-Mobile USA expects adjusted EBITDA in local currency to decline in 2013. T-Mobile USA expects adverse impacts to adjusted EBITDA in 2013 due to continued investment in the network and increased marketing of the T-Mobile USA brand focused on attracting and retaining customers. However, continued focus on cost saving initiatives is expected to lower operating expenses. On a pro forma basis, including MetroPCS, T-Mobile USA expects to see adjusted EBITDA increase from 2014 with a projected five-year compound annual growth rate of 7 to 10 percent (five-year CAGR from 2012 through 2017). 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 2013 and 2014.

As announced at our Capital Markets Day event in December 2012, we expect the medium-term trends for the United States operating segment shown in GRAPHIC G 53.

G 53

Projected growth for the new company, including MetroPCS.



[a] Free cash flow defined as EBITDA minus capital expenditure.

T 045

Principal sources of revenue growth for the new company.

Contract offers	Flat growth
	Stabilization of customer base in 2013 followed by modest customer growth from 2014
No-contract offers	Growth of 80 to 90 % (2012 through 2017)
Focused geographic expansion of MetroPCS brand	Growth of 10 to 20 % (2012 through 2017)

Systems Solutions.

Effective July 1, 2012, Deutsche Telekom reorganized the Group's IT structure and transferred all internal IT units from the Germany and Systems Solutions operating segments as well as Group Headquarters & Shared Services into the new Telekom IT unit within the Systems Solutions operating segment. As a result, the development of the Systems Solutions operating segment varied from business area to business area.

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The T-Systems Market Unit focuses on the ICT services growth market, offering solutions for corporate customers. As companies globalize, the significance of international ICT solutions is on the rise. Drawing on a global infrastructure of data centers and networks, the T-Systems Market Unit manages information and communication services for some 400 corporate customers, including multinational corporations and public-sector and public-health institutions. On this basis, our corporate customers arm provides integrated solutions for the connected future of business and society. In 2012, we once again extended or won major new contracts with reputable industry giants such as Shell, the Catalan government, Clariant, BP, Daimler, British American Tobacco, and the Swiss industrial group Georg Fischer. Our standard solutions in the growth area of cloud computing succeeded in the face of strong competition, winning us contracts with many of these corporate customers. Accordingly, in 2012, T-Systems further expanded its dynamic resources, which allow customers to make use of bandwidth, computing capacity and memory on demand, pay for what they use, and share the infrastructure. It is also encouraging that significant deals were also concluded in the growth areas of intelligent networks and security. Utilities company RWE Deutschland, for example, has selected Deutsche Telekom as its partner for the largest smart metering project to date in Germany. These deals lay the foundation for revenue growth in the next few years. Efficiency enhancement measures based on technological progress and cost-cutting measures have already shown encouraging effects in terms of costs and will be continued.

As a service provider for the Group, Telekom IT constantly develops the Deutsche Telekom Group's IT landscape. As part of this process, standardized and optimized systems contribute significantly to our systematic efficiency management and to reducing the Group's IT costs further.

Overall, we expect revenue for the Systems Solutions segment to remain stable in 2013 and adjusted EBITDA to increase slightly. For 2014, both revenue and adjusted EBITDA are expected to grow slightly. Revenue generated outside the Group is expected to grow in 2013 and 2014, while revenue from other Group entities is anticipated to decline due to efficiency initiatives.

As announced at our Capital Markets Day in December 2012, we expect the medium-term trends for the Systems Solutions operating segment shown in TABLE T 046:

T 046

Ambition level for 2015.

Revenue [a, b]	Above market growth (≈ 2 % CAGR expected)
Quality	TRI*M index [c] to be maintained above peer average and > 70 points
EBIT margin [a] (adjusted for special factors)	Around 4 %
Telekom IT	IT expenditure to be reduced by ≈ € 1 billion to benchmark level

[a] Revenue and adjusted EBIT margin ambition levels refer to the Market Unit.
[b] Revenue: CAGR of 2 percent expected for the total addressable market, weighted according to T-Systems breakdown of revenue by Telecommunications/Information Technology.
[c] TRI*M (measuring, managing and monitoring) is a standardized indicator system for customer satisfaction based on customer surveys.

Group Headquarters & Shared Services.

Adjusted EBITDA will be negatively impacted in particular by expenditure at Group Headquarters and staff restructuring activities at Vivento. This is contrasted by higher earnings from Shared Services and the innovation unit, the Digital Business Unit (DBU). For the 2013 and 2014 financial years, we expect continued cost management in Shared Services to have a positive impact on EBITDA. The improvements triggered by the Shape Headquarters project will also have a positive effect, although their impact will still be dampened in 2013 by residual costs. The DBU, which was repositioned in 2012, will broaden the basis for stronger growth in 2013 through extensive market investments. These cost-intensive activities in the DBU's innovative growth areas (e.g., cloud services, payment, media business) will adversely affect adjusted EBITDA in 2013. Overall, we expect for Group Headquarters & Shared Services that the measures initiated in 2012 and 2013, which we will primarily implement in the DBU, will lead to a decline in adjusted EBITDA in 2013, but will effect a tangible improvement in EBITDA from 2014.

[1] The forecasts for the development of revenue and profits 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 net revenue, adjusted EBITDA, capital expenditure, 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 "Risk and opportunity management" section in the combined management report, **PAGE 149 et seq.,** and the disclaimer at the end of the Annual Report, **PAGE 306.** 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.