CONSOLI-DATED FINANCIAL STATE-MENTS

AT DEUTSCHE TELEKOM WE BRING ABOUT INNOVATIONS AS WE COMBINE IN-HOUSE DEVELOPMENTS, PARTNER-SHIPS, AND EQUITY INVESTMENTS IN INTELLIGENT WAYS. AS A RESULT, OUR CUSTOMERS BENEFIT FROM THE LATEST IT AND TELECOMMUNICA-TIONS SOLUTIONS.

193 CONSOLIDATED FINANCIAL STATEMENTS

194 CONSOLIDATED STATEMENT OF FINANCIAL POSITION

196 CONSOLIDATED INCOME STATEMENT

197 CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

198 CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

200 CONSOLIDATED STATEMENT OF CASH FLOWS

201 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

201 SUMMARY OF ACCOUNTING POLICIES

201 General information
201 Basis of preparation
201 Initial application of standards, interpretations and amendments to standards and interpretations in the financial year
202 Standards, interpretations and amendments issued, but not yet adopted
204 Changes in accounting policies and changes in the reporting structure
205 Accounting policies
215 Judgments and estimates
218 Consolidated group
219 Business combinations and other transactions
220 Principal subsidiaries
221 Consolidation methods
221 Currency translation

222 NOTES TO THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Note
222 1 Cash and cash equivalents
222 2 Trade and other receivables
223 3 Inventories
223 4 Non-current assets and disposal groups held for sale
224 5 Intangible assets
228 6 Property, plant and equipment
229 7 Investments accounted for using the equity method
230 8 Other financial assets
230 9 Other assets
231 10 Financial liabilities
234 11 Trade and other payables
235 12 Provisions for pensions and other employee benefits
241 13 Other provisions
242 14 Other liabilities
242 15 Shareholders' equity

244 NOTES TO THE CONSOLIDATED INCOME STATEMENT

Note
244 16 Net revenue
244 17 Cost of sales
244 18 Selling expenses
245 19 General and administrative expenses
245 20 Other operating income
245 21 Other operating expenses
246 22 Finance costs
246 23 Share of profit/loss of associates and joint ventures accounted for using the equity method
246 24 Other financial income/expense
247 25 Income taxes
251 26 Profit/loss attributable to non-controlling interests
252 27 Earnings per share
253 28 Dividend per share
253 29 Average number of employees and personnel costs
253 30 Depreciation, amortization and impairment losses

255 OTHER DISCLOSURES

Note
255 31 Notes to the consolidated statement of cash flows
256 32 Segment reporting
261 33 Contingencies
264 34 Disclosures on leases
266 35 Disclosure of other financial obligations
266 36 Share matching plan/Mid-term and long-term incentive plans (MTIP, LTIP)/ Stock option plans
268 37 Disclosures on financial instruments
272 38 Risk management, financial derivatives, and other disclosures on capital management
280 39 Related party disclosures
281 40 Compensation of the Board of Management and the Supervisory Board
288 41 Declaration of conformity with the German Corporate Governance Code in accordance with § 161 AktG
288 42 Events after the reporting period
289 43 Auditor's fees and services in accordance with § 314 HGB

290 RESPONSIBILITY STATEMENT

291 INDEPENDENT AUDITOR'S REPORT

CONSOLIDATED STATEMENT OF FINANCIAL POSITION.

T 047

	Note	Dec. 31, 2012 millions of €	Dec. 31, 2011 millions of €
ASSETS			
CURRENT ASSETS		**15,019**	**15,865**
Cash and cash equivalents	1	4,026	3,749
Trade and other receivables	2	6,417	6,557
Current recoverable income taxes	25	95	129
Other financial assets	8	2,020	2,373
Inventories	3	1,106	1,084
Non-current assets and disposal groups held for sale	4	90	436
Other assets	9	1,265	1,537
NON-CURRENT ASSETS		**92,923**	**106,677**
Intangible assets	5	41,732	50,097
Property, plant and equipment	6	37,522	41,927
Investments accounted for using the equity method	7	6,726	6,873
Other financial assets	8	1,901	2,096
Deferred tax assets	25	4,714	4,449
Other assets	9	328	1,235
TOTAL ASSETS		**107,942**	**122,542**

	Note	Dec. 31, 2012 millions of €	Dec. 31, 2011 millions of €
LIABILITIES AND SHAREHOLDERS' EQUITY			
CURRENT LIABILITIES		**23,008**	**24,338**
Financial liabilities	10	9,260	10,219
Trade and other payables	11	6,445	6,436
Income tax liabilities	25	440	577
Other provisions	13	2,899	3,217
Liabilities directly associated with non-current assets and disposal groups held for sale	4	9	–
Other liabilities	14	3,955	3,889
NON-CURRENT LIABILITIES		**54,391**	**58,263**
Financial liabilities	10	35,354	38,099
Provisions for pensions and other employee benefits	12	7,280	6,095
Other provisions	13	1,862	1,689
Deferred tax liabilities	25	5,990	8,492
Other liabilities	14	3,905	3,888
LIABILITIES		**77,399**	**82,601**
SHAREHOLDERS' EQUITY	15	**30,543**	**39,941**
Issued capital		11,063	11,063
Treasury shares		(6)	(6)
		11,057	**11,057**
Capital reserves		51,506	51,504
Retained earnings including carryforwards		(29,212)	(25,498)
Total other comprehensive income		(2,176)	(2,326)
Net profit (loss)		(5,255)	557
ISSUED CAPITAL AND RESERVES ATTRIBUTABLE TO OWNERS OF THE PARENT		**25,920**	**35,294**
Non-controlling interests		4,623	4,647
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**107,942**	**122,542**

CONSOLIDATED INCOME STATEMENT.

T 048

	Note	2012 millions of €	2011 millions of €	2010 millions of €
NET REVENUE	16	**58,169**	**58,653**	**62,421**
Cost of sales	17	(34,202)	(33,885)	(35,725)
GROSS PROFIT		**23,967**	**24,768**	**26,696**
Selling expenses	18	(13,997)	(14,060)	(14,620)
General and administrative expenses	19	(4,852)	(5,284)	(5,252)
Other operating income	20	2,968	4,362	1,498
Other operating expenses	21	(11,896)	(4,200)	(2,817)
PROFIT (LOSS) FROM OPERATIONS		**(3,810)**	**5,586**	**5,505**
Finance costs	22	(2,033)	(2,325)	(2,500)
Interest income		306	268	349
Interest expense		(2,339)	(2,593)	(2,849)
Share of profit (loss) of associates and joint ventures accounted for using the equity method	23	(154)	(73)	(57)
Other financial income (expense)	24	(233)	(169)	(253)
PROFIT (LOSS) FROM FINANCIAL ACTIVITIES		**(2,420)**	**(2,567)**	**(2,810)**
PROFIT (LOSS) BEFORE INCOME TAXES		**(6,230)**	**3,019**	**2,695**
Income taxes	25	1,473	(2,349)	(935)
PROFIT (LOSS)		**(4,757)**	**670**	**1,760**
PROFIT (LOSS) ATTRIBUTABLE TO				
Owners of the parent (net profit (loss))		(5,255)	557	1,695
Non-controlling interests	26	498	113	65
EARNINGS PER SHARE	27			
Basic	€	(1.22)	0.13	0.39
Diluted	€	(1.22)	0.13	0.39

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME.

T 049

	2012 millions of €	2011 millions of €	2010 millions of €
PROFIT (LOSS)	**(4,757)**	**670**	**1,760**
Gains and losses from defined benefit plans recognized in equity (see **NOTE 12, PAGE 235 et seq.**)	(1,818)	177	(32)
Revaluation due to business combinations	0	0	(2)
Exchange differences on translating foreign operations			
Recognition of other comprehensive income in income statement	4	0	2,151
Change in other comprehensive income (not recognized in income statement)	318	10	1,547
Available-for-sale financial assets			
Recognition of other comprehensive income in income statement	(227)	0	0
Change in other comprehensive income (not recognized in income statement)	33	242	(3)
Gains (losses) from hedging instruments			
Recognition of other comprehensive income in income statement	9	200	0
Change in other comprehensive income (not recognized in income statement)	(197)	(765)	58
Share of profit (loss) of investments accounted for using the equity method	0	0	28
Other income and expense recognized directly in equity	0	0	0
Income taxes relating to components of other comprehensive income	631	102	(5)
OTHER COMPREHENSIVE INCOME	**(1,247)**	**(34)**	**3,742**
TOTAL COMPREHENSIVE INCOME	**(6,004)**	**636**	**5,502**
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO			
Owners of the parent	(6,366)	425	5,443
Non-controlling interests	362	211	59

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY.

T 050

	Issued capital and reserves attributable to owners of the parent					
	Number of shares	Equity contributed			Consolidated shareholders' equity generated	
		Issued capital	Treasury shares	Capital reserves	Retained earnings incl. carryforwards	Net profit (loss)
	thousands	millions of €	millions of €	millions of €	millions of €	millions of €
BALANCE AT JANUARY 1, 2010	**4,361,320**	**11,165**	**(5)**	**51,530**	**(20,951)**	**353**
Changes in the composition of the Group						
Unappropriated profit (loss) carried forward					353	(353)
Dividends					(3,386)	
Proceeds from the exercise of stock options/share matching plan				3	2	
Capital decrease	(40,001)	(102)		102	(400)	
Profit (loss)						1,695
Other comprehensive income					(52)	
Transfer to retained earnings					79	
BALANCE AT DECEMBER 31, 2010	**4,321,319**	**11,063**	**(5)**	**51,635**	**(24,355)**	**1,695**
BALANCE AT JANUARY 1, 2011	**4,321,319**	**11,063**	**(5)**	**51,635**	**(24,355)**	**1,695**
Changes in the composition of the Group				(131)		
Unappropriated profit (loss) carried forward					1,695	(1,695)
Dividends					(3,011)	
Proceeds from the exercise of stock options/share matching plan						
Share buy-back			(1)		(2)	
Profit (loss)						557
Other comprehensive income					105	
Transfer to retained earnings					70	
BALANCE AT DECEMBER 31, 2011	**4,321,319**	**11,063**	**(6)**	**51,504**	**(25,498)**	**557**
BALANCE AT JANUARY 1, 2012	**4,321,319**	**11,063**	**(6)**	**51,504**	**(25,498)**	**557**
Changes in the composition of the Group						
Unappropriated profit (loss) carried forward					557	(557)
Dividends					(3,010)	
Proceeds from the exercise of stock options/share matching plan				2		
Profit (loss)						(5,255)
Other comprehensive income					(1,264)	
Transfer to retained earnings					3	
BALANCE AT DECEMBER 31, 2012	**4,321,319**	**11,063**	**(6)**	**51,506**	**(29,212)**	**(5,255)**

Issued capital and reserves attributable to owners of the parent							Non-controlling interests	Total shareholders' equity
Total other comprehensive income						Total		
Translation of foreign operations millions of €	Revaluation surplus millions of €	Available-for-sale financial assets millions of €	Hedging instruments millions of €	Other comprehensive income millions of €	Taxes millions of €	millions of €	millions of €	millions of €
(6,577)	**118**	**(3)**	**1,037**	**0**	**(313)**	**36,354**	**5,583**	**41,937**
						0	(23)	(23)
						0		0
						(3,386)	(612)	(3,998)
						5	5	10
						(400)		(400)
						1,695	65	1,760
3,734	(2)	(1)	85		(16)	3,748	(6)	3,742
	(79)					0		0
(2,843)	**37**	**(4)**	**1,122**	**0**	**(329)**	**38,016**	**5,012**	**43,028**
(2,843)	**37**	**(4)**	**1,122**	**0**	**(329)**	**38,016**	**5,012**	**43,028**
(2)						(133)	(77)	(210)
						0		0
						(3,011)	(497)	(3,508)
						0	(2)	(2)
						(3)		(3)
						557	113	670
67		106	(565)		155	(132)	98	(34)
	(70)					0		0
(2,778)	**(33)**	**102**	**557**	**0**	**(174)**	**35,294**	**4,647**	**39,941**
(2,778)	**(33)**	**102**	**557**	**0**	**(174)**	**35,294**	**4,647**	**39,941**
						0		0
						0		0
						(3,010)	(387)	(3,397)
						2	1	3
						(5,255)	498	(4,757)
330		(59)	(188)		70	(1,111)	(136)	(1,247)
	(3)					0		0
(2,448)	**(36)**	**43**	**369**	**0**	**(104)**	**25,920**	**4,623**	**30,543**

CONSOLIDATED STATEMENT OF CASH FLOWS.

T 051

	Note	2012 millions of €	2011 millions of €	2010 millions of €
	31			
PROFIT (LOSS)		**(4,757)**	**670**	**1,760**
Depreciation, amortization and impairment losses		21,957	14,436	11,808
Income tax expense (benefit)		(1,473)	2,349	935
Interest expense (income)		2,033	2,325	2,500
Other financial (income) expense		233	169	253
Share of (profit) loss of associates and joint ventures accounted for using the equity method		154	73	57
(Profit) loss on the disposal of fully consolidated subsidiaries		(6)	(4)	349
Other operating income from the agreement with Crown Castle concerning the leasing and use of cell towers in the United States		(1,444)	–	–
Non-cash transactions in connection with the compensation from AT&T		–	(705)	–
Other non-cash transactions		15	27	(21)
(Gain) loss from the disposal of intangible assets and property, plant and equipment		(83)	28	90
Change in assets carried as working capital		(24)	690	(243)
Change in provisions		319	535	(68)
Change in other liabilities carried as working capital		(1,080)	(1,578)	(209)
Income taxes received (paid)		(694)	(778)	(819)
Dividends received		490	515	412
Net payments from entering into or canceling interest rate swaps		122	–	265
CASH GENERATED FROM OPERATIONS		**15,762**	**18,752**	**17,069**
Interest paid		(3,060)	(3,397)	(3,223)
Interest received		875	859	885
NET CASH FROM OPERATING ACTIVITIES		**13,577**	**16,214**	**14,731**
Cash outflows for investments in				
Intangible assets		(2,120)	(1,837)	(2,978)
Property, plant and equipment		(6,312)	(6,569)	(6,873)
Non-current financial assets		(1,028)	(430)	(997)
Investments in fully consolidated subsidiaries and business units		(19)	(1,239)	(448)
Proceeds from disposal of				
Intangible assets		26	20	26
Property, plant and equipment		187	336	318
Cell towers from the framework agreement with Crown Castle in the United States		1,769	–	–
Non-current financial assets		549	61	162
Investments in fully consolidated subsidiaries and business units		50	5	4
Net change in short-term investments and marketable securities and receivables		219	339	491
Other		8	39	(416)
NET CASH USED IN INVESTING ACTIVITIES		**(6,671)**	**(9,275)**	**(10,711)**
Proceeds from issue of current financial liabilities		22,664	66,349	30,046
Repayment of current financial liabilities		(29,064)	(71,685)	(34,762)
Proceeds from issue of non-current financial liabilities		3,539	3,303	3,219
Repayment of non-current financial liabilities		(171)	(51)	(149)
Dividends		(3,400)	(3,521)	(4,003)
Share buy-back		–	(3)	(400)
Repayment of lease liabilities		(169)	(163)	(139)
Other		–	(187)	(181)
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, AT THE BEGINNING OF THE YEAR		**3,749**	**2,808**	**5,022**
CASH AND CASH EQUIVALENTS, AT THE END OF THE YEAR		**4,026**	**3,749**	**2,808**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS.

SUMMARY OF ACCOUNTING POLICIES.

GENERAL INFORMATION.

The Deutsche Telekom Group (hereinafter referred to as "Deutsche Telekom" or the "Group") is one of the world's leading service providers in the telecommunications and information technology sector. Deutsche Telekom offers its customers all kinds of products and services for connected life and work. The Group reports on the four operating segments Germany, Europe, United States, and Systems Solutions, as well as on Group Headquarters & Shared Services.

The Company was entered as Deutsche Telekom AG in the commercial register of the Bonn District Court (Amtsgericht – HRB 6794) on January 2, 1995.

The Company has its registered office in Bonn, Germany. Its address is Deutsche Telekom AG, Friedrich-Ebert-Allee 140, 53113 Bonn.

The declaration of conformity with the German Corporate Governance Code required pursuant to § 161 of the German Stock Corporation Act (Aktiengesetz – AktG) was released and made available to shareholders. The Declaration of Conformity can be found on the Deutsche Telekom website (@ WWW.TELEKOM.COM) via the following path: INVESTOR RELATIONS/CORPORATE GOVERNANCE/DECLARATION OF CONFORMITY.

The shares of Deutsche Telekom AG are traded on the Frankfurt/Main Stock Exchange as well as on other German stock exchanges.

The annual financial statements of Deutsche Telekom AG as well as the consolidated financial statements of Deutsche Telekom AG, which have an unqualified audit opinion from PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Frankfurt/Main, are published in the electronic Federal Gazette (elektronischer Bundesanzeiger). The annual report is available upon request from Deutsche Telekom AG, Bonn, Investor Relations, and on Deutsche Telekom's homepage at @ WWW.TELEKOM.COM.

The consolidated financial statements of Deutsche Telekom for the 2012 financial year were released for publication by the Board of Management on February 12, 2013.

BASIS OF PREPARATION.

The consolidated financial statements of Deutsche Telekom have been prepared in accordance with the International Financial Reporting Standards (IFRS) as adopted by the European Union (EU), as well as with the regulations under commercial law as set forth in § 315a (1) of the German Commercial Code (Handelsgesetzbuch – HGB). All IFRSs issued by the International Accounting Standards Board (IASB), effective at the time of preparing the consolidated financial statements and applied by Deutsche Telekom, have been adopted for use in the EU by the European Commission. The consolidated financial statements of Deutsche Telekom thus also comply with IFRS as issued by the IASB. Therefore the term IFRS is used in the following.

The financial year corresponds to the calendar year. The consolidated statement of financial position includes comparative amounts for one reporting date. The consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity, and the consolidated statement of cash flows include two comparative years.

Presentation in the statement of financial position differentiates between current and non-current assets and liabilities, which are generally broken down further by their respective maturities in the notes to the consolidated financial statements. The consolidated income statement is presented using the cost-of-sales method. Under this format, net revenue is compared against the expenses incurred to generate these revenues, classified into cost of sales, selling, and general and administrative functions. The consolidated financial statements are prepared in euros.

The financial statements of Deutsche Telekom AG and its subsidiaries included in the consolidated financial statements were prepared using uniform group accounting policies.

INITIAL APPLICATION OF STANDARDS, INTERPRETATIONS AND AMENDMENTS TO STANDARDS AND INTERPRETATIONS IN THE FINANCIAL YEAR.

In the financial year, Deutsche Telekom applied the following IASB pronouncements and/or amendments to such pronouncements for the first time:

T 052

Pronouncement	Date of issue by the IASB	Title
IFRS 7	October 7, 2010	Disclosures – Transfers of Financial Assets
IAS 12	December 20, 2010	Deferred Tax – Recovery of Underlying Assets

In October 2010, the IASB issued the pronouncement **"Disclosures – Transfers of Financial Assets"** as an amendment to IFRS 7 "Financial Instruments: Disclosures." The amendment requires quantitative and qualitative disclosures to be made for transfers of financial assets where the transferred assets are derecognized in their entirety or the transferor retains continuing involvement. The amendment is intended to provide greater transparency around such transactions (e.g., securitizations) and help users understand the possible effects of any risks that may remain with the entity that transferred the assets. The amendment to the standard also requires supplementary information to be disclosed if a substantial proportion of the total amount of transfer activity takes place in the closing days of a reporting period. The amendment is

effective for the first time for financial years beginning on or after July 1, 2011. The European Union endorsed this pronouncement in November 2011. The application of the standard results in additional disclosures, in particular with regard to factoring transactions.

In December 2010, the IASB issued the pronouncement **"Deferred Tax: Recovery of Underlying Assets – Amendments to IAS 12."** The amendment clarifies which type of recovery is to be assumed for certain assets. This is relevant in those cases where different tax consequences can arise depending on how the carrying amounts are recovered. The pronouncement introduces a rebuttable presumption that the carrying amount of an investment property that is measured at fair value according to IAS 40 "Investment Property" will be recovered through sale. In any case, there is also a non-rebuttable presumption that the carrying amount of a non-depreciable asset that is measured using the fair value model in IAS 16 "Property, Plant and Equipment" will be recovered through sale. Interpretation SIC-21 "Income Taxes – Recovery of Revalued Non-Depreciable Assets" was replaced by the new pronouncement. The pronouncement was endorsed by the European Union in December 2012 and is effective for financial years beginning on or after January 1, 2012. Deutsche Telekom has applied the pronouncement since January 1, 2012. It does not have a major impact on the presentation of Deutsche Telekom's results of operations, financial position or cash flows.

STANDARDS, INTERPRETATIONS AND AMENDMENTS ISSUED, BUT NOT YET ADOPTED.

In November 2009, the IASB issued **IFRS 9 "Financial Instruments."** The standard is the result of the first of three phases of the project to replace IAS 39 "Financial Instruments: Recognition and Measurement" with IFRS 9. IFRS 9 governs the classification and measurement of financial assets. The rules for impairment of financial instruments and hedge accounting are currently being revised by the IASB. IFRS 9 will be effective for the first time for financial years beginning on or after January 1, 2015. The European Union has not yet endorsed this pronouncement. The endorsement process has currently been suspended. Prior periods do not have to be adjusted when the standard is adopted for the first time, but there is a requirement to disclose the effects of first-time adoption. Deutsche Telekom is analyzing the resulting effects on the presentation of results of operations, financial position or cash flows.

In October 2010, the IASB issued requirements on accounting for financial liabilities. These are integrated into **IFRS 9 "Financial Instruments"** and replace the existing provisions on this subject in IAS 39 "Financial Instruments: Recognition and Measurement." In the new pronouncement, the requirements relating to recognition and derecognition as well as most of the requirements for classification and measurement are carried forward unchanged from IAS 39. Prior periods do not have to be adjusted when the standard is adopted for the first time, but there is a requirement to disclose the effects of first-time adoption. The pronouncement will be effective for the first time for financial years beginning on or after January 1, 2015. The European Union has not yet endorsed this pronouncement. The endorsement process has currently been suspended. Deutsche Telekom is analyzing the resulting effects on the presentation of results of operations, financial position or cash flows.

In May 2011, the IASB published three new IFRSs **(IFRS 10, IFRS 11, IFRS 12)** and two revised standards **(IAS 27, IAS 28)** that govern the accounting for investments in subsidiaries, joint arrangements and associates. The European Union endorsed the provisions in December 2012. The provisions will be effective within the European Union for financial years beginning on or after January 1, 2014. Deutsche Telekom is not planning earlier adoption. The adoption of the new and amended IFRSs will have an impact on the presentation of Deutsche Telekom's results of operations, financial position or cash flows. This does not apply to the revised IAS 27, however, because this standard now exclusively relates to separate financial statements under IFRS which Deutsche Telekom does not prepare in accordance with § 325 (2a) HGB.

- The IASB is introducing a harmonized consolidation model by issuing **IFRS 10 "Consolidated Financial Statements."** This new standard no longer distinguishes between traditional subsidiaries (IAS 27) and special-purpose entities (SIC-12). Control only exists if an investor has the power over the investee, is exposed to variable returns, and is able to use power to affect its amount of variable returns. When IFRS 10 becomes effective, it will replace SIC-12 "Consolidation – Special Purpose Entities" as well as the requirements relevant to consolidated financial statements in IAS 27 "Consolidated and Separate Financial Statements."

- **IFRS 11 "Joint Arrangements"** will replace IAS 31 "Interests in Joint Ventures" and SIC-13 "Jointly Controlled Entities – Non-Monetary Contributions by Venturers." It governs the accounting for joint ventures and joint operations. Proportionate consolidation for joint ventures will no longer be permissible as a result of the discontinuation of IAS 31. The amended **IAS 28 "Interests in Associates and Joint Ventures"** governs the application of the equity method when accounting for investments in both associates

and joint ventures. In case of a joint operation, the share of assets, liabilities, expenses and revenues is directly recognized in the consolidated financial statements and annual financial statements of the joint operator.

- **IFRS 12 "Disclosure of Interests in Other Entities"** combines all disclosures required in the consolidated financial statements regarding subsidiaries, joint arrangements and associates, as well as unconsolidated structured entities.

- The revised **IAS 27 "Separate Financial Statements"** exclusively governs the accounting for subsidiaries, joint ventures and associates in the annual financial statements and the corresponding notes (separate financial statements according to § 325 (2a) HGB).

- The revised **IAS 28 "Investments in Associates and Joint Ventures"** governs the accounting of investments in associates and joint ventures using the equity method.

In May 2011, the IASB also published **IFRS 13 "Fair Value Measurement."** With this standard, the IASB has created a uniform, comprehensive standard for fair value measurement. IFRS 13 is effective for financial years beginning on or after January 1, 2013. IFRS 13 provides guidance on how to measure at fair value when other IFRSs require fair value measurement (or disclosure). A new definition of fair value applies which characterizes fair value as the selling price of an actual or hypothetical transaction between any independent market participants under normal market conditions on the reporting date. The standard is almost universally applicable, with the only exemptions being IAS 2 "Inventories," IAS 17 "Leases," and IFRS 2 "Share-based Payment." While the guidance remains virtually unchanged for financial instruments, the guidance for other items (e.g., investment property, intangible assets and property, plant and equipment) is now more comprehensively and/or precisely defined. The established three-level fair-value hierarchy has to be applied across the board. The adoption of IFRS 13 is likely to result in additional disclosures in Deutsche Telekom's financial statements. The European Union endorsed the provisions in December 2012.

In June 2011, the IASB issued amendments to **IAS 1 "Presentation of Financial Statements."** The amendments require that the items listed under other comprehensive income be split into two categories, according to whether or not they will be recognized in the income statement in future periods (recycling). The amendments to IAS 1 are effective for financial years beginning on or after July 1, 2012 and were endorsed by the European Union in June 2012. Deutsche Telekom will apply the aforementioned changes in the statement of comprehensive income from the 2013 financial year onward.

In June 2011, the IASB also issued amendments to **IAS 19 "Employee Benefits."** These amendments result in the discontinuation of existing options for the recognition of actuarial gains and losses. Other amendments concern the recognition of past service cost and of the net interest income/expense resulting from defined benefit plans as well as the differentiation between termination benefits and other employee benefits.

The elimination of the corridor method has no relevance for Deutsche Telekom because actuarial gains and losses are already recognized directly and exclusively in equity in their full amount in accordance with the applicable standard. The changes in the recognition of past service cost do not have a material effect because due to the current structure of the pension entitlements past service cost arises in a significant amount only in connection with vested benefits. On account of the comparatively low value of plan assets, material effects with regard to the amount and the presentation of net interest income from defined benefit plans are not anticipated either.

The changes in the definition and recognition of termination benefits may have material effects on the amounts recognized for personnel provisions and on personnel costs because under certain circumstances termination benefits may be recognized at a later date in accordance with IAS 19.166 (2011). In recent years, Deutsche Telekom has offered substantial severance packages to its employees in Germany on various legal bases and is likely to continue doing so in the future. The quantitative effects at the respective reporting dates nevertheless will depend to a large extent on the legal form and the timing of future programs. On account of the change in the definition, the top-up payments made as part of partial retirement programs may no longer be recognized as termination benefits and therefore have to be accrued over their vesting period. Owing to their special legal and financial characteristics, Deutsche Telekom's partial retirement programs offered after 2007 are no longer classified as termination benefits. For this reason, this amendment does not have any material effects.

Furthermore, disclosure requirements are also being extended, e.g., for characteristics of defined benefit plans and the risks arising from those plans. The amendments to IAS 19 are effective retrospectively for financial years beginning on or after January 1, 2013 and were endorsed by the European Union in June 2012.

In December 2011, the IASB published amendments to **IAS 32 "Financial Instruments: Presentation"** specifying the requirements for offsetting financial instruments. To meet the new offsetting requirements in IAS 32, an entity's right to set off must not be contingent on a future event and must be enforceable both in the normal course of business and in the event of default or insolvency of the entity and all counterparties. It is further specified that a gross settlement mechanism also complies with the offsetting requirements according to IAS 32, provided no major credit liquidity risks remain, and receivables and payables are processed in a single settlement step, making it equivalent to a net settlement. The new requirements shall be applied retrospectively for financial years beginning on or after January 1, 2014 and were endorsed by the European Union in December 2012. Deutsche Telekom is analyzing the resulting effects on the presentation of results of operations, financial position or cash flows, but does not currently expect any major changes.

In December 2011, the IASB also issued extended disclosure requirements regarding offsetting rights in **IFRS 7 "Financial Instruments: Disclosures."** In addition to extended disclosures on offsetting activities actually carried out pursuant to IAS 32, disclosure requirements on existing rights to set off are introduced regardless of whether the offsetting under IAS 32 is actually carried out. The new requirements shall be applied retrospectively for financial years beginning on or after January 1, 2013 and were endorsed by the European Union in December 2012. Deutsche Telekom is analyzing the resulting effects on the presentation of results of operations, financial position or cash flows and is expecting additional disclosure requirements.

The IASB issued **"Annual Improvements to IFRSs 2009 – 2011 Cycle"** in May 2012, which amended five standards. The new requirements shall be applied retrospectively for financial years beginning on or after January 1, 2013 and have not yet been endorsed by the European Union. Deutsche Telekom is analyzing the resulting effects on the presentation of results of operations, financial position or cash flows and does not expect any major changes. The amendment to **IAS 1 "Presentation of Financial Statements"** clarifies that when additional comparative information is provided in the financial statements on a voluntary basis, this information must also be presented in the related notes for that additional information. As a consequence of the amendment to **IAS 16 "Property, Plant and Equipment,"** servicing equipment is recognized as property, plant and equipment or as inventory depending on their expected useful life. The amendment to **IAS 32 "Financial Instruments: Presentation"** clarifies that the tax effect of distributions to holders of an equity instrument and the transaction costs of an equity transaction must be accounted for in accordance with IAS 12. Pursuant to the amendment to **IAS 34 "Interim Financial Reporting,"** information on segment assets and liabilities is only required to be disclosed if such information is regularly provided to the chief operating decision maker and if there has been a material change from the amount disclosed in the last annual financial statements for that reportable segment. The amendments to **IFRS 1 "First-time Adoption of IFRS"** do not have an impact on Deutsche Telekom.

In June 2012, the IASB published amendments to the transitional provisions for the three new consolidation standards adopted in May 2011: **IFRS 10, IFRS 11,** and **IFRS 12** (please refer to PAGES 202 – 203). The provisions have not yet been endorsed by the European Union and are expected to be effective within the European Union for financial years beginning on or after January 1, 2014. The adoption of the new and amended IFRSs will have an impact on the presentation of Deutsche Telekom's results of operations, financial position or cash flows.

The IASB issued further amendments to the consolidation standards **IFRS 10, IFRS 12,** and **IAS 27** (please refer to PAGES 202 – 203) in November 2012. The amendments relate to the consolidation of investment companies. The provisions have not yet been endorsed by the European Union and will be effective for financial years beginning on or after January 1, 2014. The adoption of the amended IFRSs is unlikely to have an impact on the presentation of Deutsche Telekom's results of operations, financial position or cash flows.

CHANGES IN ACCOUNTING POLICIES AND CHANGES IN THE REPORTING STRUCTURE.

With the exception of the standards, interpretations, and amendments of standards and interpretations presented that are effective for the first time in the financial year, Deutsche Telekom did not make any major changes in its accounting policies.

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.

ACCOUNTING POLICIES.

Key assets and liabilities shown in the consolidated statement of financial position are measured as follows:

T 053

Items of the statement of financial position	Measurement principle
ASSETS	
Current assets	
Cash and cash equivalents	Amortized cost
Trade and other receivables	Amortized cost
Current recoverable income taxes	Amount expected to be recovered from the taxation authorities, using the tax rates that have been enacted or substantively enacted by the end of the reporting period
Other financial assets	
Other non-derivative financial assets	
Held-to-maturity investments	Amortized cost
Available-for-sale financial assets	Fair value or at cost
Originated loans and receivables	Amortized cost
Derivative financial assets	Fair value
Inventories	Lower of net realizable value and cost
Non-current assets and disposal groups held for sale	Lower of carrying amount or fair value less costs to sell
Non-current assets	
Intangible assets	
Of which: with finite useful lives	Amortized cost
Of which: with indefinite useful lives (including goodwill)	Impairment-only approach
Property, plant and equipment	Amortized cost
Investments accounted for using the equity method	Pro-rata value of the investment's equity carried forward
Other financial assets	
Other non-derivative financial assets	
Held-to-maturity investments	Amortized cost
Available-for-sale financial assets	Fair value or at cost
Originated loans and receivables	Amortized cost
Derivative financial assets	Fair value
Deferred tax assets	Non-discounted amount measured at the tax rates that are expected to apply to the period when the asset is realized or the liability settled

Items of the statement of financial position	Measurement principle
LIABILITIES AND SHAREHOLDERS' EQUITY	
Current liabilities	
Financial liabilities	
Non-derivative interest-bearing and non-interest-bearing liabilities	Amortized cost
Derivative financial liabilities	Fair value
Trade payables	Amortized cost
Income tax liabilities	Amount expected to be paid to the taxation authorities, using the tax rates that have been enacted or substantively enacted by the end of the reporting period
Other provisions	Present value of the settlement amount
Liabilities directly associated with non-current assets and disposal groups held for sale	Lower of carrying amount or fair value less costs to sell
Non-current liabilities	
Financial liabilities	
Non-derivative interest-bearing and non-interest-bearing liabilities	Amortized cost
Derivative financial liabilities	Fair value
Provisions for pensions and other employee benefits	Actuarial projected unit credit method
Other provisions	Present value of the settlement amount
Deferred tax liabilities	Non-discounted amount measured at the tax rates that are expected to apply to the period when the asset is realized or the liability settled

The material principles on recognition and measurement outlined below were applied uniformly to all accounting periods presented in these consolidated financial statements.

Intangible assets (excluding goodwill) with finite useful lives, including UMTS and LTE licenses, are measured at cost and generally amortized on a straight-line basis over their useful lives. Such assets are impaired if their recoverable amount, which is measured at the higher of fair value less costs to sell and value in use, is lower than the carrying amount. Indefinite-lived intangible assets (mobile communications licenses granted by the Federal Communications Commission in the United States (FCC licenses)) are carried at cost. While FCC licenses are issued for a fixed time, renewals of FCC licenses have occurred routinely and at negligible costs. Moreover, Deutsche Telekom has determined that there are currently no legal, regulatory, contractual, competitive, economic or other factors that limit the useful lives of the FCC licenses, and therefore treats the FCC licenses as an indefinite-lived intangible asset. They are not amortized, but tested for impairment annually or whenever there are indications of impairment and, if necessary, written down to the recoverable amount. Impairment losses are reversed if the reasons for recognizing the original impairment loss no longer apply and the asset is recognized at a value that would have been applied if no impairment losses had been recognized in prior periods.

The useful lives and the amortization method of the assets are reviewed at least at each financial year-end and, if expectations differ from previous estimates, the changes are accounted for as changes in accounting estimates in accordance with IAS 8.

Amortization of mobile communications licenses begins as soon as the related network is ready for use. The useful lives of mobile communications licenses are determined based on several factors, including the term of the licenses granted by the respective regulatory body in each country, the availability and expected cost of renewing the licenses, as well as the development of future technologies.

The remaining useful lives of Deutsche Telekom's most important mobile communications licenses are as follows:

T 054

Mobile communications licenses	Years
FCC licenses	Indefinite
LTE licenses	13
UMTS licenses	8 to 17
GSM licenses	2 to 24

Development expenditures are capitalized if they meet the criteria for recognition as assets and are amortized over their useful lives. **Research expenditures** are expensed as incurred.

Goodwill is not amortized, but is tested for impairment based on the recoverable amount of the cash-generating unit to which the goodwill is allocated (impairment-only approach). The impairment test is carried out on a regular basis at the end of each financial year, as well as whenever there are indications that the carrying amount of the cash-generating unit is impaired. For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the cash-generating units that are expected to benefit from the synergies of the combination. If the carrying amount of the cash-generating unit to which goodwill is allocated exceeds its recoverable amount, goodwill allocated to this cash-generating unit must be reduced in the amount of the difference. Impairment losses for goodwill must not be reversed. If the impairment loss recognized for the cash-generating unit exceeds the carrying amount of the allocated goodwill, the additional amount of the impairment loss is recognized through the pro-rata reduction of the carrying amounts of the assets allocated to the cash-generating unit.

Property, plant and equipment is carried at cost less straight-line depreciation, and impairment losses, if applicable. The depreciation period is based on the expected useful life. Items of property, plant and equipment are depreciated pro rata temporis in the year of acquisition. The residual values, useful lives and the depreciation method of the assets are reviewed at least at each financial year-end and, if expectations differ from previous estimates, the changes are accounted for as changes in accounting estimates in accordance with IAS 8. In addition to directly attributable costs, the costs of internally developed assets

include proportionate indirect material and labor costs, as well as administrative expenses relating to production or the provision of services. In addition to the purchase price and costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management, costs also include the estimated costs for dismantling and removing the asset, and restoring the site on which it is located. If an item of property, plant and equipment consists of several components with different estimated useful lives, the individual significant components are depreciated over their individual useful lives. Maintenance and repair costs are expensed as incurred. Public investment grants reduce the cost of the assets for which the grants were made.

On disposal of an item of property, plant and equipment or when no future economic benefits are expected from its use or disposal, the carrying amount of the item is derecognized. The gain or loss arising from the disposal of an item of property, plant and equipment is the difference between the net disposal proceeds, if any, and the carrying amount of the item and is recognized as other operating income or other operating expenses when the item is derecognized. The useful lives of material asset categories are presented in **TABLE T 055**:

T 055

	Years
Buildings	25 to 50
Telephone facilities and terminal equipment	3 to 10
Data communications equipment, telephone network and ISDN switching equipment, transmission equipment, radio transmission equipment and technical equipment for broadband distribution networks	2 to 12
Broadband distribution networks, outside plant networks and cable conduit lines	8 to 35
Other equipment, operating and office equipment	2 to 23

Leasehold improvements are depreciated over the shorter of their useful lives or applicable lease terms.

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalized as part of the cost of that asset. Deutsche Telekom defines qualifying assets as construction projects or other assets for which a period of at least twelve months is necessary in order to get them ready for their intended use or sale. Borrowing costs relating to assets measured at fair value and to inventories that are manufactured or produced in large quantities on a repetitive basis are not capitalized, even if it takes a substantial period of time to get the assets ready for use or sale.

Impairment of intangible assets (including goodwill) and items of property, plant and equipment is identified by comparing the carrying amount with the recoverable amount. If no future cash flows generated independently of other assets can be allocated to individual assets, recoverability is assessed on the basis of the cash-generating unit to which the assets can be allocated. At each reporting date, Deutsche Telekom assesses whether there is any indication that an asset may be impaired. If any such indication exists, the recoverable amount of the asset or cash-generating unit must be determined. In addition, annual impairment tests are carried out for intangible assets with indefinite useful lives (goodwill and FCC licenses).

The recoverable amount of a cash-generating unit is measured at the higher of fair value less costs to sell and the value in use. The recoverable amount is generally determined by means of a discounted cash flow (DCF) calculation, unless it has to be determined on the basis of a binding sale agreement or a market price in an active or liquid market. These DCF calculations use projections that are based on financial budgets approved by management covering a ten-year period and are also used for internal purposes. The planning horizon reflects the assumptions for short- to mid-term market developments. Cash flows beyond the ten-year period are extrapolated using appropriate growth rates. Key assumptions on which management has based its determination of fair value less costs to sell include the development of revenue, customer acquisition and retention costs, churn rates, capital expenditure, market share, growth rates and discount rates. Cash flow calculations are supported by external sources of information. The discount rate used reflects the risk specific to the asset or cash-generating unit.

Beneficial ownership of **leased assets** is attributed to the contracting party in the lease to which the substantial risks and rewards incidental to ownership of the asset are transferred.

If substantially all risks and rewards are attributable to the lessor (operating lease), the leased asset is recognized in the statement of financial position by the lessor. Measurement of the leased asset is then based on the accounting policies applicable to that asset. The lease payments are recognized in profit or loss by the lessor. The lessee in an operating lease recognizes the lease payments made during the term of the lease in profit or loss. Contractually defined future changes in the lease payments during the term of the lease are recognized on a straight-line basis over the entire lease term, which is defined only once at the inception date of the contract. Where extension options exist, the exercise of those extension options that are reasonably certain is initially taken into account at the time the lease is concluded. In the course of the lease, when circumstances come to light that could lead to a change in the original assessment of the exercise of extension options, the estimated future obligations arising from operating leases will be changed accordingly.

If substantially all risks and rewards incidental to ownership of the leased asset are attributable to the lessee (finance lease), the lessee must recognize the leased asset in the statement of financial position. At the commencement of the lease term, the leased asset is measured at the lower of fair value or present value of the future minimum lease payments and is depreciated over the shorter of the estimated useful life or the lease term. Depreciation is recognized as expense. The lessee recognizes a lease liability equal to the carrying amount of the leased asset at the commencement of the lease term. In subsequent periods, the lease liability is reduced using the effective interest method and the carrying amount is adjusted accordingly. The lessor in a finance lease recognizes a receivable in the amount of the net investment in the lease. Lease income is classified into repayments of the lease receivable and finance income. The lease receivable is reduced using the effective interest method and the carrying amount is adjusted accordingly.

If a sale and leaseback transaction results in a finance lease, any excess of sales proceeds over the carrying amount is deferred and amortized over the lease term.

Other non-current receivables are measured at amortized cost using the effective interest method.

Non-current assets and disposal groups held for sale are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. These assets are measured at the lower of the carrying amount and fair value less costs to sell and are classified as non-current assets and disposal groups held for sale. Such assets are no longer depreciated. As a rule, impairment of such assets is only recognized if fair value less costs to sell is lower than the carrying amount. If fair value less costs to sell subsequently increases, the impairment loss previously recognized must be reversed. The reversal of impairment losses is limited to the impairment losses previously recognized for the assets concerned. If the requirements for the classification of assets as held for sale are no longer met, the assets may no longer be shown as held for sale. The assets are to be measured at the lower of the carrying amount that would have applied if the asset had not been classified as held for sale, and the recoverable amount at the date at which the requirements for the classification as held for sale are no longer met.

Inventories are carried at the lower of net realizable value or cost. Cost comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. Cost is measured using the weighted average cost method. Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale. Deutsche Telekom sells handsets separately and in connection with service contracts. As part of the strategy to acquire new customers, it sometimes sells handsets, in connection with a service contract, at below its acquisition cost. As the handset subsidy is part of the Company's strategy for acquiring new customers, the loss on the sale of handsets is recognized at the time of the sale and, as a rule, shown under cost of sales.

Financial assets are measured at fair value on initial recognition. For all financial assets not subsequently remeasured at fair value through profit or loss, the transaction costs directly attributable to the acquisition are taken into account. The fair values recognized in the statement of financial position are generally based on the market prices of the financial assets. If these are not available, they must be calculated using standard valuation models on the basis of current market parameters. For this calculation, the cash flows already fixed or determined by way of forward rates using the current yield curve are discounted at the measurement date using the discount factors calculated from the yield curve applicable at the reporting date. Middle rates are used.

Trade and other current receivables are measured at the amount the item is initially recognized less any impairment losses using the effective interest method, if applicable. Impairments, which take the form of allowances, make adequate provision for the expected credit risk; concrete cases of default lead to the derecognition of the respective receivables. For allowances, financial assets with a potential need for a write-down are grouped together on the basis of similar credit risk characteristics, tested collectively for impairment and written down, if necessary. The expected future cash flows of the portfolios are being calculated based on contractually agreed cash flows, taking previous cases of default into consideration. The cash flows are discounted on the basis of the weighted average of the original effective interest rates of the financial assets contained in the relevant portfolio.

Write-offs of trade receivables are recognized in some cases using allowance accounts. The decision to account for credit risks using an allowance account or by directly reducing the receivable will depend on the reliability of the risk assessment. As there is a variety of operating segments and regional circumstances, this decision is the responsibility of the respective portfolio managers.

Cash and cash equivalents, which include cash accounts and short-term cash deposits at banks, have maturities of up to three months when initially recognized and are measured at amortized cost.

The Group arranges **defined benefit pension plans** in different countries on the basis of the pensionable compensation of its employees and their length of service. Some of these pension plans are financed through external pension funds and some through incorporation in a contractual trust agreement (CTA). **Provisions for pensions** are measured using the projected unit credit method for defined benefit plans, taking into account not only the pension obligations and vested pension rights known at the reporting date, but also expected future salary and benefit increases. The interest rate used to determine the present value of the obligations is set on the basis of the yield on high-quality corporate bonds in the respective currency area. In countries without a deep market for such bonds, estimates based on the yield on government bonds are used instead. The return on plan assets and expenses for interest added to obligations are reported in finance costs. Service cost is classified as operating expenses. Past service cost is recognized immediately to the extent that the benefits are vested; otherwise, they are recognized on a straight-line basis over the average remaining vesting period.

The existing option relating to the recognition of actuarial gains and losses arising from adjustments and changes in actuarial assumptions is exercised in such a way that gains and losses are recognized in the period in which they occur directly in equity. This entails two major consequences relative to the alternatively permissible corridor method, as it is known: On the one hand, actuarial gains and losses are fully included in the pension obligation recognized in the statement of financial position. On the other hand, actuarial gains and losses are recognized directly in equity rather than in the income statement. Deutsche Telekom prefers its selected method as it provides more information and greater transparency, particularly in view of the fact that this method will be the sole permissible form of presentation as a result of the amendments to the standard effective for the financial year beginning on or after January 1, 2013.

Some Group entities grant **defined contribution plans** to their employees in accordance with statutory or contractual requirements, with the payments being made to state or private pension insurance funds. Under defined contribution plans, the employer does not assume any other obligations above and beyond the payment of contributions to an external fund. The amount of the future pension payments will exclusively depend on the contribution made by the employer (and their employees, if applicable) to the external fund, including income from the investment of such contributions. The amounts payable are expensed when the obligation to pay the amounts is established, and classified as expenses.

Civil-servant retirement arrangements at Deutsche Telekom. In accordance with the provisions of the German Posts and Telecommunications Reorganization Act (Postneuordnungsgesetz), the Federal Pension Service for Post and Telecommunications (Bundes-Pensions-Service für Post und Telekommunikation e.V. – BPS-PT) for current and former employees with civil-servant status makes pension and allowance payments to retired employees and their surviving dependents who are entitled to pension payments as a result of civil-servant status. The level of Deutsche Telekom AG's payment obligations to its special pension fund is defined under § 16 of the German Act on the Legal Provisions for the Former Deutsche Bundespost Staff (Postpersonalrechtsgesetz). Since 2000, Deutsche Telekom AG has been legally obliged to make an annual contribution to the special pension fund amounting to 33 percent of the pensionable gross emoluments of active civil servants and the notional pensionable gross emoluments of civil servants on leave of absence.

In the past, Deutsche Telekom AG and its domestic subsidiaries agreed on partial **retirement arrangements** with varying terms and conditions, predominantly based on what is known as the block model. Two types of obligations, both measured at their present value in accordance with actuarial principles, arise and are accounted for separately. The first type of obligation relates to the cumulative outstanding settlement amount, which is recorded on a pro-rata basis during the active or working phase. The cumulative outstanding settlement amount is based on the difference between the employee's remuneration before entering partial retirement (including the employer's social security contributions) and the remuneration for the part-time service (including the employer's social security contributions, but excluding top-up payments). The second type of obligation relates to the employer's obligation to make top-up payments plus an additional contribution to the statutory pension scheme. Top-up payments are often hybrid in nature, i.e., although the agreement is often considered a form of compensation for terminating the employment relationship at an earlier date, payments to be made at a later date are subject to the performance of work in the future. Insofar as partial retirement programs are mainly to be considered severance instruments, top-up payments are recognized in full as soon as the obligation arises. In cases where the focus is on the future performance of work, the top-up payments are recognized over their vesting period.

Provisions for voluntary redundancy and severance payments and in connection with early retirement arrangements for civil servants are recognized when Deutsche Telekom is demonstrably committed to granting those benefits. This is the case when Deutsche Telekom has a detailed formal plan for the termination of the employment relationship and is without realistic possibility of withdrawal. The termination benefits are measured based on the number of employees expected to be affected by the measures. Where termination benefits fall due more than twelve months after the reporting date, the expected amount to be paid is discounted to the reporting date.

Other provisions are recognized for current legal or constructive obligations to third parties that are uncertain with regard to their maturities or their amount. Provisions are recognized for these obligations provided they relate to past transactions or events, will probably require an outflow of resources to settle, and this outflow can be reliably measured. Provisions are carried at their expected settlement amount, taking into account all identifiable risks. The settlement amount is calculated on the basis of a best estimate; suitable estimation methods and sources of information are used depending on the characteristics of the obligation. In case of a number of similar obligations, the group of obligations is treated as one single obligation. The expected value method is used as the estimation method. If there is a range of potential events with the same probability of occurrence, the average value is taken. Individual obligations (e.g., legal and litigation risks) are regularly evaluated based on the most probable outcome, provided an exceptional probability

distribution does not mean that other estimates would lead to a more appropriate evaluation. The measurement of provisions is based on past experience, current costing and price information, as well as estimates and reports from experts. If experience or current costing or price information is used to determine the settlement amount, these values are extrapolated to the expected settlement date. Suitable price trend indicators (e.g., construction price indexes or inflation rates) are used for this purpose. Provisions are discounted when the effect of the time value of money is material. Provisions are discounted using pre-tax market interest rates that reflect the term of the obligation and the risk associated with it (insofar as not already taken into consideration in the calculation of the settlement amount). Reimbursement claims are not netted against provisions; they are recognized separately as soon as their realization is virtually certain.

Provisions for decommissioning, restoration, and similar obligations arising from the acquisition of property, plant and equipment are recognized directly in equity as part of the cost of the relevant asset. Changes at a later date in estimates of the amount or timing of payments or changes to the interest rate applied in measuring such obligations are also recognized directly in equity and result in retrospective increases or decreases in the carrying amount of the relevant item of property, plant and equipment. Where the decrease in the amount of a provision exceeds the carrying amount of the related asset, the excess is recognized immediately in profit or loss.

Contingencies (contingent liabilities and assets) are potential liabilities or assets arising from past events whose existence will be confirmed by the occurrence or non-occurrence of one or more uncertain future events not entirely within the control of Deutsche Telekom. Contingent liabilities can also be present obligations that arise from past events for which an outflow of resources embodying economic benefits is not probable or for which the amount of the obligation cannot be measured reliably. Contingent liabilities are only recognized at their fair value if they were assumed in the course of a business combination. Contingent liabilities not assumed in the course of a business combination are not recognized. Contingent assets are not recognized. However, when the realization of income is virtually certain, then the related asset is no longer a contingent asset, but it is recognized as an asset. Information on contingent liabilities is disclosed in the notes to the consolidated financial statements, unless the possibility of an outflow of resources embodying economic benefits is remote. The same applies to contingent assets where an inflow of economic benefits is probable.

A **financial instrument** is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. Financial assets include, in particular, cash and cash equivalents, trade receivables and other originated loans and receivables, held-to-maturity investments, and derivative and non-derivative financial assets held for trading. Financial liabilities generally substantiate claims for repayment in cash or another financial asset. In particular, this includes bonds and other securitized liabilities, trade payables, liabilities to banks, finance lease payables, liabilities to non-banks from promissory notes, and derivative financial liabilities. Financial instruments are recognized as soon as Deutsche Telekom becomes a party to the contractual regulations of the financial instrument. However, in the case of regular way purchase or sale (purchase or sale of a financial asset under a contract whose terms require delivery of the asset within the timeframe established generally by regulation or convention in the marketplace concerned), the settlement date is relevant for the initial recognition and derecognition. This is the day on which the asset is delivered to or by Deutsche Telekom. In general, financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the entity currently has a right to set off the recognized amounts and intends to settle on a net basis. To the extent that contracts to buy or sell non-financial assets fall within the scope of IAS 39, they are accounted for in accordance with this standard.

Financial assets held for trading are measured at fair value. These mainly include derivatives that are not part of an effective hedging relationship as set out in IAS 39 and therefore shall be classified as held for trading. Any gains or losses arising from subsequent measurement are recognized in the income statement.

Certain types of investment are intended and expected to be **held to maturity** with reasonable economic certainty. These financial assets are measured at amortized cost using the effective interest method.

Non-derivative financial assets that do not fulfill the definition of another category of financial instruments are classified as **available for sale** and generally measured at fair value. The gains and losses arising from fair value measurement are recognized directly in equity, unless the impairment is permanent or significant, or the changes in the fair value of debt instruments resulting from currency fluctuations are recognized in profit or loss. The cumulative gains and losses arising from fair value measurement are only recognized in profit or loss on disposal of the related financial assets. If the fair value of unquoted equity instruments cannot be measured with sufficient reliability, these instruments are measured at cost (less any impairment losses, if applicable).

Deutsche Telekom has not yet made use of the option of designating financial assets upon initial recognition as **financial assets at fair value through profit or loss.**

The carrying amounts of the financial assets that are not measured at fair value through profit or loss are tested at each reporting date to determine whether there is objective, material evidence of **impairment** (e.g., a debtor is facing serious financial difficulties, it is highly probable that insolvency proceedings will be initiated against the debtor, an active market for the financial asset disappears, there is a substantial change in the technological, economic or legal environment and the market environment of the issuer, or there is a continuous decline in the fair value of the financial asset to a level below amortized cost). Any impairment losses caused by the fair value being lower than the carrying amount are recognized in profit or loss. Where impairments of the fair values of available-for-sale financial assets were recognized directly in equity in the past, these must now be reclassified from equity in the amount of the impairment determined to the income statement. If, in a subsequent period, the fair value of the financial asset increases and this increase can be related objectively to events occurring after the impairment was recognized, the impairment loss is reversed in the appropriate amount. In the case of debt instruments, these reversed impairment losses are recognized in profit or loss. Impairment losses on unquoted equity instruments that are classified as available for sale and carried at cost may not be reversed. Both the fair value of held-to-maturity securities to be determined by testing for impairment and the fair value of the loans and receivables measured at amortized cost, which are required for impairment testing, correspond to the present value of the estimated future cash flows, discounted using the original effective interest rate. The fair value of unquoted equity instruments measured at cost is calculated as the present value of the expected future cash flows, discounted using the current interest rate that corresponds to the investment's special risk position.

Financial liabilities are measured at fair value on initial recognition. For all financial liabilities not subsequently measured at fair value through profit or loss, the transaction costs directly attributable to the acquisition are also recognized.

Trade payables and other non-derivative financial liabilities are generally measured at amortized cost using the effective interest method.

Deutsche Telekom has not yet made use of the option to designate financial liabilities upon initial recognition as **financial liabilities at fair value through profit or loss.**

Derivatives that are not part of an effective hedging relationship as set out in IAS 39 must be classified as held for trading and measured at fair value through profit or loss. If the fair values are negative, the derivatives are recognized as financial liabilities.

Deutsche Telekom uses **derivatives** to hedge the interest rate and currency risks resulting from its operating, financing, and investing activities.

The Company does not hold or issue derivatives for speculative trading purposes.

Derivatives are carried at their fair value upon initial recognition. The fair values are also relevant for subsequent measurement. The fair value of traded derivatives is equal to their market value, which can be positive or negative. If there is no market value available, the fair value is determined using standard financial valuation models.

The fair value of derivatives is the value that Deutsche Telekom would receive or have to pay if the financial instrument were discontinued at the reporting date. This is calculated on the basis of the contracting parties' relevant exchange rates and interest rates at the reporting date. Calculations are made using middle rates. In the case of interest-bearing derivatives, a distinction is made between the clean price and the dirty price. In contrast to the clean price, the dirty price also includes the interest accrued. The fair values carried correspond to the full fair value or the dirty price.

Recording the changes in the fair values – in either the income statement or directly in equity – depends on whether or not the derivative is part of an effective hedging relationship as set out in IAS 39. If **hedge accounting** pursuant to IAS 39 is not employed, the changes in the fair values of the derivatives must be recognized in profit or loss. If, on the other hand, an effective hedging relationship as set out in IAS 39 exists, the hedge will be recognized as such.

Deutsche Telekom applies hedge accounting to hedge items in the statement of financial position and future cash flows, thus reducing income statement volatility. A distinction is made between fair value hedges, cash flow hedges, and hedges of a net investment in a foreign operation depending on the nature of the hedged item.

Fair value hedges are used to hedge the fair values of assets recognized in the statement of financial position, liabilities recognized in the statement of financial position, or firm commitments not yet recognized in the statement of financial position. Any change in the fair value of the derivative designated as the hedging instrument is recognized in profit or loss; the carrying amount of the hedged item is adjusted by the profit or loss to the extent of the hedged risk (basis adjustment). The adjustments to the carrying amount are not amortized until the hedging relationship has been discontinued.

Cash flow hedges are used to hedge against fluctuations in future cash flows from assets and liabilities recognized in the statement of financial position, from firm commitments (in the case of currency risks), or from highly probable forecast transactions. To hedge the currency risk of an unrecognized firm commitment, Deutsche Telekom makes use of the option to recognize this as a cash flow hedge rather than a fair value hedge. If a cash flow hedge is employed, the effective portion of the change in the fair value of the hedging instrument is recognized in equity (hedging reserve) until the gain or loss on the hedged item is realized; the ineffective portion of the hedging instrument is recognized in profit or loss. If a hedge of a forecast transaction subsequently results in the recognition of a financial or non-financial asset or liability, the associated cumulative gains and losses that were recognized directly in equity are reclassified into profit or loss in the same periods during which the financial asset acquired or the financial liability assumed affects profit or loss for the period. In doing so, Deutsche Telekom has decided not to make use of the basis adjustment option for hedging forecast transactions when non-financial items in the statement of financial position arise.

If **hedges of a net investment in a foreign operation** are employed, all gains or losses on the effective portion of the hedging instrument, together with any gains or losses on the foreign-currency translation of the hedged investment, are taken directly to equity. Any gains or losses on the ineffective portion are recognized immediately in profit or loss. The cumulative remeasurement gains and losses on the hedging instrument that had previously been recognized directly in equity and the gains and losses on the currency translation of the hedged item are recognized in profit or loss only on disposal of the investment.

IAS 39 sets out strict requirements on the use of hedge accounting. These are fulfilled at Deutsche Telekom by documenting, at the inception of a hedge, both the relationship between the financial instrument used as the hedging instrument and the hedged item, as well as the aim and strategy of the hedge. This involves concretely assigning the hedging instruments to the corresponding assets or liabilities or (firmly agreed/expected) future transactions and also estimating the degree of effectiveness of the hedging instruments employed. The effectiveness of existing hedge accounting is monitored on an ongoing basis; ineffective hedges are discontinued immediately.

Deutsche Telekom does not use hedge accounting in accordance with IAS 39 to hedge the foreign-currency exposure of recognized monetary assets and liabilities, because the gains and losses on the hedged item from currency translation that are recognized in profit or loss in accordance with IAS 21 are shown in the income statement together with the gains and losses on the derivatives used as hedging instruments.

Equity-settled share-based payment transactions are measured at fair value on the grant date. The fair value of the obligation is recognized as personnel costs over the vesting period. For equity-settled share-based payment transactions, the fair value is determined using internationally accepted valuation techniques, such as the Black-Scholes model or the Monte Carlo model.

Revenues include all revenues from the ordinary business activities of Deutsche Telekom. Revenues are recorded net of value-added tax and other taxes collected from customers that are remitted to governmental authorities. They are recognized in the accounting period in which they are earned in accordance with the realization principle. Customer activation fees are deferred and amortized over the estimated average period of customer retention, unless they are part of a multiple-element arrangement, in which case they are a component of the arrangement consideration to be paid by the customer. Activation costs and costs of acquiring customers are deferred, up to the amount of deferred customer activation fees, and recognized over the average customer retention period.

For **multiple-element arrangements,** revenue recognition for each of the units of accounting (elements) identified must be determined separately. Revenue is recognized on the basis of the fair value of the individual elements. Arrangements involving the delivery of bundled products or services shall be separated into individual elements, each with its own separate revenue contribution. Total arrangement consideration relating to the bundled contract is allocated among the different elements based on their relative fair values (i.e., a ratio of the fair value of each element to the aggregated fair value of the bundled deliverables is generated). The relative fair value of an individual element and thus the revenue recognized for this unit of accounting, however, is limited by that proportion of the total arrangement consideration to be provided by the customer, the payment of which does not depend on the delivery of additional elements. If the fair value of the delivered elements cannot be determined reliably but the fair value of the undelivered elements can be determined reliably, the total arrangement consideration provided by the customer is allocated by determining the fair value of the delivered elements as the difference between the total arrangement consideration and the fair value of the undelivered elements.

Payments to customers, including payments to dealers and agents (discounts, commissions) are generally recognized as a decrease in revenue. If the consideration provides a benefit in its own right and can be reliably measured, the payments are recognized as expenses.

Revenue recognition at Deutsche Telekom is as follows:

Revenue generated by the **mobile communications business** of the operating segments Germany, Europe, and United States includes revenues from the provision of mobile services, customer activation fees, and sales of mobile handsets and accessories. Mobile service revenue includes monthly service charges, charges for special features, call charges, and roaming charges billed to Deutsche Telekom customers, as well as other mobile operators. Mobile service revenue is recognized based upon minutes of use or other agreed calling plans less credits and adjustments for discounts. The revenue and related expenses associated with the sale of mobile phones, wireless data devices, and accessories are recognized when the products are delivered and accepted by the customer.

The **fixed-network business** in the operating segments Germany and Europe provides narrow and broadband access to the fixed network as well as the Internet. Revenue generated from these types of access for the use of voice and data communications is recognized upon rendering of the service. The services rendered relate to use by customers (e.g., call minutes), availability over time (e.g., monthly service charges) or other agreed calling plans. Telecommunications equipment is also sold, leased, and serviced. Revenue and expenses associated with the sale of telecommunications equipment and accessories are recognized when the products are delivered, provided there are no unfulfilled company obligations that affect the customer's final acceptance of the arrangement. Revenue from rentals and operating leases is recognized monthly as the entitlement to the fees accrues. Revenues from

customer activation fees are deferred over the average customer retention period. Revenues also result from charges for advertising and e-commerce. Advertising revenues are recognized in the period in which the advertisements are exhibited. Transaction revenues are recognized upon notification from the customer that qualifying transactions have occurred and collection of the resulting receivable is reasonably assured.

In the **Systems Solutions** operating segment, revenue is recognized when persuasive evidence of a sales arrangement exists, products are delivered or services are rendered, the selling price or fee is fixed or determinable and collectability is reasonably assured.

Revenue from Computing & Desktop Services is recognized as the services are provided using a proportional performance model. Revenue is recognized ratably over the contractual service period for fixed-price contracts and on an output or consumption basis for all other service contracts. Revenue from service contracts billed on the basis of time and material used is recognized at the contractual hourly rates as labor hours are delivered and direct expenses are incurred.

Revenue from hardware sales or sales-type leases is recognized when the product is shipped to the customer, provided there are no unfulfilled company obligations that affect the customer's final acceptance of the arrangement. Any costs of these obligations are recognized when the corresponding revenue is recognized.

Telecommunication services include network services and hosting & ASP services. Contracts for network services, which consist of the installation and operation of communication networks for customers, have an average duration of approximately three years. Customer activation fees and related costs are deferred and amortized over the estimated average period of customer retention. Revenues for voice and data services are recognized under such contracts when used by the customer. When an arrangement contains a lease, the lease is accounted for separately in accordance with IFRIC 4 and IAS 17. Revenues from hosting & ASP services are recognized as the services are provided.

Revenue from rentals and leases is recognized on a straight-line basis over the rental period.

Income taxes include current income taxes as well as deferred taxes. Tax liabilities/tax receivables mainly comprise liabilities/receivables relating to domestic and foreign income taxes. They include liabilities/receivables for the current period as well as for prior periods. The liabilities/receivables are measured based on the applicable tax law in the countries Deutsche Telekom operates in.

Deferred taxes are recognized for temporary differences between the carrying amounts in the consolidated statement of financial position and the tax base, as well as for tax loss carryforwards. Deferred tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized. Deferred tax is provided on temporary differences arising on the investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference can be controlled by Deutsche Telekom and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax is not recognized if it arises from the initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting profit or loss (before income taxes) under IFRS nor taxable profit or loss. Currently enacted tax laws and tax laws that have been substantively enacted as of the reporting date are used as the basis for measuring deferred taxes.

JUDGMENTS AND ESTIMATES.

The presentation of the results of operations, financial position or cash flows in the consolidated financial statements is dependent upon and sensitive to the accounting policies, assumptions and estimates. The actual amounts may differ from those estimates. The following critical accounting estimates and related assumptions and uncertainties inherent in accounting policies applied are essential to understand the underlying financial reporting risks and the effects that these accounting estimates, assumptions and uncertainties may have on the consolidated financial statements.

Measurement of **property, plant and equipment, and intangible assets** involves the use of estimates for determining the fair value at the acquisition date, provided they were acquired in a business combination. Furthermore, the expected useful lives of these assets must be estimated. The determination of the fair values of assets and liabilities, as well as of the useful lives of the assets is based on management's judgment.

The determination of **impairments of property, plant and equipment, and intangible assets** involves the use of estimates that include, but are not limited to, the cause, timing and amount of the impairment. Impairment is based on a large number of factors, such as changes in current competitive conditions, expectations of growth in the telecommunications industry, increased cost of capital, changes in the future availability of financing, technological obsolescence, discontinuance of services, current replacement costs, prices paid in comparable transactions and other changes in circumstances that indicate an impairment exists. The identification of impairment indicators, as well as the estimation of future cash flows and the determination of fair values for assets (or groups of assets) require management to make significant judgments concerning the identification and validation of impairment indicators, expected cash flows, applicable discount rates, useful lives and residual values. Specifically, the estimation of cash flows underlying the fair values from the mobile business considers the continued investment in network infrastructure required to generate future revenue growth through the offering of new data products and services, for which only limited historical information on customer demand is available. If the demand for these products and services does not materialize as expected, this would result in less revenue, less cash flow and potential impairment to write down these investments to their fair values. When determining the fair values, additional planning uncertainties are factored in that reflect the risks of macroeconomic development, which could adversely affect future operating results.

The determination of the **recoverable amount of a cash-generating unit** involves the use of estimates by management. Methods used to determine the recoverable amount include discounted cash flow-based methods and methods that use market prices in active and liquid markets or binding sale agreements as a basis. The measurements on the basis of discounted cash flows are founded on projections that are based on financial plans that have been approved by management and are also used for internal purposes. The planning horizon reflects the assumptions for short- to mid-term market developments. Cash flows beyond the planning horizon are extrapolated using appropriate growth rates. The key assumptions on which management has based its determination of fair value less costs to sell include the following assumptions that were primarily derived from internal sources and are based on past experience and extended to include internal expectations, and that are underscored by external market data and estimates: development of revenue, customer acquisition and retention costs, churn rates, capital expenditure, market share, and growth rates. Discount rates are determined on the basis of figures derived from the market, taking account of the risks associated with the cash-generating unit. Any future changes in the aforementioned assumptions could have a significant impact on the fair values of the cash-generating units.

Management maintains an **allowance for doubtful accounts** to account for estimated losses resulting from the inability of customers to make required payments. When evaluating the adequacy of an allowance for doubtful accounts, management bases its estimates on the aging of accounts receivable balances and historical write-off experience, customer creditworthiness and changes in customer payment terms. If the financial condition of customers were to deteriorate, actual write-offs might be higher than expected.

Income taxes must be estimated for each of the jurisdictions in which the Group operates, involving a specific calculation of the expected actual income tax exposure for each tax object and an assessment of temporary differences resulting from the different treatment of certain items for IFRS consolidated financial and tax reporting purposes. Any temporary differences will generally result in the recognition of deferred tax assets and liabilities in the consolidated financial statements. Management judgment is required for the calculation of actual

and deferred taxes. Deferred tax assets are recognized to the extent that their utilization is probable. The utilization of deferred tax assets will depend on whether it is possible to generate sufficient taxable income in the respective tax type and jurisdiction, taking into account any legal restrictions on the length of the loss carryforward period. Various factors are used to assess the probability of the future utilization of deferred tax assets, including past operating results, operational plans, loss carryforward periods, and tax planning strategies. If actual results differ from these estimates or if these estimates must be adjusted in future periods, results of operations, the financial position, and cash flows may be negatively affected. In the event that the assessment of future utilization of deferred tax assets changes, the recognized deferred tax assets must be reduced in profit or loss or directly in equity, or the impaired deferred tax assets must be recognized in profit or loss or directly in equity, depending on how the deferred tax assets were originally recognized.

Pension obligations for benefits to non-civil servants are generally satisfied by defined benefit plans. Pension benefit costs for non-civil servants are determined in accordance with actuarial valuations, which rely on assumptions including discount rates, life expectancies and, if applicable, expected return on plan assets. The assumptions concerning the expected return on plan assets are determined on a uniform basis, considering long-term historical returns, asset allocation and future estimates of long-term investment returns. In the event that changes in assumptions are required with respect to discount rates and expected returns on invested assets, the future amounts of the pension benefit costs may be affected materially.

Deutsche Telekom is obligated, under the German Federal Posts and Telecommunications Agency Reorganization Act (Gesetz zur Reorganisation der Bundesanstalt für Post und Telekommunikation Deutsche Bundespost), to pay for its share of any operating cost shortfalls between the income of the **Civil Service Health Insurance Fund** (Postbeamtenkrankenkasse) and benefits paid. The Civil Service Health Insurance Fund provides services mainly in cases of illness, birth, or death for its members, who are civil servants employed by or retired from Deutsche Telekom AG, Deutsche Post AG and Deutsche Postbank AG, and their relatives. When Postreform II came into effect, participation in the Civil Service Health Insurance Fund was closed to new members. The insurance premiums collected by the Civil Service Health Insurance Fund may not exceed the insurance premiums imposed by alternative private health insurance enterprises for comparable insurance benefits, and, therefore, do not reflect the changing age distribution of the participants in the fund. Deutsche Telekom recognizes provisions in the amount of the actuarially determined present value of Deutsche Telekom's share in the fund's future deficit, using a discount rate and making assumptions about life expectancies and projections for contributions and future increases in general health care costs in Germany. Since the calculation of these provisions involves long-term projections over periods of more than 50 years, the present value of the liability may be highly sensitive even to small variations in the underlying assumptions.

Deutsche Telekom exercises considerable judgment in measuring and recognizing **provisions** and the exposure to **contingent liabilities** related to pending litigation or other outstanding claims subject to negotiated settlement, mediation, arbitration or government regulation, as well as other contingent liabilities. Judgment is necessary in assessing the likelihood that a pending claim will succeed, or a liability will arise, and to quantify the possible range of the final settlement. Provisions are recorded for liabilities when losses are expected from executory contracts, a loss is considered probable and can be reasonably estimated. Because of the inherent uncertainties in this evaluation process, actual losses may be different from the originally estimated provision. In addition, significant estimates are involved in the determination of provisions related to taxes and litigation risks. These estimates are subject to change as new information becomes available, primarily with the support of internal specialists, if available, or with the support of outside consultants, such as actuaries or legal counsel. Revisions to the estimates of these losses from executory contracts may significantly affect future operating results.

Revenue recognition.

Customer activation fees. The operating segments Germany, Europe, and United States receive installation and activation fees from new customers. These fees (and related directly attributable costs) are deferred and amortized over the expected duration of the customer relationship. The estimation of the expected average duration of the relationship is based on historical customer turnover. If management's estimates are revised, material differences may result in the amount and timing of revenue for any period.

Multiple-element arrangements. The fair values of individual units of accounting of bundled products or services are complex to determine, because some of the elements are price-sensitive and, thus, volatile in a competitive marketplace. Revisions to the estimates of these relative fair values may significantly affect the allocation of total arrangement consideration among the different units of accounting, affecting future operating results.

CONSOLIDATED GROUP.

All subsidiaries, joint ventures and associates are included in the consolidated financial statements. Subsidiaries are companies that are directly or indirectly controlled by Deutsche Telekom and are fully consolidated. The existence and effect of potential voting rights that are currently exercisable or convertible, including potential voting rights held by another entity, are considered when assessing whether an entity is controlled. Joint ventures are companies jointly controlled by Deutsche Telekom and other companies. Associates are companies on which Deutsche Telekom has a significant influence, and that are neither subsidiaries nor joint ventures. As with joint ventures, associates are accounted for using the equity method.

Subsidiaries are not included in the consolidated financial statements if an operating segment or the Group considers them to be insignificant based on the following criterion: The sum of all unconsolidated subsidiaries must not account for more than 1 percent of the Group's total assets, revenue, profit/loss for the year, contingent assets/liabilities, and other financial obligations. If the 1 percent limit is exceeded, the subsidiary to be included in the consolidated financial statements will be determined taking expected duration and consolidation effects into account. The materiality assessment for associates and jointly controlled entities is limited solely to the criteria of profit/loss for the year, contingencies, and other financial obligations. Aside from the quantitative criteria, qualitative criteria will also be used to assess the materiality of an entity for the consolidated group. Excluding a subsidiary must not significantly change the segment result or the Group's profit/loss for the year, nor may other significant trends be ignored.

The composition of the Deutsche Telekom Group changed as follows in the 2012 financial year:

T 056

	Domestic	International	Total
CONSOLIDATED SUBSIDIARIES			
January 1, 2012	64	174	238
Additions	6	5	11
Disposals (including mergers)	2	12	14
DECEMBER 31, 2012	**68**	**167**	**235**
ASSOCIATES ACCOUNTED FOR USING THE EQUITY METHOD			
January 1, 2012	5	5	10
Additions	0	3	3
Disposals	1	0	1
DECEMBER 31, 2012	**4**	**8**	**12**
JOINT VENTURES ACCOUNTED FOR USING THE EQUITY METHOD			
January 1, 2012	2	5	7
Additions	1	0	1
Disposals	0	0	0
DECEMBER 31, 2012	**3**	**5**	**8**
TOTAL			
January 1, 2012	71	184	255
Additions	7	8	15
Disposals (including mergers)	3	12	15
DECEMBER 31, 2012	**75**	**180**	**255**

T-Mobile USA established two companies in each of which it holds a 100-percent stake for the purpose of the contribution of the 5,821 cell sites in accordance with the framework agreement signed between T-Mobile USA and Crown Castle concerning the leasing and use of cell sites (please also refer to “Business combinations and other transactions” in the section “Summary of accounting policies,” PAGES 219 – 220). Both companies were deconsolidated as of the date of the closing of the transaction, because Crown Castle independently operates the cell sites and thus determines the finance and business policy of both companies. As a result, they are included in Deutsche Telekom's consolidated group as associates as of December 31, 2012, since Deutsche Telekom has a significant influence on these companies. 833 cell sites were contributed to two further newly established operating companies which were then sold to Crown Castle.

The other changes to the consolidated group were of no material significance for Deutsche Telekom's consolidated financial statements.

Deutsche Telekom held 40 percent plus one vote of the shares in the OTE group as of the reporting date. In accordance with shareholder agreements between Deutsche Telekom and the Hellenic Republic, Deutsche Telekom has taken control of 50 percent plus two voting shares and therefore the OTE group's financial and operating policy. Consequently, the OTE group companies are fully consolidated subsidiaries.

BUSINESS COMBINATIONS AND OTHER TRANSACTIONS.

Business combinations.

Deutsche Telekom did not effect any material business combinations in the 2012 financial year. The closing of the business combination between T-Mobile USA and MetroPCS is still pending.

Business combination of T-Mobile USA and MetroPCS.

On October 3, 2012, Deutsche Telekom AG and MetroPCS Communications, Inc., Dallas/United States, (MetroPCS) concluded an agreement to combine their business activities in the United States.

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, please refer to NOTE 5 "INTANGIBLE ASSETS," PAGE 224 et seq., and NOTE 30 "DEPRECIATION, AMORTIZATION AND IMPAIRMENT LOSSES," 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.

Framework agreement on the leasing and use of cell sites in the United States.

On September 28, 2012, T-Mobile USA concluded a framework agreement with Crown Castle International Corp., Houston/United States, concerning the leasing and use of cell sites.

- 5,821 cell sites were transferred to two operating companies of T-Mobile USA, in each of which it holds a 100-percent stake. Both companies were deconsolidated as of the date of the closing of the transaction, since the sole right to continue to use and lease out these sites for an average period of 28 years was transferred to Crown Castle. Both companies were included in Deutsche Telekom's consolidated group as associates as of December 31, 2012 (please also refer to "CONSOLIDATED GROUP" in the section "Summary of accounting policies," PAGES 218 – 219, and NOTE 7 "INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD," PAGE 229).
- 451 cell sites cannot currently be transferred to T-Mobile USA's two operating companies for legal reasons. They are leased out to Crown Castle on the basis of a finance lease.
- 833 cell sites were contributed to two further operating companies which were then disposed of.

In return, T-Mobile USA received a payment of approx. EUR 1.9 billion (USD 2.5 billion). T-Mobile USA leases back the required infrastructure from Crown Castle through operating leases. Crown Castle may lease out any infrastructure not required by T-Mobile USA to third parties. The transaction was completed in the fourth quarter of 2012. The transaction has the following essential impact on Deutsche Telekom's statement of financial position, income statement and statement of cash flows in the consolidated financial statements as of December 31, 2012:

- The assets assigned to the cell sites totaling EUR 0.6 billion were derecognized as of December 31, 2012. Of this figure, EUR 0.5 billion relates to technical equipment and machinery and EUR 0.1 billion to land and buildings.
- Liabilities recorded under other liabilities of EUR 0.1 billion from straight-line leases which constitute deferrals for the straight-line recognition of the lease expense were released (please also refer to NOTE 14, PAGE 242). By contrast, additions of EUR 0.1 billion were recorded to reflect the payment received for the 833 cell sites disposed of.
- Upon closing, other operating income of EUR 1.4 billion was recognized (please also refer to NOTE 20, PAGE 245).
- The payment of EUR 1.9 billion received was primarily included in net cash used in investing activities (EUR 1.8 billion) and in net cash from operating activities (EUR 0.1 billion) (please also refer to NOTE 31, PAGES 255 – 256).

For further information on the transaction, please refer to "Disclosure on leases" (NOTE 34, PAGE 264 et seq.) and "Risk management, financial derivatives, and other disclosures on capital management" (NOTE 38, PAGE 272 et seq.).

PRINCIPAL SUBSIDIARIES.

The Group's principal subsidiaries are presented in TABLE T 057:

T 057

Name and registered office	Deutsche Telekom share Dec. 31, 2012 %	Net revenue 2012 millions of €	Profit (loss) from operations 2012 millions of €	Shareholders' equity 2012 millions of €	Average number of employees 2012
Telekom Deutschland GmbH, Bonn, Germany	100.00	22,388	4,683	5,501	13,814
T-Mobile USA, Inc., Bellevue, Washington, United States [a, b]	100.00	15,371	(7,547)	6,182	30,184
T-Systems International GmbH, Frankfurt/Main, Germany	100.00	7,073	(424)	1,162	22,937
Hellenic Telecommunications Organization S.A. (OTE), Athens, Greece [a]	40.00	4,685	296	3,673	26,951
Magyar Telekom Nyrt., Budapest, Hungary [a, b]	59.23	2,018	301	2,336	11,291
T-Mobile Netherlands Holding B.V., The Hague, Netherlands [a, b]	100.00	1,664	246	2,150	1,720
PTC, Polska Telefonia Cyfrowa S.A., Warsaw, Poland [b]	100.00	1,678	241	2,160	4,760
T-Mobile Czech Republic a.s., Prague, Czech Republic [b]	60.77	1,044	344	1,749	2,850
Hrvatski Telekom d.d., Zagreb, Croatia [a]	51.00	992	258	1,991	5,767
T-Mobile Austria Holding GmbH, Vienna, Austria [a, b]	100.00	878	(234)	1,516	1,235
Slovak Telekom a.s., Bratislava, Slovakia [a]	51.00	837	109	1,928	3,906

[a] Consolidated subgroup.
[b] Indirect shareholding of Deutsche Telekom AG.

In accordance with § 313 HGB, the full statement of investment holdings, which forms part of the notes to the consolidated financial statements, is published in the electronic Federal Gazette (elektronischer Bundesanzeiger) together with the consolidated financial statements. It is available upon request from Deutsche Telekom AG, Bonn, Investor Relations, and on Deutsche Telekom's website (WWW.TELEKOM.COM) via the following path: INVESTOR RELATIONS/CORPORATE GOVERNANCE/ANNUAL DOCUMENT. Furthermore, the statement of investment holdings includes a full list of all subsidiaries that exercise simplification options in accordance with § 264 (3) HGB or disclosure simplification options in accordance with § 264b HGB.

CONSOLIDATION METHODS.

Under IFRS, all business combinations must be accounted for using the purchase method. The acquirer allocates the cost of a business combination by recognizing the acquiree's identifiable assets, liabilities and contingent liabilities that satisfy the recognition criteria at their fair value at the acquisition date. Non-current assets that are classified as held for sale are recognized at fair value less costs to sell. Any excess of the cost of the business combination over the acquirer's interest in the net fair value of identifiable assets, liabilities and contingent liabilities taken over, regardless of the level of the investment held, is recognized as goodwill. Any excess of the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of a business combination is recognized in profit or loss.

Income and expenses of a subsidiary remain included in the consolidated financial statements from the acquisition date. Income and expenses of a subsidiary are included in the consolidated financial statements until the date on which the parent ceases to control the subsidiary. The difference between the proceeds from the disposal of the subsidiary and its carrying amount, including the cumulative amount of any exchange differences that are recognized in equity and relate to the subsidiary, is recognized in the consolidated income statement as the gain or loss on the disposal of the subsidiary. Intercompany income and expenses, receivables and liabilities, and profits or losses are eliminated.

Investments in joint ventures and associates accounted for using the equity method are carried at the acquirer's interest in the identifiable assets (including any attributable goodwill), liabilities and contingent liabilities which are remeasured to fair value upon acquisition. Goodwill from application of the equity method is not amortized. Unrealized gains and losses from transactions with these companies are eliminated in proportion to the acquirer's interest. The carrying amount of the investment accounted for using the equity method is tested for impairment whenever there are indications of impairment. If the carrying amount of the investment exceeds its recoverable amount, an impairment loss must be recognized in the amount of the difference. The recoverable amount is measured at the higher of fair value less costs to sell and value in use.

CURRENCY TRANSLATION.

Foreign-currency transactions are translated into the functional currency at the exchange rate at the date of transaction. At the reporting date, monetary items are translated at the closing rate, and non-monetary items are translated at the exchange rate at the date of transaction. Exchange rate differences are recognized in profit or loss.

The assets and liabilities of Group entities whose functional currency is not the euro are translated into euros from the local currency using the middle rates at the reporting date. The middle rates are the average of the bid and ask rates at closing on the respective dates. The income statements and corresponding profit or loss of foreign-currency denominated Group entities are translated at average exchange rates for the period. The differences that arise from the use of both rates are recognized directly in equity.

The exchange rates of certain significant currencies changed as follows:

T 058

	Annual average rate			Rate at the reporting date	
	2012 €	2011 €	2010 €	Dec. 31, 2012 €	Dec. 31, 2011 €
100 Czech korunas (CZK)	3.97740	4.06830	3.95536	3.98309	3.87758
1 Pound sterling (GBP)	1.23292	1.15203	1.16553	1.22643	1.19583
100 Croatian kuna (HRK)	13.29600	13.44360	13.72000	13.23580	13.28090
1,000 Hungarian forints (HUF)	3.45820	3.58103	3.63022	3.41775	3.18883
100 Macedonian denars (MKD)	1.62376	1.62472	1.62536	1.60626	1.62320
100 Polish zlotys (PLN)	23.89580	24.27060	25.03330	24.48640	22.39550
1 U.S. dollar (USD)	0.77820	0.71801	0.75398	0.75845	0.77246

NOTES TO THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION.

1 CASH AND CASH EQUIVALENTS.

Cash and cash equivalents have an original maturity of less than three months and mainly comprise fixed-term bank deposits. They also include small amounts of cash-in-hand and checks. Deutsche Telekom obtained cash collateral of EUR 729 million (December 31, 2011: EUR 640 million) on the basis of collateral contracts as surety for potential credit risks arising from derivative transactions.

In the reporting period, cash and cash equivalents increased by EUR 0.3 billion to EUR 4.0 billion. For further details, please refer to the consolidated statement of cash flows in **NOTE 31, PAGES 255 – 256.**

As of December 31, 2012, Deutsche Telekom reported cash and cash equivalents of EUR 7 million held by subsidiaries in the F.Y.R.O. Macedonia (December 31, 2011: EUR 20 million (F.Y.R.O. Macedonia and Montenegro)). These subsidiaries are subject to foreign exchange controls or other legal restrictions. As a result, the cash balances are not fully available for use by the parent or other Group companies.

2 TRADE AND OTHER RECEIVABLES.

T 059

	Dec. 31, 2012 millions of €	Dec. 31, 2011 millions of €
Trade receivables	6,316	6,455
Other receivables	101	102
	6,417	**6,557**

Of the total of trade and other receivables, EUR 6,188 million (December 31, 2011: EUR 6,454 million) is due within one year.

The Group's receivables developed largely in line with its revenue. Factoring in the Systems Solutions operating segment and ongoing process improvement measures regarding credit checking and the recovery of receivables had the effect of reducing the level of receivables. By contrast, more intensive market development, particularly through contracts involving the sale of handsets at full price by installment, which are available to certain customer groups, increased the level of receivables in the United States and Europe segments.

TABLE T 060 shows the maturity structure of the trade receivables that are not impaired at the reporting date:

T 060

Trade receivables	Of which: neither impaired nor past due on the reporting date millions of €	Of which: not impaired on the reporting date and past due in the following periods					
		Less than 30 days millions of €	Between 30 and 60 days millions of €	Between 61 and 90 days millions of €	Between 91 and 180 days millions of €	Between 181 and 360 days millions of €	More than 360 days millions of €
As of Dec. 31, 2012	3,722	597	108	53	138	86	64
As of Dec. 31, 2011	3,190	490	78	47	71	71	20

With respect to the trade receivables that are neither impaired nor past due, there are no indications as of the reporting date that the debtors will not meet their payment obligations.

The allowances on trade receivables developed as follows:

T 061

	2012 millions of €	2011 millions of €
ALLOWANCES AS OF JANUARY 1	**1,232**	**1,323**
Currency translation adjustments	2	(9)
Additions (allowances recognized as expense)	949	830
Use	(754)	(589)
Reversal	(113)	(323)
ALLOWANCES AS OF DECEMBER 31	**1,316**	**1,232**

TABLE T 062 presents expenses for the full write-off of trade receivables as well as income from recoveries on trade receivables written off:

T 062

	2012 millions of €	2011 millions of €	2010 millions of €
Expenses for full write-off of receivables	138	107	138
Income from recoveries on receivables written off	103	28	7

All income and expenses relating to allowances and write-offs of trade receivables are reported under selling expenses.

3 INVENTORIES.

T 063

	Dec. 31, 2012 millions of €	Dec. 31, 2011 millions of €
Raw materials and supplies	96	124
Work in process	59	82
Finished goods and merchandise	950	878
Advance payments	1	–
	1,106	**1,084**

Of the inventories reported as of December 31, 2012, write-downs of EUR 58 million (2011: EUR 69 million, 2010: EUR 50 million) on the net realizable value were recognized in profit or loss.

The carrying amount of inventories recognized as expense amounted to EUR 5,519 million (2011: EUR 5,905 million, 2010: EUR 5,774 million).

The finished goods and merchandise primarily comprise retail products (e.g., telephones and accessories) not manufactured by ourselves, and services rendered but not yet invoiced, primarily to business customers.

4 NON-CURRENT ASSETS AND DISPOSAL GROUPS HELD FOR SALE.

As of December 31, 2012, current assets recognized in the consolidated statement of financial position included EUR 0.1 billion in non-current assets and disposal groups held for sale. The decrease of EUR 0.3 billion year-on-year is primarily a result of the sale of shares in Telekom Srbija.

5 INTANGIBLE ASSETS.

T 064

	Internally generated intangible assets		
		Total	Acquired concessions, industrial and similar rights and assets
	millions of €	millions of €	millions of €
COST			
AT DECEMBER 31, 2010	**2,916**	**43,952**	**1,591**
Currency translation	46	369	(18)
Changes in the composition of the Group	2	8	1
Other changes	0	0	0
Additions	122	845	7
Disposals	282	709	51
Change from non-current assets and disposal groups held for sale	0	(24)	0
Reclassifications	677	648	(696)
AT DECEMBER 31, 2011	**3,481**	**45,089**	**834**
Currency translation	(12)	(231)	13
Changes in the composition of the Group	1	6	5
Other changes	0	0	0
Additions	78	2,102	7
Disposals	476	1,327	57
Change from non-current assets and disposal groups held for sale	0	(160)	0
Reclassifications	530	1,338	37
AT DECEMBER 31, 2012	**3,602**	**46,817**	**839**
ACCUMULATED AMORTIZATION AND IMPAIRMENT LOSSES			
AT DECEMBER 31, 2010	**1,725**	**12,916**	**895**
Currency translation	35	(211)	(18)
Changes in the composition of the Group	1	(2)	0
Additions (amortization)	662	2,662	78
Additions (impairment)	14	7	4
Disposals	278	692	51
Change from non-current assets and disposal groups held for sale	0	0	0
Reclassifications	4	(3)	(272)
AT DECEMBER 31, 2011	**2,163**	**14,677**	**636**
Currency translation	(10)	26	13
Changes in the composition of the Group	0	(3)	0
Additions (amortization)	720	2,451	20
Additions (impairment)	121	6,002	1
Disposals	473	1,225	57
Change from non-current assets and disposal groups held for sale	0	(18)	0
Reclassifications	(169)	167	1
AT DECEMBER 31, 2012	**2,352**	**22,077**	**614**
NET CARRYING AMOUNTS			
At December 31, 2011	1,318	30,412	198
AT DECEMBER 31, 2012	**1,250**	**24,740**	**225**

Acquired intangible assets					Goodwill	Advance payments and intangible assets under development	Total
LTE licenses	UMTS licenses	GSM licenses	FCC licenses (T-Mobile USA)	Other acquired intangible assets			
millions of €	millions of €	millions of €	millions of €	millions of €	millions of €	millions of €	millions of €
1,323	**10,046**	**1,575**	**18,442**	**10,975**	**27,447**	**1,059**	**75,374**
0	(40)	(34)	629	(168)	(75)	(5)	335
0	0	0	0	7	1	0	11
0	0	0	0	0	0	0	0
21	17	48	54	698	71	1,000	2,038
0	0	0	0	658	39	36	1,066
0	0	0	(24)	0	0	0	(24)
11	0	119	0	1,214	14	(809)	530
1,355	**10,023**	**1,708**	**19,101**	**12,068**	**27,419**	**1,209**	**77,198**
0	26	24	(396)	102	67	5	(171)
0	0	0	0	1	0	0	7
0	0	0	0	0	0	0	0
0	3	45	1,587	460	8	1,206	3,394
0	2	0	93	1,175	0	29	1,832
0	0	0	(154)	(6)	0	0	(160)
0	(2)	0	0	1,303	0	(1,089)	779
1,355	**10,048**	**1,777**	**20,045**	**12,753**	**27,494**	**1,302**	**79,215**
0	**3,991**	**954**	**0**	**7,076**	**6,926**	**0**	**21,567**
0	(14)	(22)	0	(157)	221	0	45
0	0	0	0	(2)	0	0	(1)
66	606	129	0	1,783	0	0	3,324
0	0	0	0	3	3,100	0	3,121
0	0	0	0	641	0	0	970
0	0	0	0	0	0	0	0
0	1	(1)	0	269	14	0	15
66	**4,584**	**1,060**	**0**	**8,331**	**10,261**	**0**	**27,101**
0	9	17	(116)	103	(172)	0	(156)
0	0	0	0	(3)	0	0	(3)
92	605	134	0	1,600	0	0	3,171
0	0	0	5,822	179	2,965	0	9,088
0	2	0	0	1,166	0	0	1,698
0	0	0	(12)	(6)	0	0	(18)
0	0	0	0	166	0	0	(2)
158	**5,196**	**1,211**	**5,694**	**9,204**	**13,054**	**0**	**37,483**
1,289	5,439	648	19,101	3,737	17,158	1,209	50,097
1,197	**4,852**	**566**	**14,351**	**3,549**	**14,440**	**1,302**	**41,732**

The net carrying amount of the UMTS licenses of EUR 4.9 billion mainly relates to the Germany operating segment.

Deutsche Telekom had commitments for the acquisition of intangible assets in the amount of EUR 1.7 billion (December 31, 2011: EUR 0.3 billion) as of the reporting date. The increase is mainly attributable to mobile communication licenses amounting to EUR 0.9 billion at T-Mobile Netherlands and EUR 0.4 billion in the United States operating segment in connection with the build-out of the mobile network.

The additions to FCC licenses as of December 31, 2012 included EUR 0.9 billion from the transfer of AWS spectrum licenses that were part of the compensation from AT&T relating to the termination of the agreement to sell T-Mobile USA. Until the approval of the transfer by the Federal Communications Commission (FCC) in the second quarter of 2012, the licenses had been reported under other non-current assets.

In September 2012, T-Mobile USA swapped AWS spectrum licenses with Verizon, Inc., New York/United States. This transaction resulted in additions of EUR 0.5 billion and disposals of EUR 0.1 billion as well as a compensation payment of EUR 0.3 billion to Verizon. A book profit of EUR 0.1 billion attributable to the aforementioned effects was disclosed under other operating income.

The **carrying amounts of goodwill** are allocated to the operating segments, Group Headquarters & Shared Services and cash-generating units as follows:

T 065

	Dec. 31, 2012 millions of €	Dec. 31, 2011 millions of € [a]
GERMANY	**3,974**	**3,967**
EUROPE	**7,241**	**7,379**
Of which:		
Poland	1,600	1,463
Netherlands	1,317	1,317
Hungary	1,071	996
Austria	866	1,163
Czech Republic	666	648
Croatia	488	489
Greece – Mobile communications	422	422
Slovakia	399	399
Romania – Mobile communications	145	149
F.Y.R.O. Macedonia	109	110
Bulgaria	75	138
Other	83	85
UNITED STATES	**0**	**2,600**
SYSTEMS SOLUTIONS	**3,171**	**3,158**
GROUP HEADQUARTERS & SHARED SERVICES	**54**	**54**
	14,440	**17,158**

[a] The changes in the segment structure as of January 1, 2012 in the course of which the tasks and functions of the Digital Services growth business and the Internet service provider STRATO were transferred to Group Headquarters & Shared Services resulted in a change in the composition of the cash-generating units. The figures have been adjusted with retroactive effect.

In the 2012 financial year, the main changes in the carrying amounts of goodwill at cash-generating units were as follows:

United States. The agreement concluded on October 3, 2012 between Deutsche Telekom AG and MetroPCS Communications, Inc., Dallas/United States, (MetroPCS) on the combination of their business activities in the United States (please also refer to “Business combinations and other transactions” in the section “Summary of accounting policies,” PAGES 219 – 220) triggered an impairment test, which resulted in an impairment loss of EUR 10.6 billion recognized as of September 30, 2012 on goodwill, other intangible assets and property, plant and equipment of the United States cash-generating unit. The impairment loss generated a positive tax effect of EUR 3.2 billion. The recoverable amount of the United States cash-generating unit had to be determined according to the agreement on the business combination of T-Mobile USA and MetroPCS. The value of the shares in MetroPCS (market price) that will be attributable to Deutsche Telekom immediately prior to the announcement of the agreement was used as a basis for this valuation. Deutsche Telekom will receive these shares as a consideration for the contribution of T-Mobile USA into MetroPCS. Since the carrying amount of the net

assets of the United States cash-generating unit exceeded the recoverable amount determined using this method, an impairment loss had to be recognized in profit or loss to account for the difference. This impairment loss first resulted in the full write-down of the goodwill totaling EUR 2.6 billion. The remaining part was mainly attributable to FCC licenses (EUR 5.8 billion).

Europe. The carrying amounts of goodwill of the cash-generating units **Austria** and **Bulgaria** decreased by EUR 0.4 billion due to impairment losses recognized as a result of the impairment test.

Disclosures on annual impairment tests. Deutsche Telekom performed its annual impairment tests of the goodwill recognized for the cash-generating units at December 31, 2012. The impairment test at the United States cash-generating unit was carried out in view of the indefinite-lived FCC licenses contained therein. On the basis of information available at the reporting date and expectations with respect to the market and competitive environment, the year-end impairment tests indicated a need for impairment at the following cash-generating units, both of which were assigned to the Europe operating segment:

T 066

Goodwill impairments.

	millions of €
Austria	297
Bulgaria	63
IMPAIRMENTS (OTHER OPERATING EXPENSES)	**360**

The impairment loss recognized on goodwill in Austria was largely attributable to a decline in future revenue as a result of intensified competition and unfavorable regulatory decisions. The impairment loss in Bulgaria was in particular a consequence of higher discount rates which were due to planning uncertainties with regard to the future development of the company.

The respective fair value less costs to sell was the recoverable amount used for the impairment test carried out in the 2012 financial year. The value of the shares in MetroPCS that will be held by Deutsche Telekom immediately prior to the announcement of the agreement was used as a measurement basis for the United States cash-generating unit. The market price of an active and liquid market (share price) of Hrvatski Telekom was used to determine the fair value less costs to sell in the case of the Croatia cash-generating unit. The measurements of the other cash-generating units are generally founded on projections that are based on financial plans that have been approved by management and are also used for internal purposes. The planning horizon reflects the assumptions for short- to mid-term market developments.

Cash flows beyond the planning horizon are extrapolated using appropriate growth rates. The key assumptions on which management has based its determination of the recoverable amount include the following assumptions that were primarily derived from internal sources and are based on past experience and extended to include internal expectations, and that are underscored by external market data and estimates: development of revenue, customer acquisition and retention costs, churn rates, capital expenditure, market share, and growth rates. Discount rates are determined on the basis of external figures derived from the market, taking account of the risks associated with the cash-generating unit. Any significant future changes in the aforementioned assumptions would have an impact on the fair values of the cash-generating units. Any changes in the assumptions may have a negative impact, in particular in the Europe operating segment, as a result of the future macro-economic trends, continued intense competition, further possible legislation changes (e.g., as part of national austerity programs) and regulatory intervention.

TABLE T 067 gives an overview of the respective periods used for cash flow projections, the growth rates used as the basis for the cash flow projections, and the discount rates applied to the cash flow projections, broken down by operating segment and major cash-generating units:

T 067

	Projection period (years)	Growth rates %	Discount rates %
Germany	10	1.0	6.16
Europe			
Poland	10	2.0	7.32
Netherlands	10	2.0	6.39
Hungary	10	2.0	7.23
Austria	10	2.0	6.63
Other cash-generating units	10	1.0 – 2.0	5.80 – 10.55
Systems Solutions	10	1.5	8.17

If the discount rates used for impairment testing had been 0.5 percentage points higher, the resulting impairment losses would have increased by EUR 0.2 billion. If, by contrast, the discount rates had been 0.5 percentage points lower, the resulting impairment losses would have been EUR 0.1 billion lower. If the growth rates used as a basis in the impairment tests had been 0.5 percentage points lower, the impairment losses would have been EUR 0.1 billion higher. In turn, impairment losses would have been EUR 0.1 billion lower if the growth rates had been 0.5 percentage points higher.

6 PROPERTY, PLANT AND EQUIPMENT.

T 068

	Land and equivalent rights, and buildings including buildings on land owned by third parties millions of €	Technical equipment and machinery millions of €	Other equipment, operating and office equipment millions of €	Advance payments and construction in progress millions of €	Total millions of €
COST					
AT DECEMBER 31, 2010	**19,420**	**99,823**	**7,483**	**3,023**	**129,749**
Currency translation	(38)	(66)	(17)	2	(119)
Changes in the composition of the Group	0	4	0	0	4
Additions	117	2,493	495	3,410	6,515
Disposals	81	3,460	623	43	4,207
Change from non-current assets and disposal groups held for sale	(285)	(4)	(2)	(1)	(292)
Reclassifications	326	2,693	245	(3,794)	(530)
AT DECEMBER 31, 2011	**19,459**	**101,483**	**7,581**	**2,597**	**131,120**
Currency translation	14	(25)	1	(20)	(30)
Changes in the composition of the Group	0	3	4	0	7
Additions	220	2,404	501	4,030	7,155
Disposals	229	2,936	830	88	4,083
Change from non-current assets and disposal groups held for sale	(612)	(849)	(2)	(33)	(1,496)
Reclassifications	282	2,049	404	(3,514)	(779)
AT DECEMBER 31, 2012	**19,134**	**102,129**	**7,659**	**2,972**	**131,894**
ACCUMULATED DEPRECIATION AND IMPAIRMENT LOSSES					
AT DECEMBER 31, 2010	**9,031**	**71,190**	**5,199**	**31**	**85,451**
Currency translation	(1)	(77)	(12)	0	(90)
Changes in the composition of the Group	0	1	0	0	1
Additions (depreciation)	799	6,146	716	0	7,661
Additions (impairment)	77	247	2	4	330
Disposals	67	3,285	541	6	3,899
Change from non-current assets and disposal groups held for sale	(223)	(3)	(1)	0	(227)
Reclassifications	30	(47)	2	0	(15)
Reversal of impairment losses	(19)	0	0	0	(19)
AT DECEMBER 31, 2011	**9,627**	**74,172**	**5,365**	**29**	**89,193**
Currency translation	(2)	(32)	(3)	0	(37)
Changes in the composition of the Group	0	0	3	0	3
Additions (depreciation)	789	6,152	736	0	7,677
Additions (impairment)	288	1,603	125	4	2,020
Disposals	166	2,767	739	2	3,674
Change from non-current assets and disposal groups held for sale	(408)	(382)	(3)	(4)	(797)
Reclassifications	14	(113)	101	0	2
Reversal of impairment losses	(13)	0	(2)	0	(15)
AT DECEMBER 31, 2012	**10,129**	**78,633**	**5,583**	**27**	**94,372**
NET CARRYING AMOUNTS					
At December 31, 2011	9,832	27,311	2,216	2,568	41,927
AT DECEMBER 31, 2012	**9,005**	**23,496**	**2,076**	**2,945**	**37,522**

For further details on depreciation, amortization and impairment losses, please refer to NOTE 5 "INTANGIBLE ASSETS," PAGE 224 et seq., and NOTE 30 "DEPRECIATION, AMORTIZATION AND IMPAIRMENT LOSSES," PAGES 253 – 254.

Restoration obligations of EUR 0.2 billion were recognized as of December 31, 2012 (December 31, 2011: EUR 0.2 billion). Deutsche Telekom had commitments for the acquisition of property, plant and equipment in the amount of EUR 2.0 billion (December 31, 2011: EUR 0.7 billion) as of the reporting date. The increase is primarily attributable to the build-out of the mobile network in the United States operating segment.

Assets totaling EUR 0.6 billion in the United States operating segment that relate to the framework agreement with Crown Castle International Corp., Houston/United States, on the leasing and use of cell sites are no longer recognized under Deutsche Telekom's property, plant and equipment as of December 31, 2012, since they were reclassified to non-current assets and disposal groups held for sale as of the September 30, 2012. The disposal was recognized under current assets upon closing of the transaction. Of this figure, EUR 0.5 billion relates to technical equipment and machinery and EUR 0.1 billion to land and buildings (please also refer to "Business combinations and other transactions" in the section "Summary of accounting policies," PAGES 219 – 220).

7 INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD.

Significant investments in entities accounted for using the equity method are as follows:

T 069

	Dec. 31, 2012		Dec. 31, 2011	
Name	Deutsche Telekom share %	Net carrying amounts millions of €	Deutsche Telekom share %	Net carrying amounts millions of €
Everything Everywhere [a]	50.00	6,352	50.00	6,725
T-Mobile USA Tower [b]	100.00	79	–	–
T-Mobile West Tower [b]	100.00	90	–	–
HT Mostar [c]	39.10	52	39.10	52
Toll Collect [a]	45.00	12	45.00	28
Other		141		68
		6,726		6,873

[a] Joint venture.
[b] Indirect shareholding via T-Mobile USA, Inc., United States (Deutsche Telekom AG's share: 100.00 %).
[c] Indirect shareholding via Hrvatski Telekom d.d., Croatia (Deutsche Telekom AG's share: 51.00 %).

Significant investments in entities accounted for using the equity method included two new companies as of December 31, 2012, to which 5,821 cell sites were transferred upon closing of the transaction with Crown Castle (please also refer to "Business combinations and other transactions" in the section "Summary of accounting policies," PAGES 219 – 220).

Aggregated key financial figures for the associates accounted for using the equity method are shown in TABLE T 070. The data is not based on the portions attributable to the Deutsche Telekom Group, but represents the shareholdings on a 100-percent basis.

T 070

Aggregated key financial figures for the associates accounted for using the equity method.

	Dec. 31, 2012 billions of €	Dec. 31, 2011 billions of €
Total assets	0.5	0.2
Total liabilities	0.1	0.1
	2012 billions of €	**2011 billions of €**
Net revenue	0.1	0.1
Profit (loss)	(0.1)	0.0

TABLE T 071 is a summary presentation of aggregated key financial figures – pro-rated according to the relevant percentage of shares held – for the joint ventures of Deutsche Telekom accounted for using the equity method:

T 071

Aggregated key financial figures for the joint ventures accounted for using the equity method.

	Everything Everywhere billions of €	Other billions of €	Total Dec. 31, 2012 billions of €	Total Dec. 31, 2011 billions of €
TOTAL ASSETS	9.3	0.4	9.7	9.5
Current	1.3	0.4	1.7	1.3
Non-current	8.0	0.0	8.0	8.2
TOTAL LIABILITIES	3.0	0.3	3.3	2.8
Current	1.4	0.2	1.6	1.9
Non-current	1.6	0.1	1.7	0.9
	Everything Everywhere billions of €	**Other billions of €**	**Total 2012 billions of €**	**Total 2011 billions of €**
Net revenue	4.1	0.3	4.4	4.2
Profit (loss)	(0.1)	0.0	(0.1)	(0.1)

8 OTHER FINANCIAL ASSETS.

T 072

	Dec. 31, 2012		Dec. 31, 2011	
	Total millions of €	Of which: current millions of €	Total millions of €	Of which: current millions of €
Originated loans and receivables	2,123	1,718	2,030	1,504
Available-for-sale financial assets	380	25	729	403
Derivative financial assets	1,287	201	1,533	346
Held-to-maturity investments	131	76	177	120
	3,921	**2,020**	**4,469**	**2,373**

T 073

Originated loans and receivables	Of which: neither impaired nor past due on the reporting date millions of €	Of which: not impaired on the reporting date and past due in the following periods					
		Less than 30 days millions of €	Between 30 and 60 days millions of €	Between 61 and 90 days millions of €	Between 91 and 180 days millions of €	Between 181 and 360 days millions of €	More than 360 days millions of €
As of Dec. 31, 2012							
Due within one year	1,937	3	10	15	29	2	1
Due after more than one year	500	–	–	–	–	–	4
As of Dec. 31, 2011							
Due within one year	1,435	11	7	5	14	4	1
Due after more than one year	516	–	–	–	–	–	2

With respect to the originated loans and receivables that are neither impaired nor past due, there are no indications as of the reporting date that the debtors will not meet their payment obligations.

Receivables of EUR 246 million (December 31, 2011: EUR 302 million) were used in connection with collateral agreements as surety for potential credit risks arising from derivative transactions.

The available-for-sale financial assets include, among other assets, unquoted equity instruments whose fair values could not be reliably measured, and which were therefore recognized at cost in the amount of EUR 230 million as of December 31, 2012 (December 31, 2011: EUR 270 million). No plans existed as of the reporting date to sell these instruments.

Factors responsible for the decrease include funds received back from expired investments in securities amounting to EUR 0.3 billion that were recorded under available-for-sale financial assets at December 31, 2011.

In the 2012 financial year, EUR 16 million (2011: EUR 15 million) in impairment losses on available-for-sale financial assets were recognized in profit or loss because the impairment was permanent or significant.

9 OTHER ASSETS.

The decrease of EUR 1.2 billion in other assets to EUR 1.6 billion was attributable in particular to the reclassification of AWS spectrum licenses valued at EUR 0.9 billion to intangible assets following the approval of the transfer by the Federal Communications Commission (FCC). They were part of the compensation from AT&T relating to the termination of the agreement to sell T-Mobile USA. Other assets otherwise mainly include deferred expenses of EUR 1.1 billion (December 31, 2011: EUR 1.3 billion).

10 FINANCIAL LIABILITIES.

T 074

	Dec. 31, 2012				Dec. 31, 2011			
	Total millions of €	Due within 1 year millions of €	Due >1 year ≤ 5 years millions of €	Due > 5 years millions of €	Total millions of €	Due within 1 year millions of €	Due >1 year ≤ 5 years millions of €	Due > 5 years millions of €
Bonds and other securitized liabilities	**33,674**	**5,120**	**14,651**	**13,903**	**36,228**	**5,266**	**17,005**	**13,957**
Of which: non-convertible bonds	19,950	3,377	8,497	8,076	20,649	1,997	9,279	9,373
Of which: commercial paper, medium-term notes and similar liabilities	13,724	1,743	6,154	5,827	15,579	3,269	7,726	4,584
Liabilities to banks	**3,912**	**499**	**3,284**	**129**	**4,916**	**1,562**	**3,225**	**129**
Of which: promissory notes	1,986	299	1,558	129	2,060	79	1,852	129
Of which: loans from the European Investment Bank	1,631	64	1,567	–	1,825	518	1,307	–
Of which: other loans	295	136	159	–	1,031	965	66	–
	37,586	**5,619**	**17,935**	**14,032**	**41,144**	**6,828**	**20,230**	**14,086**
Lease liabilities	1,780	652	475	653	1,885	159	987	739
Liabilities to non-banks from promissory notes	1,167	40	606	521	1,188	10	587	591
Other interest-bearing liabilities	1,551	1,296	175	80	1,179	941	122	116
Other non-interest-bearing liabilities	1,611	1,534	76	1	1,528	1,489	36	3
Derivative financial liabilities	919	119	721	79	1,394	792	453	149
	7,028	**3,641**	**2,053**	**1,334**	**7,174**	**3,391**	**2,185**	**1,598**
FINANCIAL LIABILITIES	**44,614**	**9,260**	**19,988**	**15,366**	**48,318**	**10,219**	**22,415**	**15,684**

Deutsche Telekom has established ongoing liquidity management. To ensure the Group's and Deutsche Telekom AG's solvency and financial flexibility at all times, Deutsche Telekom maintains a liquidity reserve in the form of credit lines and cash. This liquidity reserve is to cover the maturities of the next 24 months at any time.

In addition to the reported liabilities to banks, Deutsche Telekom had standardized bilateral credit agreements with 22 banks for a total of EUR 13.2 billion at December 31, 2012. None of the credit lines had been utilized by December 31, 2012. Pursuant to the credit agreements, the terms and conditions depend on Deutsche Telekom's rating. The bilateral credit agreements have an original maturity of 36 months and can, after each period of 12 months, be extended by a further 12 months to renew the maturity of 36 months. From today's perspective, access to the international debt capital markets is not jeopardized. Deutsche Telekom issued a bond amounting to USD 2 billion (approximately EUR 1.5 billion) in 2012. In addition, medium-term notes with a total value of EUR 1.6 billion were issued. In the prior year, debt capital raised on the capital market totaled EUR 1.4 billion.

TABLES T 075 and **T 076** show Deutsche Telekom's contractually agreed (undiscounted) interest payments and repayments of the non-derivative financial liabilities and the derivatives with positive and negative fair values:

T 075

	Carrying amounts Dec. 31, 2012 millions of €	Cash flows in 2013		
		Fixed interest rate millions of €	Variable interest rate millions of €	Repayment millions of €
NON-DERIVATIVE FINANCIAL LIABILITIES				
Bonds, other securitized liabilities, liabilities to banks and liabilities to non-banks from promissory notes and similar liabilities	(38,753)	(1,911)	(83)	(6,084)
Finance lease liabilities	(1,246)	(92)		(158)
Other interest-bearing liabilities	(2,085)	(4)		(1,803)
Other non-interest-bearing liabilities	(1,611)			(1,534)
DERIVATIVE FINANCIAL LIABILITIES AND ASSETS				
Derivative financial liabilities:				
Currency derivatives without a hedging relationship	(38)			(44)
Currency derivatives in connection with cash flow hedges	(9)			(7)
Currency derivatives in connection with net investment hedges	–			
Interest rate derivatives without a hedging relationship	(289)	(85)	20	(58)
Interest rate derivatives in connection with fair value hedges	–			
Interest rate derivatives in connection with cash flow hedges	(575)	(122)	21	
Derivative financial assets:				
Currency derivatives without a hedging relationship	12			10
Currency derivatives in connection with cash flow hedges	22			14
Interest rate derivatives without a hedging relationship	519	37	(23)	139
Interest rate derivatives in connection with fair value hedges	498	299	(79)	
Interest rate derivatives in connection with cash flow hedges	236	12		
FINANCIAL GUARANTEES AND LOAN COMMITMENTS [a]	(1)			(381)

[a] For more detailed information, please refer to **NOTE 38 "RISK MANAGEMENT, FINANCIAL DERIVATIVES, AND OTHER DISCLOSURES ON CAPITAL MANAGEMENT," PAGE 272 et seq.**
In each case, the maximum payment at the earliest possible date of utilization is shown.

Cash flows in 2014			Cash flows in 2015 – 2017			Cash flows in 2018 – 2022			Cash flows in 2023 and thereafter		
Fixed interest rate millions of €	Variable interest rate millions of €	Repayment millions of €	Fixed interest rate millions of €	Variable interest rate millions of €	Repayment millions of €	Fixed interest rate millions of €	Variable interest rate millions of €	Repayment millions of €	Fixed interest rate millions of €	Variable interest rate millions of €	Repayment millions of €
(1,573)	(44)	(5,411)	(3,547)	(35)	(13,052)	(3,410)		(7,751)	(4,119)		(7,163)
(87)		(118)	(201)		(343)	(199)		(277)	(144)		(350)
(5)		(96)	(29)		(78)	(83)		(107)			
		(59)			(16)			(2)			
(85)	18		(62)	19	(29)		10			38	13
(118)	23		(448)	61		(29)	4				
		1									
		9									
25	(20)	143	17	(24)	80	19	(37)	39	105	(72)	42
260	(65)		302	(110)	(2)	225	(97)		766	(356)	
12			39		40	61		121	27		49
								(2,418)			

T 076

	Carrying amounts Dec. 31, 2011 millions of €	Cash flows in				
		2012 millions of €	2013 millions of €	2014 – 2016 millions of €	2017 – 2021 millions of €	2022 and thereafter millions of €
NON-DERIVATIVE FINANCIAL LIABILITIES						
Bonds, other securitized liabilities, liabilities to banks and liabilities to non-banks from promissory notes and similar liabilities	(42,332)	(9,014)	(8,088)	(18,169)	(10,467)	(11,687)
Finance lease liabilities	(1,351)	(279)	(199)	(546)	(589)	(548)
Other interest-bearing liabilities	(1,713)	(1,033)	(518)	(94)	(213)	(60)
Other non-interest-bearing liabilities	(1,528)	(1,489)	(18)	(18)	(3)	
DERIVATIVE FINANCIAL LIABILITIES AND ASSETS						
Derivative financial liabilities:						
Currency derivatives without a hedging relationship	(581)	(603)	(3)			
Currency derivatives in connection with cash flow hedges	(13)	(9)				
Currency derivatives in connection with net investment hedges	(78)	(83)				
Interest rate derivatives without a hedging relationship	(245)	(113)	(89)	(47)	(31)	6
Interest rate derivatives in connection with fair value hedges						
Interest rate derivatives in connection with cash flow hedges	(470)	(54)	(94)	(298)	(89)	
Derivative financial assets:						
Currency derivatives without a hedging relationship	259	271	2	1		
Currency derivatives in connection with cash flow hedges	21	16	3	3		
Interest rate derivatives without a hedging relationship	574	41	214	157	(4)	65
Interest rate derivatives in connection with fair value hedges	431	120	135	184	26	35
Interest rate derivatives in connection with cash flow hedges	248	36	9	66	77	132
FINANCIAL GUARANTEES AND LOAN COMMITMENTS [a]	n.a.	(369)				

[a] For more detailed information, please refer to NOTE 38 "RISK MANAGEMENT, FINANCIAL DERIVATIVES, AND OTHER DISCLOSURES ON CAPITAL MANAGEMENT," PAGE 272 et seq.
In each case, the maximum payment at the earliest possible date of utilization is shown.

All instruments held at December 31, 2012 and for which payments were already contractually agreed were included. Planning data for future, new liabilities were not included. Amounts in foreign currency were each translated at the closing rate at the reporting date. The variable interest payments arising from the financial instruments were calculated using the last interest rates fixed before December 31, 2012. Financial liabilities that can be repaid at any time are always assigned to the earliest possible time period. In accordance with § 2 (4) of the German Act on the Transformation of the Deutsche Bundespost Enterprises into the Legal Structure of Stock Corporation (Stock Corporation Transformation Act – Postumwandlungsgesetz), the Federal Republic is guarantor of all Deutsche Telekom AG's liabilities which were already outstanding as at January 1, 1995. At December 31, 2012, this figure was a nominal EUR 2.1 billion (December 31, 2011: EUR 2.0 billion).

11 TRADE AND OTHER PAYABLES.

T 077

	Dec. 31, 2012 millions of €	Dec. 31, 2011 millions of €
Trade payables	6,415	6,409
Other liabilities	30	27
	6,445	**6,436**

Of the total of trade and other payables, EUR 6,439 million (December 31, 2011: EUR 6,430 million) is due within one year.

12 PROVISIONS FOR PENSIONS AND OTHER EMPLOYEE BENEFITS.

Defined benefit plans.

The Group's pension obligations are based on funded and unfunded pension commitments in Germany, Greece and Switzerland. In addition, there are further obligations under Article 131 of the Basic Law (Grundgesetz – GG).

Deutsche Telekom's pension obligations are as follows:

T 078

	Dec. 31, 2012 millions of €	Dec. 31, 2011 millions of €
DEFINED BENEFIT LIABILITY	7,280	6,095
Defined benefit asset	(16)	(14)
NET DEFINED BENEFIT LIABILITY	7,264	6,081
Pension obligations		
Unfunded	6,677	5,710
Funded	585	369
Obligations in accordance with Article 131 GG	2	2

The defined benefit asset is recognized under other non-current assets in the consolidated statement of financial position.

Calculation of net defined benefit liabilities (defined benefit assets):

T 079

	Dec. 31, 2012 millions of €	Dec. 31, 2011 millions of €
Present value of wholly or partially funded obligations	6,445	5,009
Plan assets at fair value	(1,680)	(860)
DEFINED BENEFIT OBLIGATIONS IN EXCESS OF PLAN ASSETS	4,765	4,149
Present value of unfunded obligations	2,533	1,960
Unrecognized past service cost	(36)	(31)
DEFINED BENEFIT LIABILITY (DEFINED BENEFIT ASSET) ACCORDING TO IAS 19.54	7,262	6,078
Adjustment due to asset ceiling (according to IAS 19.58)	2	3
NET DEFINED BENEFIT LIABILITY	7,264	6,081

Effective from the 2011 financial year, direct commitments in Germany financed on the basis of a Contractual Trust Agreement (CTA) are shown as funded obligations.

Assumptions for the measurement of defined benefit obligations at present value as of December 31:

T 080

		2012		2011	
		%	years	%	years
Discount rate and duration	Germany	3.26	14.8	5.31	13.3
	Schweiz (T-Systems Schweiz AG)	1.78	17.5	2.57	16.1
	Greece (OTE S.A.)	2.86[a]/2.26[b]	11.2[a]/7.1[b]	4.72[a]/4.18[b]	8.6[a]/6.6[b]
Projected salary increase	Germany (pay-scale employees)	2.75		2.75	
	Germany (non-pay-scale employees)	2.75		2.75	
	Schweiz (T-Systems Schweiz AG)	1.50		1.50	
	Greece (OTE S.A.)	1.00[c]		1.50[d]	
Projected pension increase	Germany (general)	1.50		1.50	
	Germany (according to articles of association)	1.00		1.00	
	Schweiz (T-Systems Schweiz AG)	0.30		0.30	
	Greece (OTE S.A.)	n.a.		n.a.	

[a] Discount rate and duration relate to the plans for staff retirement indemnities and for phone credits (please refer to the plan description PAGE 237).
[b] Discount rate and duration relate to the plan for youth accounts (please refer to the plan description PAGE 237).
[c] The following assumptions were made in 2012 concerning the development of salaries in subsequent years: 2013: 0.97 percent, 2014: 0.97 percent, 2015: 9.69 percent, 2016: 0.00 percent. An increase of 1.00 percent is assumed for the years from 2017 onward.
[d] The following assumptions were made in 2011 concerning the development of salaries in subsequent years: 2012: –10.06 percent, 2013: –7.04 percent, 2014: –3.93 percent, 2015: 9.09 percent. An increase of 1.50 percent was assumed for the years from 2016 onward. In accordance with an agreement reached with the trade union in 2011, the development of salaries for the years 2012 through 2014 was downward and from 2015 upward again.

Pension obligations at German entities of the Group are measured using the biometrical assumptions of the 2005G tables published by Prof. Klaus Heubeck. Local actuarial tables are used in the other countries.

The aforementioned discount rates were used as of December 31, 2012 when calculating the present value of defined benefit obligation, taking into account future salary increases. These discount rates were set in line with the average weighted duration of the respective obligation. In the eurozone, the discount rate is determined on the basis of the yield on high-quality European corporate bonds with AA rating, mapped in a yield curve using spot rates. In Switzerland, the discount rate was determined on the basis of swap yields plus risk premiums.

Assumptions for determining the pension expense for years ending December 31:

T 081

		2012 %	2011 %	2010 %
Discount rate	Germany	5.31	5.16	5.25
	Schweiz (T-Systems Schweiz AG)	2.57	3.05	3.15
	Greece (OTE S.A.)	4.72/4.18	4.56/3.71	4.56/3.89
Projected salary increase	Germany (pay-scale employees)	2.75	3.25	3.25
	Germany (non-pay-scale employees)	2.75	3.50	3.50
	Schweiz (T-Systems Schweiz AG)	1.50	1.50	1.50
	Greece (OTE S.A.)	(10.06)[a]	2.20	4.50
Return on plan assets	Germany (CTA)	4.80	–	–
	Germany (other)	2.50	3.00	3.90
	Schweiz (T-Systems Schweiz AG)	4.50	4.50	4.50
Projected pension increase	Germany (general)	1.50	1.50	1.50
	Germany (according to articles of association)	1.00	1.00	1.00
	Schweiz (T-Systems Schweiz AG)	0.30	0.30	0.30
	Greece (OTE S.A.)	n.a.	n.a.	n.a.

[a] In accordance with an agreement reached with the trade union, the development of salaries as projected in 2011 slows progressively in the year 2012.

Development of the present value of projected benefit obligations in the reporting year:

T 082

	2012 millions of €	2011 millions of €
PRESENT VALUE OF THE DEFINED BENEFIT OBLIGATIONS AS OF JANUARY 1	**6,969**	**7,017**
Changes attributable to business combinations/ transfers of operation/acquisitions and disposals	3	6
Current service cost	185	192
Interest cost	353	342
Contributions by plan participants	4	4
Actuarial losses (gains)	1,870	(185)
Total benefits actually paid	(420)	(419)
Curtailments	(6)	(2)
Settlements	2	11
Past service cost to be recognized in the financial year	16	(3)
Exchange rate fluctuations for foreign-currency plans	2	6
PRESENT VALUE OF THE DEFINED BENEFIT OBLIGATIONS AS OF DECEMBER 31	**8,978**	**6,969**

Taking the plan assets into consideration, the pension obligations were accounted for in full.

Sensitivity of defined benefit obligations:

T 083

	Present value of the defined benefit obligations millions of €
Increase of discount rate by 100 basis points	7,956
DECEMBER 31, 2012	**8,978**
Decrease of discount rate by 100 basis points	10,230
Increase of projected salary by 50 basis points	9,000
DECEMBER 31, 2012	**8,978**
Decrease of projected salary by 50 basis points	8,957
Increase of projected pension by 25 basis points	8,989
DECEMBER 31, 2012	**8,978**
Decrease of projected pension by 25 basis points	8,968

A change in the three parameters within the scope described with otherwise unchanged assumptions would have impacted the present value of the defined benefit obligation as of December 31, 2012 as shown in TABLE T 083.

In order to ensure that it remains possible to calculate the risks of defined benefit plans worldwide, Deutsche Telekom manages them, in addition to local measures, by means of a Global Pension Policy, which defines minimum standards for the introduction, revision, management and financing of defined benefit plans. Defined benefit plans based on final salaries in the Group have largely been replaced by plans with contribution-based promises. In addition, a corporate CTA (Deutsche Telekom Trust e.V.) has been used in Germany since 2011 to further cover pension obligations. A CTA is a legally structured trust agreement to provide capital to cover unfunded pension commitments with separate plan assets, and to provide greater protection against insolvency for these obligations.

The global obligations as well as the existing plan assets are regularly reviewed to be able to take risk-reducing measures. This is done, for example, with the help of asset/liability studies and regular benefit audits.

In **Germany** there is primarily a flexible, market-based plan with a contribution-based promise (so-called capital account plan). In contrast to conventional final-salary defined benefit plans, the capital account plan reflects the employee's working life. A one-time capital payment is generally made upon retirement. Based on the payment guidelines, the structure of the plan and the management modules of the capital account plan, the employer can plan for this, and the remuneration dynamics are hence not subject to severe fluctuations and risks.

Within the scope of the realignment of the company pension plan in 1997, existing commitments were transferred from the overall pension scheme of Versorgungsanstalt der Deutschen Bundespost, a supplementary retirement pensions institution, to the capital account plan. As such, the overall pension scheme only continued to apply to people who were already retired in 1997 and for those with vested claims at that time.

To the extent that defined benefit plans grant pensions, the percentage rate of the adjustment for these pensions, except for insignificant exceptions, is bindingly defined in the existing benefit regulations. A change in the general pension trend in Germany therefore only has an immaterial impact on the present value of the obligations.

As part of the obligatory company pension scheme in Switzerland, at **T-Systems Schweiz AG** there is a plan with a contribution-based promise financed through employer and employee contributions, which is managed by the legally independent T-Systems pension fund and which goes beyond the minimum benefits required by law, which is not uncommon practice in Switzerland. The minimum return defined by the government is 1.5 percent. With regard to payment of the benefits, there is the option of converting the capital payment into a life-long pension using fixed annuity conversion factors.

The plan assets are invested in a portfolio of diverse asset classes. If the assets exceed the obligations, these surpluses must be retained in the plan and T-Systems Schweiz AG cannot use them. The plan includes defined minimum amounts that can only be reduced with the approval of the Stiftungsrat (foundation board).

In **Greece,** mandatory staff retirement indemnities are due in cases of premature termination by the employer and, to a lesser extent, upon retirement by the employee. These are paid out as a capital sum and can amount to several times the employee's last monthly pay, depending on the employee's length of service. A change in the law in 2012 capped the capital payment at a maximum of twelve monthly salaries. The company also makes a voluntary top-up payment.

OTE S.A. is also obliged to make a capital payment into what are known as youth accounts for the employees' children when they reach the age of 25. Having previously been based on the level of the employee's final monthly salary, the benefit plan was changed in November 2011 to a plan with a contribution-based promise financed by contributions by the employee and limited matching contributions by the employer.

Employees and retired employees are also entitled to phone credits. OTE S.A.'s payment obligation depends therefore on the price of the telephone unit and the level of credit utilization by those entitled to them. The volume of the obligation (credit) is capped.

Development of plan assets at fair value in the respective reporting year:

T 084

	2012 millions of €	2011 millions of €
PLAN ASSETS AT FAIR VALUE AS OF JANUARY 1	860	629
Changes attributable to business combinations/ transfers of operation/acquisitions and disposals	5	(11)
Expected return on plan assets	34	23
Actuarial (losses) gains	51	(5)
Contributions by employer	768	267
Contributions by plan participants	4	4
Benefits actually paid through pension funds	(45)	(52)
Settlements	0	(1)
Exchange rate fluctuations for foreign-currency plans	3	6
PLAN ASSETS AT FAIR VALUE AS OF DECEMBER 31	1,680	860

Contributions by employer as of December 31, 2012 include a payment of EUR 750 million (December 31, 2011: EUR 250 million) allocated to a corporate CTA in Germany which is usually made at the end of the year.

Breakdown of plan assets at fair value by investment category:

T 085

	Dec. 31, 2012 %	Dec. 31, 2011 %
Equity securities	20	20
Debt securities	67	66
Real estate	3	5
Other	10	9

The investment structure is defined, managed and regularly reviewed using asset/liability studies. The resulting target allocations for the plan assets of the respective pension plans therefore reflect the duration of the obligations, the defined benefit obligation, the minimum requirements for the policy reserve, and other factors.

At the reporting date, the plan assets include shares issued by Deutsche Telekom AG amounting to EUR 0.8 million (December 31, 2011: shares totaling EUR 1.0 million). No other own financial instruments were included in the years shown.

Determination of the expected return on essential plan assets:

The expected return indicated is primarily based on consensus forecasts for each asset class. The forecasts are based on historical figures, economic data, interest rate forecasts, and anticipated stock market developments.

The pension expense for each period is composed of the following items and reported in the indicated accounts of the income statement:

T 086

	Presentation in the income statement	2012 millions of €	2011 millions of €	2010 millions of €
Current service cost	Functional costs [a]	185	192	193
Interest cost	Other financial income (expense)	353	342	344
Expected return on plan assets	Other financial income (expense)	(34)	(23)	(27)
Past service cost	Functional costs [a]	11	9	9
PENSION EXPENSE BEFORE CURTAILMENTS/SETTLEMENTS		**515**	**520**	**519**
Curtailments	Functional costs [a]	(6)	(2)	(2)
Settlements	Functional costs [a]	2	12	(3)
PENSION EXPENSE		**511**	**530**	**514**
Actual return on plan assets		85	18	34

[a] Including other operating expenses.

The year-on-year increase in the actual return on plan assets in 2012 is largely attributable to the investment strategy in Germany and the higher investment volume of the domestic CTA.

The consolidated statement of comprehensive income contains the following amounts:

T 087

	2012 millions of €	2011 millions of €	2010 millions of €
LOSSES (GAINS) RECOGNIZED IN EQUITY IN THE FINANCIAL YEAR	**1,818**	**(177)**	**32**
Of which: actuarial losses (gains)	1,819	(180)	32
Of which: adjustment due to asset ceiling (according to IAS 19.58)	(1)	3	–
CUMULATIVE LOSSES (GAINS) RECOGNIZED DIRECTLY IN EQUITY AS OF DECEMBER 31	**2,194**	**376**	**553**
Of which: actuarial losses (gains)	2,192	373	553
Of which: adjustment due to asset ceiling (according to IAS 19.58)	2	3	–

Total benefits expected:

T 088

	2013 millions of €	2014 millions of €	2015 millions of €	2016 millions of €	2017 millions of €
Benefits from pension provisions	313	336	355	385	350
Benefits from plan assets	47	49	51	51	52
TOTAL BENEFITS EXPECTED	**360**	**385**	**406**	**436**	**402**

Benefits paid directly by the employer, for which the assets accumulated as part of a CTA can generally be utilized, are usually reimbursed to the employer from the CTA assets soon after payment. Such reimbursements are currently not yet made as this would have a detrimental effect on the build-up of assets within the CTA in its first years.

An amount of EUR 250 million (2012: EUR 750 million) will be additionally allocated to the CTA in 2013 to build up a certain level of plan assets within the Group. Groupwide, EUR 269 million is expected to be allocated for 2013 (2012: EUR 768 million).

Amounts for the current year and four preceding years of defined benefit obligations, plan assets, defined benefit obligations in excess of plan assets, and experience-based adjustments:

T 089

	2012 millions of €	2011 millions of €	2010 millions of €	2009 millions of €	2008 millions of €
Defined benefit obligations (present value)	8,978	6,969	7,017	6,833	6,101
Plan assets at fair value	(1,680)	(860)	(629)	(618)	(952)
DEFINED BENEFIT OBLIGATIONS IN EXCESS OF PLAN ASSETS	**7,298**	**6,109**	**6,388**	**6,215**	**5,149**

T 090

Adjustment	2012 %	2011 %	2010 %	2009 %	2008 %
Experience-based increase (decrease) of pension obligations	(0.2)	(0.3)	0.1	(0.7)	(0.1)
Experience-based increase (decrease) of plan assets	3.0	(0.6)	1.1	(9.9)	(0.2)

Defined contribution plans.

In the 2012 financial year, current contributions for defined contribution plans, which are reported as an expense in the consolidated income statement of the respective year, amounted to EUR 99 million (2011: EUR 118 million, 2010: EUR 114 million).

Civil-servant retirement arrangements at Deutsche Telekom.

An expense of EUR 592 million was recognized in the 2012 financial year (2011: EUR 610 million, 2010: EUR 676 million) for the annual contribution to the BPS-PT special pension fund amounting to 33 percent of the pensionable gross emoluments of active civil servants and the notional pensionable gross emoluments of civil servants on leave of absence. The present value to the total obligation arising from payment obligations to this special pension fund was EUR 5.6 billion as of the reporting date (December 31, 2011: EUR 5.2 billion).

13 OTHER PROVISIONS.

T 091

	Provisions for termination benefits millions of €	Other provisions for personnel costs millions of €	Provisions for restoration obligations millions of €	Provisions for litigation risks millions of €	Provisions for sales and procurement support millions of €	Miscellaneous other provisions millions of €	Total millions of €
AT DECEMBER 31, 2010	**437**	**1,639**	**874**	**457**	**454**	**960**	**4,821**
Of which: current	260	1,360	32	427	454	660	3,193
Changes in the composition of the Group	0	0	0	0	0	0	0
Currency translation adjustments	(1)	13	(6)	0	0	0	6
Addition	312	1,592	113	132	305	572	3,026
Use	(304)	(1,369)	(44)	(55)	(341)	(320)	(2,433)
Reversal	(87)	(122)	(38)	(83)	(82)	(205)	(617)
Interest effect	0	5	28	1	0	8	42
Other changes	(1)	5	(2)	0	0	59	61
AT DECEMBER 31, 2011	**356**	**1,763**	**925**	**452**	**336**	**1,074**	**4,906**
Of which: current	219	1,424	32	425	336	781	3,217
Changes in the composition of the Group	0	2	0	0	0	(1)	1
Currency translation adjustments	2	(7)	5	(2)	(1)	5	2
Addition	185	1,572	122	135	406	386	2,806
Use	(273)	(1,445)	(34)	(168)	(283)	(265)	(2,468)
Reversal	(89)	(92)	(39)	(77)	(10)	(233)	(540)
Interest effect	9	15	56	2	0	7	89
Other changes	9	(40)	0	0	0	(4)	(35)
AT DECEMBER 31, 2012	**199**	**1,768**	**1,035**	**342**	**448**	**969**	**4,761**
Of which: current	118	1,333	44	320	448	636	2,899

Provisions for termination benefits include provisions for staff restructuring. These provisions developed as follows in the financial year:

T 092

	Jan. 1, 2012 millions of €	Additions millions of €	Use millions of €	Reversal millions of €	Other changes millions of €	Dec. 31, 2012 millions of €
Early retirement	0	12	0	0	0	12
Severance and voluntary redundancy models	191	100	(124)	(89)	1	79
Partial retirement	165	73	(149)	0	19	108
	356	**185**	**(273)**	**(89)**	**20**	**199**
Of which: current	219					118

Some of the staff restructuring measures listed here are covered by law such as, for instance, early retirement for civil servants as defined by the Act on the Staff Structure at the Residual Special Asset of the Federal Railways and the Successor Companies of the Former Deutsche Bundespost. For civil servants employed at Deutsche Telekom, the law provides the opportunity under certain conditions to retire early from the age of 55. When the Act on the Reorganization of the Civil-Service Pension Fund (Gesetz zur Neuordnung der Postbeamtenversorgungskasse) came into effect, the provisions for early retirement for civil servants were extended until December 31, 2016. The Board of Management resolved to make use of these provisions for the year 2012.

Other provisions for personnel costs include a variety of individual issues such as provisions for deferred compensation and allowances, as well as for anniversary gifts. The expenses are allocated to functional costs or to other operating expenses based on actual cost generation.

Provisions for restoration obligations include the estimated costs for dismantling and removing an asset, and restoring the site on which it is located. The estimated costs are included in the costs of the relevant asset.

The provisions for litigation risks primarily relate to possible settlements attributable to pending lawsuits.

Provisions for sales and procurement support include dealer commissions, subsidies for advertising expenses and reimbursements.

Miscellaneous other provisions include a large number of individual items accounting for marginal amounts such as provisions related to executory contracts, the disposal of businesses and site closures in particular in prior financial years, and warranty provisions.

14 OTHER LIABILITIES.

T 093

	Dec. 31, 2012 millions of €	Of which: current millions of €	Dec. 31, 2011 millions of €	Of which: current millions of €
Deferred revenue	1,829	1,311	1,838	1,330
Early retirement	2,435	802	2,437	823
Liabilities from other taxes	1,141	1,135	1,076	1,070
Liabilities from straight-line leases	1,326	–	1,292	–
Other deferred revenue	445	253	468	241
Miscellaneous other liabilities	684	454	666	425
	7,860	**3,955**	**7,777**	**3,889**

Under other liabilities, liabilities of EUR 0.1 billion from straight-line leases which had a positive effect on profit were released. The liabilities released constitute deferrals for the straight-line recognition of the lease expense for the land on which the cell towers are built. T-Mobile USA will no longer lease the land for 6,654 cell sites. On the other hand, EUR 0.1 billion was recorded under other deferred revenue to reflect the payment received for the 833 cell sites disposed of. Both effects are directly related to the agreement signed with Crown Castle (please also refer to “Business combinations and other transactions” in the section “Summary of accounting policies,” PAGES 219 – 220).

15 SHAREHOLDERS’ EQUITY.

Issued capital.

As of December 31, 2012, the share capital of Deutsche Telekom totaled EUR 11,063 million. The share capital is divided into 4,321,319,206 no par value registered shares.

T 094

	2012	
	thousands	%
Federal Republic of Germany	646,575	15.0
KfW Bankengruppe	735,662	17.0
Free float	2,939,082	68.0
Of which: BlackRock	129,899	3.0
	4,321,319	**100.0**

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 shares through the use of equity derivatives.

Voting rights. 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.

Authorized capital and contingent capital. Authorized capital and contingent capital comprised the following components as of December 31, 2012:

T 095

	Amount millions of €	No par value shares thousands	Purpose
2009 Authorized capital I [a]	2,176	850,000	Increase in share capital (until April 29, 2014)
2009 Authorized capital II [a]	38	15,000	Employee shares (until April 29, 2014)
Contingent capital II	32	12,427	Meeting subscription rights to shares from stock options under the 2001 Stock Option Plan
2010 Contingent capital	1,100	429,688	Servicing guaranteed convertible bonds or bonds with warrants issued on or before May 2, 2015

[a] The Supervisory Board's approval is required.

Capital reserves.

The capital reserves of the Group primarily encompass the capital reserves of Deutsche Telekom AG. Differences to the capital reserves of Deutsche Telekom AG result from the recognition at fair value of the Deutsche Telekom AG shares newly issued in the course of the acquisition of T-Mobile USA, Inc., Bellevue (United States)/Powertel, Inc., Bellevue (United States), instead of at their par value and from the related treatment of the issuing costs, which are deducted from capital reserves.

Total other comprehensive income.

EUR 0.2 billion of total other comprehensive income was reclassified to other financial income/expense following the sale of the stake in Telekom Srbija. The amount had been recognized directly in equity as of December 31, 2011 due to the increase of carrying amounts to fair value. Of this figure, EUR 0.1 billion was attributable to non-controlling interests.

NOTES TO THE CONSOLIDATED INCOME STATEMENT.

For detailed information on special factors, please refer to the combined management report in the section "Development of business in the Group," PAGE 94.

16 NET REVENUE.

Net revenue breaks down into the following revenue categories:

T 096

	2012 millions of €	2011 millions of €	2010 millions of €
Revenue from the rendering of services	53,734	54,812	58,159
Revenue from the sale of goods and merchandise	3,859	3,650	4,067
Revenue from the use of entity assets by others	576	191	195
	58,169	**58,653**	**62,421**

For details of changes in net revenue, please refer to the section "Development of business in the Group" in the combined management report on PAGE 90 et seq.

17 COST OF SALES.

Cost of sales incurred in connection with fixed-network and mobile communications relate to all costs arising from the operation and maintenance of the telecommunications network. They include depreciation and amortization of network-related assets, personnel costs for employees assigned to the operation and maintenance of the network, other repair costs, rent and incidental costs for network sites as well as interconnection and roaming costs. Costs for the purchase of terminal equipment are also shown under this item.

Cost of sales attributable to the Systems Solutions operating segment primarily relate to software development and maintenance, the operation of computing centers and workstations as well as the construction and operation of customer networks. They include in particular depreciation of technical equipment, personnel costs for information technology and telecommunications development and support services, and costs for upstream services as well as material.

T 097

	2012 millions of €	2011 millions of €	2010 millions of €
Cost of sales from fixed-network and mobile communications	27,954	27,819	29,657
Cost of sales from the Systems Solutions operating segment	5,457	5,558	5,341
Other cost of sales	791	508	727
	34,202	**33,885**	**35,725**

Cost of sales increased by EUR 0.3 billion year-on-year. Negative exchange rate effects of EUR 0.6 billion impacted cost of sales, in particular in the United States operating segment, in the reporting year. In addition, the change in the estimates of the useful lives of property, plant and equipment in the United States operating segment resulted in an increase in depreciation of EUR 0.2 billion.

The prior-year figures have been adjusted for better comparability following the segment structure changes. For more information, please refer to the explanations in NOTE 32 "SEGMENT REPORTING," PAGE 256 et seq.

18 SELLING EXPENSES.

Selling expenses comprise all costs of activities that do not directly increase the value of the Group's products and services, but serve to secure sales. In addition to material and personnel costs incurred in the area of sales and depreciation and amortization, these include any sales-specific costs such as allowances for write-downs of customer receivables, receivables written off, freight out, and transport insurance.

T 098

	2012 millions of €	2011 millions of €	2010 millions of €
Costs of operational sales	9,322	9,553	9,880
Marketing costs	2,373	2,143	2,183
Order management costs	254	258	243
Costs of accounts receivable management	1,010	1,078	1,202
Other selling expenses	1,038	1,028	1,112
	13,997	**14,060**	**14,620**

At EUR 14.0 billion, selling expenses were only slightly down against the previous year. Negative exchange rate effects of EUR 0.3 billion also impacted selling expenses, in particular in the United States operating segment.

19 GENERAL AND ADMINISTRATIVE EXPENSES.

General and administrative expenses comprise all expenses attributable to the core administrative functions that cannot be allocated directly to the production or selling process. As such, general and administrative expenses include all expenses incurred in conjunction with the activities of administrative functions at units such as Finance, Human Resources, Group Strategy and Organization, Internal Audit as well as Data Privacy, Legal Affairs and Compliance. These generally comprise costs for goods and services purchased, personnel costs, depreciation and amortization, as well as other costs that can be specifically allocated to the functional areas, such as expenses for shareholders' meetings.

T 099

	2012 millions of €	2011 millions of €	2010 millions of €
General and administrative expenses incurred by the operating segments	3,233	3,297	3,449
General and administrative expenses incurred at Group Headquarters & Shared Services	1,619	1,987	1,803
	4,852	**5,284**	**5,252**

General and administrative expenses were EUR 0.4 billion lower than in the prior year. Expenses of EUR 0.1 billion were included in the previous year attributable to settlements agreed with U.S. authorities to bring the investigations in the F.Y.R.O. Macedonia and Montenegro regarding external companies and consultants to an end.

The prior-year figures have been adjusted for better comparability following the segment structure changes. For more information, please refer to the explanations in NOTE 32 "SEGMENT REPORTING," PAGE 256 et seq.

20 OTHER OPERATING INCOME.

T 100

	2012 millions of €	2011 millions of €	2010 millions of €
Income from reimbursements	408	409	381
Income from the reversal of impairment losses on non-current financial assets in accordance with IFRS 5	15	19	47
Income from the disposal of non-current assets	1,702	121	70
Income from insurance compensation	55	47	42
Income from divestitures	6	4	3
Income from the compensation from AT&T	–	3,000	–
Miscellaneous other operating income	782	762	955
	2,968	**4,362**	**1,498**

Other operating income decreased by EUR 1.4 billion year-on-year. Income from the disposal of non-current assets includes a book profit of around EUR 1.4 billion from the cell-site transaction between T-Mobile USA and Crown Castle, which from an accounting perspective is income from the disposal of property, plant and equipment. EUR 0.2 billion of this are due to the measurement at fair value of the two deconsolidated companies now accounted for using the equity method. For further details, please refer to "Business combinations and other transactions" in the section "Summary of accounting policies," PAGES 219 – 220). A further book profit of around EUR 0.1 billion is included which is attributable to a transaction between T-Mobile USA and Verizon to swap AWS spectrum licenses. In addition to a large number of individual items, miscellaneous other operating income includes income of around EUR 0.1 billion resulting from litigation with Kreditanstalt für Wiederaufbau concluded in the first quarter of 2012.

In the prior year, operating income was primarily affected by the compensation from AT&T as a result of the termination of the agreement on the sale of T-Mobile USA.

21 OTHER OPERATING EXPENSES.

T 101

	2012 millions of €	2011 millions of €	2010 millions of €
Impairment losses from the year-end impairment test	360	3,337	680
Impairment loss in connection with the agreed business combination of T-Mobile USA and MetroPCS	10,589	–	–
Expenses in connection with the agreement with Vivendi (France) and Elektrim (Poland) concerning the stake in PTC	–	–	400
Losses from divestitures	–	–	350
Losses on disposal of non-current assets	177	137	159
Miscellaneous other operating expenses	770	726	1,228
	11,896	**4,200**	**2,817**

Other operating expenses increased year-on-year by EUR 7.7 billion, primarily due to an impairment loss of EUR 10.6 billion recognized in the third quarter of 2012 on goodwill, other intangible assets and property, plant and equipment of the United States cash-generating unit. For further details, please refer to NOTE 30 "DEPRECIATION, AMORTIZATION AND IMPAIRMENT LOSSES," PAGES 253 – 254, and NOTE 5 "INTANGIBLE ASSETS," PAGE 224 et seq.

The impairment losses recognized in 2011 related to the United States and Europe operating segments.

Miscellaneous other operating expenses include expenses of EUR 0.1 billion incurred in connection with existing financial factoring agreements and a large number of individual items accounting for marginal amounts.

22 FINANCE COSTS.

T 102

	2012 millions of €	2011 millions of €	2010 millions of €
Interest income	306	268	349
Interest expense	(2,339)	(2,593)	(2,849)
	(2,033)	**(2,325)**	**(2,500)**
Of which: from financial instruments relating to categories in accordance with IAS 39			
Loans and receivables (LaR)	51	67	77
Held-to-maturity investments (HtM)	2	4	2
Available-for-sale financial assets (AfS)	48	14	15
Financial liabilities measured at amortized cost (FLAC) [a]	(2,036)	(2,315)	(2,490)

[a] Interest expense calculated according to the effective interest method and adjusted for accrued interest from derivatives recognized in the reporting period that were used as hedging instruments against interest rate-based changes in the fair values of financial liabilities measured at amortized cost in the reporting period for hedge accounting in accordance with IAS 39 (2012: interest income of EUR 156 million and interest expense of EUR 36 million, 2011: interest income of EUR 126 million, 2010: interest income of EUR 155 million).

EUR 27 million (2011: EUR 80 million, 2010: EUR 69 million) was recognized as part of acquisition costs in the financial year. The amount was calculated on the basis of an interest rate in the average range between 5.0 and 5.2 percent (2010 through 2011: between 5.2 and 5.9 percent) applied across the Group.

Interest payments (including capitalized interest) of EUR 3.1 billion (2011: EUR 3.5 billion, 2010: EUR 3.3 billion) were made in the financial year.

Accrued interest payments from derivatives (interest rate swaps) that were designated as hedging instruments in a fair value hedge in accordance with IAS 39 are netted per swap contract and recognized as interest income or interest expense depending on the net amount. Finance costs are assigned to the categories on the basis of the hedged item; only financial liabilities were hedged in the reporting period.

The decrease in finance costs of EUR 0.3 billion was primarily attributable to lower interest expense from bonds and other securitized liabilities.

23 SHARE OF PROFIT/LOSS OF ASSOCIATES AND JOINT VENTURES ACCOUNTED FOR USING THE EQUITY METHOD.

T 103

	2012 millions of €	2011 millions of €	2010 millions of €
Share of profit (loss) of joint ventures	(129)	(67)	(59)
Share of profit (loss) of associates	(25)	(6)	2
	(154)	**(73)**	**(57)**

The share of profit/loss of associates and joint ventures accounted for using the equity method decreased by EUR 0.1 billion in the financial year due to the proportion of profit/loss attributable to the Everything Everywhere joint venture of EUR –118 million (2011: EUR –61 million, 2010: EUR –49 million). It is included in the share of profit/loss of joint ventures.

24 OTHER FINANCIAL INCOME/EXPENSE.

T 104

	2012 millions of €	2011 millions of €	2010 millions of €
Income from investments	16	29	30
Gains (losses) from financial instruments	251	216	133
Interest component from measurement of provisions and liabilities	(500)	(414)	(416)
	(233)	**(169)**	**(253)**

All income/expense components including interest income and expense from financial instruments classified as held for trading in accordance with IAS 39 are reported under other financial income/expense.

Gains/losses from financial instruments include currency translation effects amounting to EUR 86 million (2011: EUR –249 million, 2010: EUR –424 million) and gains from financial instruments of EUR 165 million (2011: EUR 465 million, 2010: EUR 557 million) that were used mainly to hedge against currency translation effects. Gains/losses from financial instruments also include proceeds of EUR 0.2 billion from the sale of the shares in Telekom Srbija as of January 25, 2012. Of this figure, EUR 0.1 billion was attributable to non-controlling interests.

25 INCOME TAXES.

Income taxes in the consolidated income statement.

Income taxes are broken down into current taxes paid or payable in the individual countries and into deferred taxes.

TABLE T 105 provides a breakdown of income taxes in Germany and internationally:

T 105

	2012 millions of €	2011 millions of €	2010 millions of €
CURRENT TAXES	**596**	**956**	**768**
Germany	172	498	87
International	424	458	681
DEFERRED TAXES	**(2,069)**	**1,393**	**167**
Germany	121	790	197
International	(2,190)	603	(30)
	(1,473)	**2,349**	**935**

Deutsche Telekom's combined income tax rate for 2012 amounted to 30.7 percent. It consists of corporate income tax at a rate of 15.0 percent, the solidarity surcharge of 5.5 percent on corporate income tax, and trade tax at an average multiplier of 425 percent (2011: 425 percent, 2010: 419 percent). The combined income tax rate amounted to 30.7 percent for 2011 and to 30.5 percent for 2010.

Reconciliation of the effective tax rate. Income taxes of EUR 1,473 million (as benefit) in the reporting year (2011: EUR –2,349 million (as expense), 2010: EUR –935 million (as expense)) are derived as follows from the expected income tax expense (benefit) that would have arisen had the statutory income tax rate of the parent company (combined income tax rate) been applied to profit/loss before income taxes:

T 106

	2012 millions of €	2011 millions of €	2010 millions of €
PROFIT (LOSS) BEFORE INCOME TAXES	**(6,230)**	**3,019**	**2,695**
Expected income tax expense (benefit) (income tax rate applicable to Deutsche Telekom AG: 2012: 30.7 %, 2011: 30.7 %, 2010: 30.5 %)	(1,913)	927	822
ADJUSTMENTS TO EXPECTED TAX EXPENSE (BENEFIT)			
Effect of changes in statutory tax rates	8	83	(113)
Tax effects from prior years	(11)	54	112
Tax effects from other income taxes	45	37	68
Non-taxable income	(29)	(30)	(85)
Tax effects from equity investments	39	(21)	16
Non-deductible expenses	101	115	130
Permanent differences	(62)	45	123
Goodwill impairment losses	856	913	106
Tax effects from loss carryforwards	76	304	(385)
Tax effects from additions to and reductions of local taxes	55	64	91
Adjustment of taxes to different foreign tax rates	(642)	(137)	52
Other tax effects	4	(5)	(2)
INCOME TAX EXPENSE (BENEFIT) ACCORDING TO THE CONSOLIDATED INCOME STATEMENT	**(1,473)**	**2,349**	**935**
Effective income tax rate %	24	78	35

Current income taxes in the consolidated income statement.
TABLE T 107 provides a breakdown of current income taxes:

T 107

	2012 millions of €	2011 millions of €	2010 millions of €
CURRENT INCOME TAXES	**596**	**956**	**768**
Of which:			
Current tax expense	594	902	560
Prior-period tax expense	2	54	208

Deferred taxes in the consolidated income statement. Deferred taxes developed as follows:

T 108

	2012 millions of €	2011 millions of €	2010 millions of €
DEFERRED TAX EXPENSE (BENEFIT)	**(2,069)**	**1,393**	**167**
Of which:			
From temporary differences	(2,608)	632	21
From loss carryforwards	543	735	165
From tax credits	(4)	26	(19)

In the 2012 financial year, a tax benefit of EUR 1.5 billion was recorded which primarily relates to income from the reversal of deferred tax liabilities of EUR 3.2 billion which resulted from impairment losses recognized on T-Mobile USA's assets following the agreed business combination with MetroPCS. This deferred tax benefit more than offset the tax expense on the otherwise positive profit before taxes. The impairment losses recognized on T-Mobile USA's goodwill, by contrast, only had a minor tax impact, and those recognized on goodwill in Europe had none at all.

Income taxes in the consolidated statement of financial position.

Current income taxes in the consolidated statement of financial position:

T 109

	Dec. 31, 2012 millions of €	Dec. 31, 2011 millions of €
Recoverable taxes	95	129
Tax liabilities	(440)	(577)
Current taxes recognized in equity:		
Hedging instruments	54	54

Deferred taxes in the consolidated statement of financial position:

T 110

	Dec. 31, 2012 millions of €	Dec. 31, 2011 millions of €
Deferred tax assets	4,714	4,449
Deferred tax liabilities	(5,990)	(8,492)
	(1,276)	**(4,043)**
Of which: recognized in equity		
Actuarial gains and losses	689	136
Revaluation surplus	–	(6)
Hedging instruments	(158)	(222)
Financial assets available for sale	–	–
RECOGNIZED IN EQUITY BEFORE NON-CONTROLLING INTERESTS	**531**	**(92)**
Non-controlling interests	(10)	(18)
	521	**(110)**

Development of deferred taxes:

T 111

	Dec. 31, 2012 millions of €	Dec. 31, 2011 millions of €
Deferred taxes recognized in the statement of financial position	(1,276)	(4,043)
Difference to prior year	2,767	(1,537)
Of which:		
Recognized in income statement	2,069	(1,393)
Recognized in equity	631	48
Acquisitions/disposals	15	(1)
Currency translation adjustments	52	(191)

Development of deferred taxes on loss carryforwards:

T 112

	Dec. 31, 2012 millions of €	Dec. 31, 2011 millions of €
Deferred taxes recognized in the statement of financial position	3,139	3,654
Difference to prior year	(515)	(319)
Of which:		
Recognition/derecognition	(489)	(394)
Acquisitions/disposals	5	(2)
Currency translation adjustments	(31)	77

Deferred taxes relate to the following key items in the statement of financial position, loss carryforwards, and tax credits:

T 113

	Dec. 31, 2012		Dec. 31, 2011	
	Deferred tax assets millions of €	Deferred tax liabilities millions of €	Deferred tax assets millions of €	Deferred tax liabilities millions of €
CURRENT ASSETS	**1,110**	**(498)**	**1,141**	**(438)**
Trade and other receivables	317	(94)	1,029	(346)
Inventories	132	(22)	58	(27)
Other assets	661	(382)	54	(65)
NON-CURRENT ASSETS	**2,350**	**(9,834)**	**2,392**	**(12,759)**
Intangible assets	827	(5,115)	1,010	(7,553)
Property, plant and equipment	676	(3,228)	734	(3,511)
Other financial assets	847	(1,491)	648	(1,695)
CURRENT LIABILITIES	**750**	**(537)**	**857**	**(771)**
Financial liabilities	406	(283)	493	(353)
Trade and other payables	54	(23)	59	(22)
Other provisions	122	(77)	120	(257)
Other liabilities	168	(154)	185	(139)
NON-CURRENT LIABILITIES	**4,233**	**(1,192)**	**3,294**	**(645)**
Financial liabilities	2,413	(332)	1,752	(302)
Provisions for pensions and other employee benefits	1,098	(700)	454	(238)
Other provisions	348	(84)	307	(101)
Other liabilities	374	(76)	781	(4)
TAX CREDITS	**224**	**–**	**198**	**–**
LOSS CARRYFORWARDS	**3,139**	**–**	**3,654**	**–**
INTEREST CARRYFORWARDS	**34**	**–**	**27**	**–**
TOTAL	**11,840**	**(12,061)**	**11,563**	**(14,613)**
Of which: non-current	9,742	(11,027)	9,091	13,404
Allowance	(1,055)	–	(993)	–
Netting	(6,071)	6,071	(6,121)	6,121
RECOGNITION	**4,714**	**(5,990)**	**4,449**	**(8,492)**

The allowances relate primarily to loss carryforwards.

The loss carryforwards amount to:

T 114

	Dec. 31, 2012 millions of €	Dec. 31, 2011 millions of €
LOSS CARRYFORWARDS FOR CORPORATE INCOME TAX PURPOSES	**9,209**	**10,785**
Expiry within		
1 year	77	117
2 years	31	71
3 years	7	21
4 years	9	30
5 years	97	46
After 5 years	4,187	4,690
Unlimited carryforward period	4,801	5,810

Loss carryforwards and temporary differences for which no deferred taxes were recorded amount to:

T 115

	Dec. 31, 2012 millions of €	Dec. 31, 2011 millions of €
LOSS CARRYFORWARDS FOR CORPORATE INCOME TAX PURPOSES	**2,161**	**2,055**
Expiry within		
1 year	77	97
2 years	31	63
3 years	9	7
4 years	9	5
5 years	40	11
After 5 years	246	148
Unlimited carryforward period	1,749	1,724
TEMPORARY DIFFERENCES IN CORPORATE INCOME TAX	**484**	**543**

In addition, no deferred taxes are recognized on trade tax loss carryforwards of EUR 136 million (December 31, 2011: EUR 95 million) and on temporary differences for trade tax purposes in the amount of EUR 3 million (December 31, 2011: EUR 3 million). Apart from corporate income tax loss carryforwards, no deferred taxes amounting to EUR 350 million (December 31, 2011: EUR 342 million) were recognized for other foreign income tax loss carryforwards.

No deferred tax assets were recognized on the aforementioned tax loss carryforwards and temporary differences as it is not probable that taxable profit will be available in the foreseeable future against which these tax loss carryforwards can be utilized.

A positive tax effect in the amount of EUR 7 million (2011: EUR 6 million, 2010: EUR 301 million) attributable to the utilization of tax loss carryforwards on which deferred tax assets had not yet been recognized, was recorded in the reporting year.

No deferred tax liabilities were recognized on temporary differences in connection with equity interests in subsidiaries amounting to EUR 394 million (December 31, 2011: EUR 705 million) as it is unlikely that these differences will be reversed in the near future.

T 116

Disclosure of tax effects relating to each component of other comprehensive income.

	2012			2011			2010		
	Before tax amount millions of €	Tax (expense) benefit millions of €	Net of tax amount millions of €	Before tax amount millions of €	Tax (expense) benefit millions of €	Net of tax amount millions of €	Before tax amount millions of €	Tax (expense) benefit millions of €	Net of tax amount millions of €
Gains and losses from defined benefit pension plans recognized in equity	(1,818)	554	(1,264)	177	(53)	124	(32)	12	(20)
Revaluation due to business combinations	0	0	0	0	0	0	(2)	0	(2)
Exchange differences on translating foreign operations	322	0	322	10	0	10	3,698	0	3,698
Of which: recognized in income statement	4	0	4	0	0	0	2,151	0	2,151
Available-for-sale financial assets	(194)	14	(180)	242	(9)	233	(3)	1	(2)
Of which: recognized in income statement	(227)	14	(213)	0	0	0	0	0	0
Gains (losses) from hedging instruments	(188)	63	(125)	(565)	164	(401)	58	(18)	40
Of which: recognized in income statement	9	(3)	6	200	(61)	139	0	0	0
Share of profit (loss) of investments accounted for using the equity method	0	0	0	0	0	0	28	0	28
Other income and expense recognized directly in equity	0	0	0	0	0	0	0	0	0
OTHER COMPREHENSIVE INCOME	**(1,878)**	**631**	**(1,247)**	**(136)**	**102**	**(34)**	**3,747**	**(5)**	**3,742**
Profit (loss)			(4,757)			670			1,760
TOTAL COMPREHENSIVE INCOME			**(6,004)**			**636**			**5,502**

26 PROFIT/LOSS ATTRIBUTABLE TO NON-CONTROLLING INTERESTS.

Profit attributable to non-controlling interests of EUR 498 million (2011: EUR 113 million, 2010: EUR 65 million) comprises gains of EUR 564 million (2011: EUR 472 million, 2010: EUR 484 million) and losses of EUR 66 million (2011: EUR 359 million, 2010: EUR 419 million).

The share in profit attributable to non-controlling interests in 2012 primarily relates to the companies of the OTE group, T-Mobile Czech Republic, Hrvatski Telekom, Makedonski Telekom and Slovak Telekom.

27 EARNINGS PER SHARE.

Basic and diluted earnings per share are calculated in accordance with IAS 33 as follows:

Basic earnings per share.

T 117

		2012	2011	2010
Profit (loss) attributable to the owners of the parent (net profit (loss))	millions of €	(5,255)	557	1,695
Adjustment	millions of €	–	–	–
ADJUSTED BASIC NET PROFIT (LOSS)	millions of €	**(5,255)**	**557**	**1,695**
Number of ordinary shares issued	millions	4,321	4,321	4,358
Treasury shares	millions	(2)	(2)	(5)
Shares reserved for outstanding options (T-Mobile USA/Powertel)	millions	(19)	(19)	(19)
ADJUSTED WEIGHTED AVERAGE NUMBER OF ORDINARY SHARES OUTSTANDING (BASIC)	millions	**4,300**	**4,300**	**4,334**
BASIC EARNINGS PER SHARE	€	**(1.22)**	**0.13**	**0.39**

The calculation of basic earnings per share is based on the time-weighted number of all ordinary shares outstanding. Furthermore, the weighted average number of ordinary shares outstanding is determined by deducting the weighted average number of treasury shares held by Deutsche Telekom AG as well as the shares that, as part of the issue of new shares in the course of the acquisition of T-Mobile USA/Powertel, are held in a trust deposit account for later issue and later trading as registered shares.

Diluted earnings per share.

T 118

		2012	2011	2010
Adjusted basic profit (loss) attributable to the owners of the parent (net profit (loss))	millions of €	(5,255)	557	1,695
Dilutive effects on profit (loss) from stock options (after taxes)	millions of €	–	0	0
DILUTED NET PROFIT (LOSS)	millions of €	**(5,255)**	**557**	**1,695**
Adjusted weighted average number of ordinary shares outstanding (basic)	millions	4,300	4,300	4,334
Dilutive potential ordinary shares from stock options and warrants	millions	–	0	0
WEIGHTED AVERAGE NUMBER OF ORDINARY SHARES OUTSTANDING (DILUTED)	millions	**4,300**	**4,300**	**4,334**
DILUTED EARNINGS PER SHARE	€	**(1.22)**	**0.13**	**0.39**

The calculation of diluted earnings per share generally corresponds to the method for calculating basic earnings per share. However, the calculation must be adjusted for all dilutive effects arising from potential ordinary shares. Equity instruments may dilute basic earnings per share in the future and – to the extent that a potential dilution already occurred in the respective reporting period – have been included in the calculation of diluted earnings per share. No major dilutive effects were recorded in the 2012 financial year. For further details on the equity instruments currently applicable, please refer to NOTE 15 "SHAREHOLDERS' EQUITY," PAGES 242 – 243, and NOTE 36 "SHARE MATCHING PLAN/ MID-TERM AND LONG-TERM INCENTIVE PLANS (MTIP, LTIP)/STOCK OPTION PLANS," PAGES 266 – 267.

28 DIVIDEND PER SHARE.

For the 2012 financial year, the Board of Management proposes a dividend of EUR 0.70 for each no par value share carrying dividend rights. On the basis of this payout volume, total dividends in the amount of EUR 3,010 million (2011: EUR 3,010 million) will be appropriated to the no par value shares carrying dividend rights at February 12, 2013. In 2012, the Board of Management again paid out a dividend of EUR 0.70 for the 2011 financial year for each no par value share carrying dividend rights.

The final amount of the total dividend payment depends on the number of no par value shares carrying dividend rights as of the date of the resolution on the appropriation of net income as adopted on the day of the shareholders' meeting.

29 AVERAGE NUMBER OF EMPLOYEES AND PERSONNEL COSTS.

T 119

Average number of employees.

		2012	2011	2010
GROUP (TOTAL)		**232,342**	**240,369**	**252,494**
Domestic		120,614	122,925	126,952
International		111,728	117,444	125,542
Non-civil servants		209,422	215,559	224,428
Civil servants (domestic, active service relationship)		22,920	24,810	28,066
Trainees and students on cooperative degree courses		8,402	8,889	9,217
PERSONNEL COSTS	millions of €	**14,582**	**14,743**	**15,071**

Average headcount decreased by 3.3 percent compared with the prior-year reporting period. This trend is largely attributable to international headcount, which was down by 4.9 percent partly as a result of downsizing and restructuring measures in the Europe and United States operating segments. The overall decrease was partially offset by increased staff levels in the Systems Solutions operating segment, attributable in part to an increase in the in-house provision of services previously rendered by third parties and to newly established production capacities abroad.

Average headcount in Germany decreased by 1.9 percent, mainly due to socially responsible staff restructuring and reduction in the Germany operating segment and a reduction in Vivento's headcount at Group Headquarters & Shared Services.

Personnel costs decreased by 1.1 percent year-on-year. This reduction resulted in particular from the aforementioned effects of a lower average headcount. Higher personnel costs in the Germany and Systems Solutions operating segment and at Group Headquarters & Shared Services attributable to collectively agreed salary increases had an offsetting effect.

30 DEPRECIATION, AMORTIZATION AND IMPAIRMENT LOSSES.

Depreciation, amortization and impairment losses included in the functional costs and in other operating expenses break down as follows:

T 120

	2012 millions of €	2011 millions of €	2010 millions of €
AMORTIZATION AND IMPAIRMENT OF INTANGIBLE ASSETS	**12,259**	**6,445**	**3,743**
Of which:			
Goodwill impairment losses	2,965	3,100	395
Amortization of mobile licenses	831	801	743
Impairment losses on mobile licenses	5,822	–	1
DEPRECIATION AND IMPAIRMENT OF PROPERTY, PLANT AND EQUIPMENT	**9,698**	**7,991**	**8,065**
Of which:			
Impairment losses recognized on property, plant and equipment	2,020	330	450
	21,957	**14,436**	**11,808**

Impairment losses break down as follows:

T 121

	2012 millions of €	2011 millions of €	2010 millions of €
INTANGIBLE ASSETS	**9,088**	**3,121**	**399**
Of which:			
Goodwill from the year-end impairment test	360	803	395
Goodwill in connection with the agreed business combination of T-Mobile USA and MetroPCS	2,605	–	–
Goodwill in connection with the reclassification of T-Mobile USA	–	2,297	–
Intangible assets (excluding goodwill) in connection with the agreed business combination of T-Mobile USA and MetroPCS	6,094	–	–
PROPERTY, PLANT AND EQUIPMENT	**2,020**	**330**	**450**
Of which:			
From the year-end impairment test	–	237	285
In connection with the agreed business combination of T-Mobile USA and MetroPCS	1,890	–	–
	11,108	**3,451**	**849**

Depreciation, amortization and impairment losses increased by EUR 7.5 billion year-on-year, with depreciation and amortization remaining at prior-year level.

This increase was primarily due to an impairment loss of EUR 10.6 billion recognized in the third quarter of 2012 on goodwill, other intangible assets and property, plant and equipment of the United States cash-generating unit. This impairment loss first resulted in the full write-down of the goodwill totaling EUR 2.6 billion. The remaining part was attributable to intangible assets (excluding goodwill) accounting for EUR 6.1 billion (primarily to mobile licenses accounting for EUR 5.8 billion) and property, plant and equipment accounting for EUR 1.9 billion. For more details on the agreed transaction to combine the business operations of T-Mobile USA and MetroPCS, please refer to "Business combinations and other transactions" in the section "Summary of accounting policies," PAGES 219 – 220, and NOTE 5 "INTANGIBLE ASSETS," PAGE 224 et seq.

Of the remaining impairment losses recognized on property, plant and equipment, EUR 0.1 billion related to land and buildings.

In the reporting year, impairment losses of EUR 0.4 billion were also recognized on goodwill following regular impairment testing at the cash-generating units. For further details, please refer to NOTE 5 "INTANGIBLE ASSETS," PAGE 224 et seq. Goodwill impairment losses of EUR 3.1 billion were recognized in the prior year. EUR 2.3 billion of this related to the United States operating segment and EUR 0.8 billion to the Europe operating segment.

In the second quarter of 2012, Deutsche Telekom changed its estimates of the useful lives of property, plant and equipment in the United States operating segment. The useful lives of legacy mobile assets that have not yet been fully depreciated have been reduced in connection with the roll-out of high-bit-rate mobile technology. This increased depreciation by EUR 0.2 billion as of December 31, 2012.

OTHER DISCLOSURES.

31 NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS.

In the fourth quarter of 2012, Deutsche Telekom received a payment of EUR 1.9 billion under the terms of the agreement concerning the leasing and use of cell sites in the United States. EUR 1.8 billion of this amount is recorded under net cash used in investing activities and EUR 0.1 billion under changes in other liabilities carried as working capital under net cash from operating activities.

Deutsche Telekom paid EUR 1.4 billion to Elektrim and Vivendi in the first quarter of 2011. This gave Deutsche Telekom full, undisputed ownership of PTC (PTC transaction). This total consisted of the following: EUR 0.4 billion net cash from operating activities, EUR 0.8 billion net cash used in investing activities, and EUR 0.2 billion net cash used in financing activities.

A compensation of EUR 3.0 billion was made by AT&T to Deutsche Telekom in the 2011 financial year. Of this amount EUR 2.3 billion was recognized in net cash from operating activities as of December 31, 2011 while EUR 0.7 billion had no effect on cash flows. This includes in particular a right to the transfer of Advanced Wireless Service (AWS) spectrum licenses worth EUR 0.9 billion, offset by a negative amount of EUR 0.2 billion relating to a cash flow hedge.

Net cash from operating activities. 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 is primarily impacted by cash inflows and outflows in connection with the termination of the agreement concluded with AT&T on the sale of T-Mobile USA: In 2011 Deutsche Telekom received a compensation payment of EUR 2.3 billion; in 2012 the transaction resulted in cash outflows of EUR 0.5 billion. Cash outflows relating to the investigations by the U.S. authorities into contracts signed in the F.Y.R.O. Macedonia and Montenegro totaling EUR 0.1 billion and effects from the development of operations had a negative impact on net cash from operating activities in 2012. This was offset in the 2012 financial year by lower net interest payments of EUR 0.4 billion, cash inflows of EUR 0.1 billion from the agreement on the leasing and use of cell sites in the United States, and by cash inflows of EUR 0.1 billion from the canceling of interest rate swaps, as well as by the non-recurrence of cash outflows of EUR 0.4 billion for the PTC transaction recorded in the prior year.

Net cash used in investing activities.

T 122

	2012 millions of €	2011 millions of €	2010 millions of €
Cash capex			
Germany operating segment	(3,418)	(3,506)	(4,781)
Europe operating segment	(1,698)	(1,870)	(2,012)
United States operating segment	(2,560)	(1,963)	(2,121)
Systems Solutions operating segment	(1,187)	(1,413)	(1,501)
Group Headquarters & Shared Services	(404)	(352)	(258)
Reconciliation	835	698	822
Allocation under the Contractual Trust Agreement for pension commitments	(750)	(250)	–
Net cash flows for collateral deposited for hedging transactions	(339)	49	313
Disposal of cell sites in the United States	1,769	–	–
Sale of Telekom Srbija	380	–	–
Acquisition/sale of government bonds (net)	319	(332)	(60)
Cash flows from the bond issued by the Everything Everywhere joint venture	218	505	(764)
Proceeds from the disposal of property, plant and equipment	187	336	318
PTC transaction	–	(820)	–
OTE Put Option II	–	(392)	–
Deconsolidated funds of the Everything Everywhere joint venture (T-Mobile UK)	–	–	(418)
Acquisition of STRATO	–	–	(266)
Acquisition of Firstgate (ClickandBuy)	–	–	(81)
Collateral for STRATO	–	–	290
Other	(23)	35	(192)
	(6,671)	**(9,275)**	**(10,711)**

Net cash used in financing activities.

T 123

	2012 millions of €	2011 millions of €	2010 millions of €
Dividends (including to non-controlling interests)	(3,400)	(3,521)	(4,003)
Repayment of euro bonds	(1,978)	(3,461)	(1,237)
Commercial paper (net)	(1,657)	1,586	48
Repayment of medium-term notes (current)	(1,619)	(1,446)	(398)
OTE credit line (net)	(757)	1,223	(23)
Repayment of EIB loans	(532)	(35)	(580)
Repayment of lease liabilities	(169)	(163)	(139)
Issuance of U.S. dollar bonds	1,502	862	–
Issuance of medium-term notes (non-current)	1,574	–	1,786
Loans taken out with the EIB	300	701	104
Net repayment of cash deposits from the Everything Everywhere joint venture	280	(141)	291
Net cash flows for collateral deposited for hedging transactions	90	132	500
Repayment of euro bonds issued by OTE	–	(1,429)	–
Repayment of U.S. dollar bonds (2010 Global Bond)	–	(351)	(3,178)
PTC transaction	–	(187)	–
Share buy-back	–	(3)	(400)
Issuance of euro bonds by OTE	–	500	–
Issuance of euro bonds	–	–	1,237
Repayment of KfW loan	–	–	(176)
T-Online appraisal rights proceedings	–	–	(172)
Other	(235)	(225)	(29)
	(6,601)	**(5,958)**	**(6,369)**

32 SEGMENT REPORTING.

Deutsche Telekom reports on four operating segments, as well as on Group Headquarters & Shared Services. In three operating segments, business activities are assigned by region, whereas one segment allocates its activities by product and/or customer.

The **Germany** operating segment comprises all fixed-network and mobile activities in Germany. In addition, the operating segment provides wholesale telecommunications services for the Group's other operating segments. The **Europe** operating segment encompasses all fixed-network and mobile operations of the national companies in Greece, Romania, Hungary, Poland, the Czech Republic, Croatia, the Netherlands, Slovakia, Austria, Bulgaria, Albania, the F.Y.R.O. Macedonia, and Montenegro, as well as the UK joint venture. It also includes the International Carrier Sales & Solutions unit, which mainly provides wholesale telecommunications services for the Group's other operating segments. The Europe operating segment also offers ICT services to business customers in individual national companies. The **United States** operating segment combines all mobile activities in the U.S. market.

Fixed-network business includes all voice and data communications activities based on fixed-network and broadband technology. This includes the sale of terminal equipment and other hardware, as well as the sale of services to resellers.

The mobile communications business offers mobile voice and data services to consumers and business customers. Mobile terminals and other hardware are sold in connection with the services offered. In addition, mobile services are sold to resellers and to companies that buy network services and market them independently to third parties (MVNOs).

The **Systems Solutions** operating segment bundles business with ICT products and solutions for large multinational corporations under the T-Systems brand. It offers its customers information and communication technology from a single source and develops and operates infrastructure and industry solutions for multinational corporations and public institutions. The products and services it offers range from standard products and IP-based high-performance networks through to complete ICT solutions.

Group Headquarters & Shared Services comprises Service Headquarters and those subsidiaries of Deutsche Telekom AG that are not allocated to the operating segments.

Deutsche Telekom changed two areas of its segment structure 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. The unit's responsibilities include research & development, innovation management and marketing, product development and management, and management of the digital product portfolio. The growth business now focuses on six business areas that develop products and services for consumers and business customers: communication services, media/entertainment, cloud services, portal/advertising, classifieds/e-commerce, and payment services. The aim of the change in organization is to ensure that Deutsche Telekom generates more growth in the digital markets and thus underlines the strategic aim of tapping into new fields of revenue beyond the core telecommunications business. Comparative figures have been adjusted accordingly.

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. The reorganization aims to establish an IT unit of clearly improved quality and stability which will be in a position to develop new high-quality products and services and shorten production times through enhanced efficiency. This organizational change is a significant step to support and further expand the core business within Deutsche Telekom's operating segments. Comparative prior-year figures have been adjusted accordingly.

The measurement principles for Deutsche Telekom's segment reporting structure are based on the IFRSs adopted in the consolidated financial statements. Deutsche Telekom evaluates the segments' performance based on revenue and profit or loss from operations (EBIT), among other factors. Revenue generated and goods and services exchanged between segments are calculated on the basis of market prices. The settlement of services provided by Telekom IT does not generate a profit margin. Segment assets and liabilities include all assets and liabilities that are accounted for on the basis of the financial statements prepared by the segments and included in the consolidated financial statements. Segment investments include additions to intangible assets and property, plant and equipment. Where entities accounted for using the equity method are directly allocable to a segment, their shares of profit or loss after income taxes and their carrying amounts are reported in this segment's accounts. The performance indicators are exclusively presented from the segments' perspective: For the disclosure of the Group figures, the effects of intersegment transactions are eliminated and presented in aggregate form in the reconciliation line. TABLES T 124, T 125 and T 126 show the performance indicators used by Deutsche Telekom to evaluate the operating segments' performance as well as additional segment-related indicators:

T 124

		Net revenue millions of €	Intersegment revenue millions of €	Total revenue millions of €	Profit (loss) from operations (EBIT) millions of €	Interest income millions of €	Interest expense millions of €	Share of profit (loss) of associates and joint ventures accounted for using the equity method millions of €	Income taxes millions of €
Germany	2012	21,384	1,352	22,736	4,345	38	(501)	1	(7)
	2011	21,783	1,423	23,206	4,520	89	(605)	2	(6)
	2010	22,570	1,638	24,208	5,100	22	(587)	2	5
Europe	2012	13,733	675	14,408	1,484	64	(419)	(113)	(401)
	2011	14,431	693	15,124	780	141	(478)	(54)	(522)
	2010	16,183	657	16,840	985	147	(840)	(52)	(319)
United States	2012	15,365	6	15,371	(7,547)	86	(661)	(26)	2,191
	2011	14,801	10	14,811	(710)	86	(628)	(11)	(562)
	2010	16,075	12	16,087	2,092	24	(514)	(1)	(595)
Systems Solutions	2012	6,609	3,407	10,016	(299)	37	(23)	(14)	15
	2011	6,567	3,386	9,953	(290)	31	(31)	(10)	(11)
	2010	6,411	3,526	9,937	(193)	23	(31)	(4)	(12)
Group Headquarters & Shared Services	2012	1,078	1,900	2,978	(1,786)	1,458	(2,057)	(2)	(333)
	2011	1,071	1,906	2,977	1,274	1,545	(2,419)	–	(1,271)
	2010	1,182	1,937	3,119	(2,476)	1,881	(3,089)	(2)	139
TOTAL	**2012**	**58,169**	**7,340**	**65,509**	**(3,803)**	**1,683**	**(3,661)**	**(154)**	**1,465**
	2011	**58,653**	**7,418**	**66,071**	**5,574**	**1,892**	**(4,161)**	**(73)**	**(2,372)**
	2010	**62,421**	**7,770**	**70,191**	**5,508**	**2,097**	**(5,061)**	**(57)**	**(782)**
Reconciliation	2012	–	(7,340)	(7,340)	(7)	(1,377)	1,322	–	8
	2011	–	(7,418)	(7,418)	12	(1,624)	1,568	–	23
	2010	–	(7,770)	(7,770)	(3)	(1,748)	2,212	–	(153)
GROUP	**2012**	**58,169**	**–**	**58,169**	**(3,810)**	**306**	**(2,339)**	**(154)**	**1,473**
	2011	**58,653**	**–**	**58,653**	**5,586**	**268**	**(2,593)**	**(73)**	**(2,349)**
	2010	**62,421**	**–**	**62,421**	**5,505**	**349**	**(2,849)**	**(57)**	**(935)**

T 125

		Segment assets[a] millions of €	Segment liabilities millions of €	Segment investments millions of €	Investments accounted for using the equity method millions of €	Depreciation and amortization millions of €	Impairment losses millions of €	Average number of employees
Germany	2012	31,224	22,988	3,559	16	(4,389)	(4)	68,653
	2011	32,578	23,013	3,572	17	(4,340)	(4)	70,525
	2010	34,471	24,648	4,946	16	(4,082)	(15)	76,912
Europe	2012	36,348	11,910	1,919	6,410	(2,845)	(388)	57,955
	2011	37,815	12,990	1,998	6,781	(3,159)	(1,056)	60,105
	2010	46,040	20,334	2,127	7,143	(3,453)	(704)	65,435
United States	2012	27,436	21,254	4,217	215	(2,265)	(10,601)	30,184
	2011	38,075	24,110	1,787	27	(2,110)	(2,297)	34,518
	2010	38,316	23,056	2,118	24	(2,063)	(1)	37,795
Systems Solutions	2012	9,044	5,873	3,966	23	(632)	(17)	52,742
	2011	9,308	6,024	1,475	38	(654)	(15)	52,241
	2010	9,208	6,149	1,604	49	(652)	(4)	47,924
Group Headquarters & Shared Services	2012	95,360	53,609	305	62	(711)	(100)	22,808
	2011	100,168	56,853	488	10	(722)	(85)	22,980
	2010	106,711	60,883	467	10	(710)	(125)	24,428
TOTAL	**2012**	**199,412**	**115,634**	**13,966**	**6,726**	**(10,842)**	**(11,110)**	**232,342**
	2011	**217,944**	**122,990**	**9,320**	**6,873**	**(10,985)**	**(3,457)**	**240,369**
	2010	**234,746**	**135,070**	**11,262**	**7,242**	**(10,960)**	**(849)**	**252,494**
Reconciliation	2012	(91,470)	(38,235)	(3,417)	–	(6)	1	–
	2011	(95,402)	(40,389)	(767)	–	–	6	–
	2010	(106,934)	(50,286)	(923)	–	1	–	–
GROUP	**2012**	**107,942**	**77,399**	**10,549**	**6,726**	**(10,848)**	**(11,109)**	**232,342**
	2011	**122,542**	**82,601**	**8,553**	**6,873**	**(10,985)**	**(3,451)**	**240,369**
	2010	**127,812**	**84,784**	**10,339**	**7,242**	**(10,959)**	**(849)**	**252,494**

[a] As of December 31, 2012, the segment assets of the United States operating segment include AWS spectrum licenses worth EUR 0.9 billion transferred as part of the compensation from AT&T relating to the termination of the agreement to sell T-Mobile USA (non-cash transaction).

T 126

		Net cash from operating activities millions of €	Net cash (used in) from investing activities millions of €	Of which: cash capex[a] millions of €	Net cash (used in) from financing activities millions of €
Germany	2012	8,489	(3,509)	(3,418)	(7,174)
	2011	8,315	(3,454)	(3,506)	(6,469)
	2010	8,922	(4,624)	(4,781)	(10,101)
Europe	2012	4,324	(862)	(1,698)	(2,838)
	2011	4,837	(493)	(1,870)	(1,895)
	2010	4,481	(3,045)	(2,012)	(2,839)
United States	2012	3,164	(785)	(2,560)	(2,301)
	2011	3,523	(3,013)	(1,963)	(364)
	2010	3,691	(1,870)	(2,121)	(1,920)
Systems Solutions	2012	272	(463)	(1,187)	367
	2011	433	(794)	(1,413)	224
	2010	422	(729)	(1,501)	(136)
Group Headquarters & Shared Services	2012	3,084	3,681	(404)	(5,135)
	2011	6,103	(666)	(352)	(5,479)
	2010	7,400	3,376	(258)	(5,576)
TOTAL	**2012**	**19,333**	**(1,938)**	**(9,267)**	**(17,081)**
	2011	**23,211**	**(8,420)**	**(9,104)**	**(13,983)**
	2010	**24,916**	**(6,892)**	**(10,673)**	**(20,572)**
Reconciliation	2012	(5,756)	(4,733)	835	10,480
	2011	(6,997)	(855)	698	8,025
	2010	(10,185)	(3,819)	822	14,203
GROUP	**2012**	**13,577**	**(6,671)**	**(8,432)**	**(6,601)**
	2011	**16,214**	**(9,275)**	**(8,406)**	**(5,958)**
	2010	**14,731**	**(10,711)**	**(9,851)**	**(6,369)**

[a] Cash outflows for investments in intangible assets (excluding goodwill) and property, plant and equipment, as shown in the statement of cash flows.

Information on geographic areas. The Group's non-current assets and net revenue are shown by region: Germany, Europe (excluding Germany), North America and other countries. The Europe (excluding Germany) region covers the entire European Union (excluding Germany) and the other countries in Europe. The North America region comprises the United States and Canada. Other countries include all countries that are not Germany or in Europe (excluding Germany) or North America. Non-current assets are allocated to the regions according to the location of the assets in question. Non-current assets encompass intangible assets; property, plant and equipment; investments accounted for using the equity method as well as other non-current assets. Net revenue is allocated according to the location of the respective customers' operations.

Information on products and services. Revenue generated with external customers for groups of comparable products and services developed as follows:

T 128

	Net revenue		
	2012 millions of €	2011 millions of €	2010 millions of €
Telecommunications	50,952	51,496	55,425
ICT solutions	6,988	6,924	6,767
Other	229	233	229
	58,169	**58,653**	**62,421**

T 127

	Non-current assets			Net revenue		
	Dec. 31, 2012 millions of €	Dec. 31, 2011 millions of €	Dec. 31, 2010 millions of €	2012 millions of €	2011 millions of €	2010 millions of €
Germany	36,497	40,145	41,138	25,775	26,361	27,268
International	49,811	59,987	64,607	32,394	32,292	35,153
Of which:						
Europe (excluding Germany)	28,001	28,419	31,385	15,966	16,577	18,217
North America	21,696	31,457	33,104	15,593	14,945	16,192
Other countries	114	111	118	835	770	744
GROUP	**86,308**	**100,132**	**105,745**	**58,169**	**58,653**	**62,421**

33 CONTINGENCIES.

As part of its ordinary business activities, Deutsche Telekom is involved in various proceedings both in and out of court with government agencies, competitors, and other parties, the outcome of which often cannot be reliably anticipated. As of the reporting date, the Group was exposed to contingent liabilities amounting to EUR 0.3 billion (December 31, 2011: EUR 0.8 billion) and to contingent assets amounting to EUR 0.2 billion (December 31, 2011: EUR 0.1 billion) that, on the basis of the information and estimates available, do not fulfill the requirements for recognition as liabilities or assets in the statement of financial position. Litigation provisions include the costs of legal counsel services and any probable losses. Deutsche Telekom does not believe that any additional costs arising from legal counsel services or the results of proceedings will have a material adverse effect on the results of operations and financial position of the Group. In addition to individual cases that do not have any significant impact on their own, the aforementioned total contingent liabilities include the following items, the sequence of which does not imply an evaluation of their probability of occurrence or potential damage.

Contingent liabilities.

Proceedings by Anti-Monopoly Commission in Poland. On November 23, 2011, the Anti-Monopoly Commission in Poland (UOKiK) concluded investigations started in 2010. It accuses 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.

Claim for compensation against Slovak Telekom. In 1999, a lawsuit 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.

Likewise, on the basis of the information and estimates available, the following issues do not fulfill the requirements for recognition as liabilities in the statement of financial position. As, however, the Group is unable to estimate the amount of the contingent liabilities or group of contingent liabilities in each case due to the uncertainties described below, they have not been included in the aforementioned total contingent liabilities.

Breaches of anti-trust and consumer protection law. Like many other companies, our Group is subject to the regulations of anti-trust law. In individual countries, Deutsche Telekom and its subsidiaries, associates and joint ventures are subject to various proceedings under anti-trust or competition law. Looking at each of the proceedings individually, none has a material impact. Deutsche Telekom believes the respective allegations are unfounded. The outcome of the proceedings cannot be foreseen at this point in time.

European Commission proceedings against Slovak Telekom and Deutsche Telekom. The European Commission decided on May 8, 2012 to send a statement of objections to Slovak Telekom and Deutsche Telekom. In this statement of objections, it communicates its preliminary opinion that Slovak Telekom, in which Deutsche Telekom holds a 51-percent stake, has breached European anti-trust law on the Slovakian broadband market. The European Commission intends to hold also the parent company, Deutsche Telekom, liable. The European Commission had initiated proceedings against Slovak Telekom in April 2009 and against Deutsche Telekom in December 2010. 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.

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.

- **Bank loans guarantee.** Deutsche Telekom guarantees to third parties bank loans of up to a maximum amount of EUR 110 million granted to Toll Collect GmbH. These guarantees for bank loans will expire on October 15, 2015.

- **Equity maintenance undertaking.** The consortium partners have the obligation, on a joint and several basis, to provide Toll Collect GmbH with additional equity in order to ensure a minimum equity ratio of 15 percent (in the single-entity financial statements prepared in accordance with German GAAP) (equity maintenance undertaking). This obligation ends when the operating agreement expires on August 31, 2015, or earlier if the operating agreement is terminated prematurely.

In June 2006, the Federal Republic of Germany began to partially offset its monthly advance payments for operating fees to Toll Collect GmbH of EUR 8 million against the contractual penalty claims that are already subject of the aforementioned arbitration proceedings. As a result, it may become necessary for the consortium members to provide Toll Collect GmbH with further liquidity.

The risks and obligations of Compagnie Financière et Industrielle des Autoroutes S.A., Sèvres Cedex (Cofiroute, which holds a 10-percent stake in Toll Collect) are limited to EUR 70 million. Deutsche Telekom AG and Daimler Financial Services AG have the obligation, on a joint and several basis, to indemnify Cofiroute against further claims. Deutsche Telekom believes the claims of the Federal Republic of Germany are unfounded. Furthermore, the amount of a possible settlement attributable to the equity maintenance undertaking or the arbitration proceedings described, which may be material, cannot be estimated because of the aforementioned uncertainties.

Claims relating to charges for shared use of cable ducts. With an action filed on June 14, 2012, Kabel Deutschland Vertrieb und Service GmbH (KDG) is asserting two claims: first, Telekom Deutschland GmbH is to reduce the annual charge for the rights to use cable duct capacities in the future; second, it is to partially refund payments made in this connection since 2004, 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.

Claim for compensation against OTE. In May 2009, Lannet Communications S.A. filed a lawsuit 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 until May 30, 2013.

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.

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. 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.

Contingent assets.

German Main Customs Office. Deutsche Telekom reports a contingent asset of EUR 0.2 billion for a receivable from the German Main Customs Office.

34 DISCLOSURES ON LEASES.

Deutsche Telekom as lessee.

Finance leases. When a lease transfers substantially all risks and rewards to Deutsche Telekom as lessee, Deutsche Telekom initially recognizes the leased assets in the statement of financial position at the lower of fair value or present value of the future minimum lease payments. Most of the leased assets carried in the statement of financial position as part of a finance lease relate to long-term rental and lease agreements for office buildings. The average lease term is 17 years. The agreements include extension and purchase options. TABLE T 129 shows the net carrying amounts of leased assets capitalized in connection with a finance lease as of the reporting date:

T 129

	Dec. 31, 2012 millions of €	Of which: sale and leaseback transactions millions of €	Dec. 31, 2011 millions of €	Of which: sale and leaseback transactions millions of €
Land and buildings	792	443	883	493
Technical equipment and machinery	80	0	104	0
Other	7	0	11	0
NET CARRYING AMOUNTS OF LEASED ASSETS CAPITALIZED	**879**	**443**	**998**	**493**

At the inception of the lease term, Deutsche Telekom recognizes a lease liability equal to the carrying amount of the leased asset. In subsequent periods, the liability decreases by the amount of lease payments made to the lessors using the effective interest method. The interest component of the lease payments is recognized in the income statement.

TABLE T 130 provides a breakdown of these amounts:

T 130

	Minimum lease payments		Interest component		Present values	
	Total millions of €	Of which: sale and leaseback millions of €	Total millions of €	Of which: sale and leaseback millions of €	Total millions of €	Of which: sale and leaseback millions of €
Dec. 31, 2012						
MATURITY						
Within 1 year	231	109	95	57	136	52
In 1 to 3 years	408	215	158	99	250	116
In 3 to 5 years	361	202	126	79	235	123
After 5 years	969	566	344	219	625	347
	1,969	**1,092**	**723**	**454**	**1,246**	**638**
Dec. 31, 2011						
MATURITY						
Within 1 year	257	108	100	60	157	48
In 1 to 3 years	413	218	177	109	236	109
In 3 to 5 years	363	209	142	90	221	119
After 5 years	1,136	666	399	257	737	409
	2,169	**1,201**	**818**	**516**	**1,351**	**685**

Operating leases. Beneficial ownership of a lease is attributed to the lessor if this is the party to which all the substantial risks and rewards incidental to ownership of the asset are transferred. The lessor recognizes the leased asset in its statement of financial position. Deutsche Telekom recognizes the lease payments made during the term of the operating lease in profit or loss. Deutsche Telekom's obligations arising from operating leases are mainly related to long-term rental or lease agreements for network infrastructure, cell towers, and real estate.

Some leases include extension options and provide for stepped rents. Most of these leases relate to cell towers in the United States.

The operating lease expenses recognized in profit or loss amounted to EUR 2.8 billion in the 2012 financial year (2011: EUR 2.8 billion, 2010: EUR 2.9 billion). TABLE T 131 provides a breakdown of future obligations arising from operating leases:

T 131

	Dec. 31, 2012 millions of €	Dec. 31, 2011 millions of €
MATURITY		
Within 1 year	2,385	2,369
In 1 to 3 years	4,096	3,845
In 3 to 5 years	3,492	3,085
After 5 years	7,529	5,982
	17,502	**15,281**

Future obligations arising from operating leases no longer include capacity contracts on data connections for cell towers in the United States operating segment totaling EUR 2.0 billion (2011: EUR 2.1 billion) from the 2012 financial year onward. Prior-period comparatives have been adjusted with retroactive effect. These obligations are included in other financial obligations (please also refer to NOTE 35, PAGE 266).

T-Mobile USA signed an agreement with Crown Castle concerning the leasing and use of cell sites (please also refer to "Business combinations and other transactions" in the section "Summary of accounting policies," PAGES 219 – 220). T-Mobile USA will continue to operate its mobile communications systems at these cell sites and, to this end, lease back the required infrastructure from Crown Castle through operating leases. In return, the owners of the land on which the cell towers are built will no longer receive lease payments from T-Mobile USA for those cell towers which were contributed to the two associates and those that were disposed of.

T-Mobile USA concluded contract extensions and amendments with several cell-site operators in 2012 for the lease of mobile transmission capacity on cell towers. This resulted in an increase of EUR 1.6 billion in operating lease obligations as of December 31, 2012.

Deutsche Telekom as lessor.

Finance leases. Deutsche Telekom is a lessor in connection with finance leases. Essentially, these relate to the leasing of routers and other hardware which Deutsche Telekom provides to its customers for data and telephone network solutions. Deutsche Telekom recognizes a receivable in the amount of the net investment in the lease. The lease payments made by the lessees are split into an interest component and a principal component using the effective interest method. The lease receivable is reduced by the principal received. The interest component of the payments is recognized as finance income in the income statement. The amount of the net investment in a finance lease is determined as follows:

T 132

	Dec. 31, 2012 millions of €	Dec. 31, 2011 millions of €
Minimum lease payments	262	348
Unguaranteed residual value	13	3
Gross investment	275	351
Unearned finance income	(27)	(33)
NET INVESTMENT (PRESENT VALUE OF THE MINIMUM LEASE PAYMENTS)	**248**	**318**

The gross investment amounts and the present value of payable minimum lease payments are as follows:

T 133

	Dec. 31, 2012		Dec. 31, 2011	
	Gross investment millions of €	Present value of minimum lease payments millions of €	Gross investment millions of €	Present value of minimum lease payments millions of €
MATURITY				
Within 1 year	131	106	139	124
In 1 to 3 years	116	110	168	153
In 3 to 5 years	16	20	41	38
After 5 years	12	12	3	3
	275	**248**	**351**	**318**

According to the framework agreement signed between T-Mobile USA and Crown Castle (❑ please also refer to "Business combinations and other transactions" in the section "Summary of accounting policies," PAGES 219 – 220), 451 cell sites will be leased out to Crown Castle as part of a finance lease.

Operating leases. If Deutsche Telekom is a lessor in connection with operating leases, it continues to recognize the leased assets in its statement of financial position. The lease payments received are recognized in profit or loss. The leases mainly relate to the rental of cell towers and building space and have an average term of 13 years. The future minimum lease payments arising from non-cancelable operating leases are as follows:

T 134

	Dec. 31, 2012 millions of €	Dec. 31, 2011 millions of €
MATURITY		
Within 1 year	266	374
In 1 to 3 years	371	476
In 3 to 5 years	310	349
After 5 years	676	737
	1,623	**1,936**

The decrease of EUR 0.3 billion is attributable to the agreement concluded with Crown Castle concerning leasing and use of cell sites in the United States (❑ please also refer to "Business combinations and other transactions" in the section "Summary of accounting policies," PAGES 219 – 220).

35 DISCLOSURE OF OTHER FINANCIAL OBLIGATIONS.

TABLE T 135 provides an overview of Deutsche Telekom's other financial obligations:

T 135

	Dec. 31, 2012 millions of €
Purchase commitments regarding property, plant and equipment	2,025
Purchase commitments regarding intangible assets	1,723
Firm purchase commitments for inventories	3,411
Other purchase commitments and similar obligations	5,620
Liabilities to special pension fund	5,565
Purchase commitments for interests in other companies	116
Miscellaneous other obligations	1,578
	20,038

Since December 31, 2012, other purchase commitments and similar obligations include EUR 2.0 billion for capacity contracts on data connections for cell towers in the United States operating segment.

36 SHARE MATCHING PLAN/MID-TERM AND LONG-TERM INCENTIVE PLANS (MTIP, LTIP)/STOCK OPTION PLANS.

The Group has a variety of programs for the share matching plan, mid-term and long-term incentive plans, and stock option plans that together do not have a material impact on the presentation of the Group's results of operations, financial position or cash flows. The expense incurred for these programs totaled EUR 89 million in the reporting year (2011: EUR 59 million, 2010: EUR 47 million). Provisions total EUR 132 million as of the reporting date (December 31, 2011: EUR 83 million).

❑ Please also refer to NOTE 40, PAGE 281 et seq., for information on the compensation system of the Board of Management.

Share matching plan.

In the 2011 financial year, specific executives were contractually obliged to invest a minimum of 10 percent and a maximum of 33.3 percent of their variable short-term remuneration component, which is based on the achievement of targets set for each person for the financial year (Variable I), in Deutsche Telekom AG shares. Deutsche Telekom AG will award one additional share for every share acquired as part of this executive's aforementioned personal investment (share matching plan). These shares will be allotted to the beneficiaries of this plan on expiration of the four-year lock-up period.

Mid-term incentive plan (MTIP).

Deutsche Telekom AG's MTIP is a cash-based plan pegged to two equally weighted, share-based performance parameters – one absolute and one relative. If both performance targets are achieved, then the total amount earmarked as an award to the beneficiaries by the respective employers is paid out; if one performance target is achieved, 50 percent of the amount is paid out, and if neither performance target is achieved, no payment is made.

The absolute performance target is achieved if, at the end of the individual plans, Deutsche Telekom's share price has risen by at least 30 percent compared with its share price at the beginning of the plan. The benchmark for the assessment is the non-weighted average prices of the T-Share (on the basis of the T-Share closing price in Xetra trading) at the Frankfurt Stock Exchange (Deutsche Börse AG) during the last 20 trading days prior to the beginning and end of the plan.

The relative performance target is achieved if the total return of the T-Share has outperformed the Dow Jones EURO STOXX® Total Return Index on a percentage basis during the term of the individual plan. The benchmark is the non-weighted average price of the T-Share (on the basis of the T-Share closing price in Xetra trading) plus the value of dividends paid and reinvested in Deutsche Telekom shares, bonus shares etc., and the non-weighted average of the Dow Jones EURO STOXX® Total Return Index during the last 20 trading days prior to the beginning and end of the plan.

With the exception of Board of Management members who did not switch to the new compensation system for the Board of Management, the MTIP was issued for the last time in 2010 and replaced by Variable II.

Since the relative and absolute plan targets for the MTIP 2009 and 2010 tranches were not met, no payment was or will be made.

T 136

MTIP plan year	Maximum budget millions of €	Term of plan years	Share price at start of plan €	Absolute perfor-mance target €	Starting value of the index
2010	57	3	10.29	13.38	417.62
2011	1	3	9.79	12.73	441.12

The proportionate amount to be expensed is calculated based on a Monte Carlo simulation.

Long-term incentive plans (LTIP).

Deutsche Telekom AG's MTIP was replaced by Variable II in 2010. The exclusively long-term-oriented Variable II is measured based on the fulfillment of four equally weighted performance parameters (adjusted operational return on capital employed (ROCE), adjusted earnings per share (EPS), customer satisfaction, and employee satisfaction). Each parameter determines a quarter of the award amount. Levels of target achievement exceeding 100 percent are rewarded on a straight-line basis, capped at 150 percent of the award amount. The assessment period is four years, with the assessment being based on average target achievement across the four years planned at the time the tranche was determined.

The long-term incentive plan (LTIP) of **T-Mobile USA** is based on the long-term strategy with regard to the company's EBITDA performance and customer satisfaction. Executives and employees in key positions participate in the plan. 50 percent of LTIP target achievement is measured on an annual basis pro rata temporis over the entire term of the plan and the other 50 percent at the end of the plan.

Stock option plans.

Upon expiry of the terms of Deutsche Telekom AG's stock options issued in 2001 on August 12, 2011 and of those issued in 2002 on July 14, 2012, all stock options not exercised by the end of the respective term were forfeited without replacement or compensation.

No other major stock option plans with material impact exist at Deutsche Telekom.

37 DISCLOSURES ON FINANCIAL INSTRUMENTS.

T 137

Carrying amounts, amounts recognized, and fair values by classes and measurement category.

	Category in accordance with IAS 39	Carrying amounts Dec. 31, 2012	Amounts recognized in the statement of financial position according to IAS 39			
			Amortized cost	Cost	Fair value recognized in equity	Fair value recognized in profit or loss
		millions of €	millions of €	millions of €	millions of €	millions of €
ASSETS						
Cash and cash equivalents	LaR	4,026	4,026			
Trade receivables	LaR	6,316	6,316			
Originated loans and receivables	LaR/n.a.	2,123	1,875			
Other non-derivative financial assets						
Held-to-maturity investments	HtM	131	131			
Financial assets available for sale [a]	AfS	380		230	150	
Derivative financial assets [b]						
Derivatives without a hedging relationship	FAHfT	531				531
Derivatives with a hedging relationship	n.a.	756			257	499
Non-current assets and disposal groups held for sale [c]	AfS	–				
LIABILITIES AND SHAREHOLDERS' EQUITY [d]						
Trade payables	FLAC	6,415	6,415			
Bonds and other securitized liabilities	FLAC	33,674	33,674			
Liabilities to banks	FLAC	3,912	3,912			
Liabilities to non-banks from promissory notes	FLAC	1,167	1,167			
Other interest-bearing liabilities	FLAC	2,085	2,085			
Other non-interest-bearing liabilities	FLAC	1,611	1,611			
Finance lease liabilities	n.a.	1,246				
Derivative financial liabilities [b]						
Derivatives without a hedging relationship	FLHfT	335				335
Derivatives with a hedging relationship	n.a.	584			584	
Of which: aggregated by category in accordance with IAS 39						
Loans and receivables	LaR	12,217	12,217			
Held-to-maturity investments	HtM	131	131			
Available-for-sale financial assets [a]	AfS	380		230	150	
Financial assets held for trading	FAHfT	531				531
Financial liabilities measured at amortized cost	FLAC	48,864	48,864			
Financial liabilities held for trading	FLHfT	335				335

[a] For details, please refer to **NOTE 8 "OTHER FINANCIAL ASSETS," PAGE 230.**
[b] For more information, please refer to the detailed table on derivatives in **NOTE 38 "RISK MANAGEMENT, FINANCIAL DERIVATIVES, AND OTHER DISCLOSURES ON CAPITAL MANAGEMENT," PAGE 272 et seq.**
[c] The stake in Telekom Srbija is shown under non-current assets and disposal groups held for sale in the previous year, for which a separate class of financial instruments was created as of December 31, 2011.
[d] For financial guarantees and loan commitments existing at the reporting date, please refer to **NOTE 38 "RISK MANAGEMENT, FINANCIAL DERIVATIVES, AND OTHER DISCLOSURES ON CAPITAL MANAGEMENT," PAGE 272 et seq.**

Amounts recognized in the statement of financial position according to IAS 17	Fair value Dec. 31, 2012	Category in accordance with IAS 39	Carrying amounts Dec. 31, 2011	Amounts recognized in the statement of financial position according to IAS 39				Amounts recognized in the statement of financial position according to IAS 17	Fair value Dec. 31, 2011
				Amortized cost	Cost	Fair value recognized in equity	Fair value recognized in profit or loss		
millions of €	millions of €		millions of €	millions of €	millions of €	millions of €	millions of €	millions of €	millions of €
	4,026	LaR	3,749	3,749					3,749
	6,316	LaR	6,455	6,455					6,455
248	2,123	LaR/n.a.	2,030	1,712				318	2,030
	131	HtM	177	177					177
	150	AfS	729		270	459			459
	531	FAHfT	833				833		833
	756	n.a.	700			269	431		700
	–	AfS	380			380			380
	6,415	FLAC	6,409	6,409					6,409
	38,544	FLAC	36,228	36,228					38,539
	4,082	FLAC	4,916	4,916					5,037
	1,383	FLAC	1,188	1,188					1,321
	2,085	FLAC	1,713	1,713					1,713
	1,611	FLAC	1,528	1,528					1,528
1,246	1,635	n.a.	1,351					1,351	1,637
	335	FLHfT	833				833		833
	584	n.a.	561				561		561
	12,217	LaR	11,916	11,916					11,916
	131	HtM	177	177					177
	150	AfS	1,109		270	839			839
	531	FAHfT	833				833		833
	54,120	FLAC	51,982	51,982					54,548
	335	FLHfT	833				833		833

Fair value hierarchy according to IFRS 7.27 et seq.

T 138

	Dec. 31, 2012				Dec. 31, 2011			
	Level 1 millions of €	Level 2 millions of €	Level 3 millions of €	**Total millions of €**	Level 1 millions of €	Level 2 millions of €	Level 3 millions of €	**Total** millions of €
ASSETS								
Available-for-sale financial assets (AfS)	107	43		150	341	118		459
Financial assets held for trading (FAHfT)		531		531		833		833
Derivative financial assets with a hedging relationship		756		756		700		700
Non-current assets and disposal groups held for sale						380		380
LIABILITIES AND SHAREHOLDERS' EQUITY								
Financial liabilities held for trading (FLHfT)		335		335		833		833
Derivative financial liabilities with a hedging relationship		584		584		561		561

Cash and cash equivalents and trade and other receivables mainly have short-term maturities. For this reason, their carrying amounts at the reporting date approximate their fair values.

The fair values of other non-current receivables and held-to-maturity financial investments due after more than one year correspond to the present values of the payments related to the assets, taking into account the current interest rate parameters that reflect market- and partner-based changes to terms and conditions, and expectations.

Trade and other payables, as well as other liabilities, generally have short times to maturity; the values reported approximate the fair values.

The fair values of the quoted bonds and other securitized liabilities equal the nominal amounts multiplied by the price quotations at the reporting date.

The fair values of unquoted bonds, liabilities to banks, liabilities to non-banks from promissory notes, and other financial liabilities are calculated as the present values of the payments associated with the debts, based on the applicable yield curve and Deutsche Telekom's credit spread curve for specific currencies.

The stake in Telekom Srbija was shown under non-current assets and disposal groups held for sale as of December 31, 2011. The fair value of this stake was equivalent to the contractually agreed selling price.

Net gain/loss by measurement category.

T 139

	Recognized in profit or loss from interest, dividends	Recognized in profit or loss from subsequent measurement			Recognized directly in equity from subsequent measurement	Recognized in profit or loss from derecognition	Net gain (loss)	
		At fair value	Currency translation	Impairment/ reversal of impairment	At fair value		2012	2011
	millions of €	millions of €	millions of €	millions of €	millions of €	millions of €	millions of €	millions of €
Loans and receivables (LaR)	51		(73)	(825)			(847)	(307)
Held-to-maturity investments (HtM)	2						2	(8)
Available-for-sale financial assets (AfS)	63			(66)	33	276	306	274
Financial instruments held for trading (FAHfT and FLHfT)	n.a.	(165)					(165)	576
Financial liabilities measured at amortized cost (FLAC)	(2,157)		152				(2,005)	(3,056)
	(2,041)	**(165)**	**79**	**(891)**	**33**	**276**	**(2,709)**	**(2,521)**

Interest from financial instruments is recognized in finance costs, dividends in other financial income/expense (please also refer to NOTE 22, PAGE 246, and NOTE 24, PAGES 246 – 247). Deutsche Telekom recognizes the other components of net gain/loss in other financial income/expense, except for impairments/reversal of impairments of trade receivables (please also refer to NOTE 2, PAGES 222 – 223) that are classified as loans and receivables which are reported under selling expenses. The net loss from the subsequent measurement for financial instruments held for trading (EUR 165 million) also includes interest and currency translation effects. The net currency translation losses on financial assets classified as loans and receivables (EUR 73 million) are primarily attributable to the Group-internal transfer of foreign-currency loans taken out by Deutsche Telekom's financing company, Deutsche Telekom International Finance B.V., on the capital market. These were offset by corresponding currency translation gains on capital market liabilities of EUR 152 million. Finance costs from financial liabilities measured at amortized cost (net expense of EUR 2,157 million) primarily consist of interest expense on bonds and other (securitized) financial liabilities. The item also includes interest expenses from interest added back and interest income from interest discounted from trade payables. However, it does not include the interest expense and interest income from interest rate derivatives Deutsche Telekom used in the reporting period to hedge the fair value risk of financial liabilities (please also refer to NOTE 22 "FINANCE COSTS," PAGE 246).

38 RISK MANAGEMENT, FINANCIAL DERIVATIVES, AND OTHER DISCLOSURES ON CAPITAL MANAGEMENT.

Principles of risk management. Deutsche Telekom is exposed in particular to risks from movements in exchange rates, interest rates, and market prices that affect its assets, liabilities, and forecast transactions. Financial risk management aims to limit these market risks through ongoing operational and finance activities. Selected derivative and non-derivative hedging instruments (hedging transactions) are used for this purpose, depending on the risk assessment. However, Deutsche Telekom only hedges the risks that affect the Group's cash flow. Derivatives are exclusively used as hedging instruments, i.e., not for trading or other speculative purposes. To reduce the credit risk, hedging instruments are generally only concluded with leading financial institutions whose credit rating is at least BBB+/Baa1. In addition, the credit risk of financial instruments with a positive fair value is minimized by way of limit management, which sets individualized relative and absolute figures for risk exposure depending on the counterparty's rating, share price development, and credit default swap level.

The fundamentals of Deutsche Telekom's financial policy are established by the Board of Management and overseen by the Supervisory Board. Group Treasury is responsible for implementing the finance policy and for ongoing risk management. Certain transactions require the prior approval of the Board of Management, which is also regularly briefed on the severity and amount of the current risk exposure.

Treasury regards effective management of the market risk as one of its main tasks. The department performs simulation calculations using different worst-case and market scenarios so that it can estimate the effects of different conditions on the market.

Currency risks. Deutsche Telekom is exposed to currency risks from its investing, financing, and operating activities. Risks from foreign currencies are hedged to the extent that they influence the Group's cash flows. Foreign-currency risks that do not influence the Group's cash flows (i.e., the risks resulting from the translation of statements of assets and liabilities of foreign operations into the Group's reporting currency) are generally not hedged, however. Deutsche Telekom may nevertheless also hedge this foreign-currency risk under certain circumstances.

Foreign-currency risks in the area of investment result, for example, from the acquisition and disposal of investments in foreign companies. Deutsche Telekom hedges these risks. If the risk position exceeds EUR 100 million, the Board of Management must make a special decision on how the risk shall be hedged. If the risk position is below EUR 100 million, Group Treasury performs the currency hedging itself. At the reporting date, Deutsche Telekom was not exposed to any significant risks from foreign-currency transactions in the field of investments.

Foreign-currency risks in the financing area are caused by financial liabilities in foreign currency and loans in foreign currency that are extended to Group entities for financing purposes. Treasury hedges these risks in full. Cross-currency swaps and currency derivatives are used to convert financial obligations and intragroup loans denominated in foreign currencies into the Group entities' functional currencies.

At the reporting date, the foreign-currency liabilities for which currency risks were hedged mainly consisted of bonds and medium-term notes in Australian dollars, pound sterling, Japanese yen, Norwegian kroner, Swiss francs, Czech koruna, and U.S. dollars. On account of these hedging activities, Deutsche Telekom was not exposed to any significant currency risks in the area of financing at the reporting date.

The Group entities predominantly execute their operating activities in their respective functional currencies. Payments made in a currency other than the respective functional currency result in foreign-currency risks in the Group. These relate in particular to payments for the procurement of network equipment and mobile handsets as well as payments to international telecommunications companies for the provision of access services. Deutsche Telekom uses currency derivatives and, in individual cases, currency options for hedging purposes. On account of these hedging activities, Deutsche Telekom was not exposed to any significant exchange rate risks from its operating activities at the reporting date.

For the presentation of market risks, IFRS 7 requires sensitivity analyses that show the effects of hypothetical changes of relevant risk variables on profit or loss and shareholders' equity. In addition to currency risks, Deutsche Telekom is exposed to interest rate risks and price risks in its investments. The periodic effects are determined by relating the hypothetical changes in the risk variables to the balance of financial instruments at the reporting date. It is assumed that the balance at the reporting date is representative for the year as a whole.

Currency risks as defined by IFRS 7 arise on account of financial instruments being denominated in a currency that is not the functional currency and being of a monetary nature; differences resulting from the translation of financial statements into the Group's presentation currency are not taken into consideration. Relevant risk variables are generally all non-functional currencies in which Deutsche Telekom has contracted financial instruments.

The currency sensitivity analysis is based on the following assumptions:

Major non-derivative monetary financial instruments (liquid assets, receivables, interest-bearing securities and/or debt instruments held, interest-bearing liabilities, finance lease liabilities, non-interest-bearing liabilities) are either directly denominated in the functional currency or are transferred to the functional currency through the use of derivatives. Exchange rate fluctuations therefore have no effects on profit or loss, or shareholders' equity.

Non-interest-bearing securities or equity instruments held are of a non-monetary nature and therefore are not exposed to currency risk as defined by IFRS 7.

Interest income and interest expense from financial instruments are also either recorded directly in the functional currency or transferred to the functional currency by using derivatives. For this reason, there can be no effects on the variables considered in this connection.

In the case of fair value hedges designed to hedge currency risks, the changes in the fair values of the hedged item and the hedging transaction attributable to exchange rate movements balance out almost completely in the income statement in the same period. As a consequence, these financial instruments are not exposed to currency risks with an effect on profit or loss, or shareholders' equity, either.

In the case of net investment hedges designed to hedge currency risks, the changes in the fair values of the hedged item and the hedging instrument attributable to exchange rate movements balance out completely in shareholders' equity in the same period. As a consequence, these financial instruments are not exposed to currency risks with an effect on profit or loss, or shareholders' equity, either.

Cross-currency swaps are always assigned to non-derivative hedged items, so these instruments do not have any currency effects, either.

Deutsche Telekom is therefore only exposed to currency risks from specific currency derivatives. Some of these are currency derivatives that are part of an effective cash flow hedge for hedging payment fluctuations resulting from exchange rate movements in accordance with IAS 39. Exchange rate fluctuations of the currencies on which these transactions are based affect the hedging reserve in shareholders' equity and the fair value of these hedging instruments. Others are currency derivatives that are neither part of one of the hedges defined in IAS 39 nor part of a natural hedge. These derivatives are used to hedge planned transactions. Exchange rate fluctuations of the currencies on which such financial instruments are based affect other financial income or expense (net gain/loss from remeasurement of financial assets and liabilities to fair value).

If the euro had gained (lost) 10 percent against the pound sterling and the Indian rupee at December 31, 2012, the hedging reserve in shareholders' equity and the fair values of the hedging instruments before taxes would have been EUR 49 million higher (lower) (December 31, 2011: EUR 50 million lower (higher)). The hypothetical effect of EUR 49 million on profit or loss primarily results from the currency sensitivities EUR/USD: EUR 64 million; EUR/GBP: EUR –14 million.

If the euro had gained (lost) 10 percent against all currencies at December 31, 2012, other financial income and the fair value of the hedging instruments before taxes would have been EUR 20 million higher (lower) (December 31, 2011: EUR 4 million higher (lower)). The hypothetical effect on profit or loss of EUR 20 million primarily results from the currency sensitivities EUR/USD: EUR –47 million, EUR/PLN: EUR 46 million, EUR/HUF: EUR 15 million, EUR/CZK: EUR 8 million and EUR/GBP: EUR –2 million.

Interest rate risks. Deutsche Telekom is exposed to interest rate risks, mainly in the euro zone and in the United States of America. To minimize the effects of interest rate fluctuations in these regions, Deutsche Telekom manages the interest rate risk for net debt denominated in euros and U.S. dollars separately. Once a year, the Board of Management stipulates the desired mix of fixed- and variable-interest net debt for a planning period of at least three years. Taking account of the Group's existing and planned debt structure, Treasury uses interest rate derivatives to adjust the interest structure for the net debt of the composition specified by the Board of Management.

Due to the derivative hedging instruments, an average of 65 percent (2011: 63 percent) of the net debt in 2012 denominated in euros and 56 percent (2011: 60 percent) of those denominated in U.S. dollars had a fixed rate of interest. The average value is representative for the year as a whole.

Interest rate risks are presented by way of sensitivity analyses in accordance with IFRS 7. These show the effects of changes in market interest rates on interest payments, interest income and expense, other income components and, if appropriate, shareholders' equity. The interest rate sensitivity analyses are based on the following assumptions:

Changes in the market interest rates of non-derivative financial instruments with fixed interest rates only affect income if these are measured at their fair value. As such, all financial instruments with fixed interest rates that are carried at amortized cost are not subject to interest rate risk as defined in IFRS 7.

In the case of fair value hedges designed for hedging interest rate risks, the changes in the fair values of the hedged item and the hedging instrument attributable to interest rate movements balance out almost completely in the income statement in the same period. This means that interest-rate-based changes in the measurement of the hedged item and the hedging instrument do not affect income and are therefore not subject to interest rate risk.

In the case of interest rate derivatives in fair value hedges, however, changes in market interest rates affect the amount of interest payments. As a consequence, they have an effect on interest income and are therefore included in the calculation of income-related sensitivities.

Changes in the market interest rate regarding financial instruments that were designated as hedging instruments in a cash flow hedge to hedge payment fluctuations resulting from interest rate movements affect the hedging reserve in shareholders' equity and are therefore taken into consideration in the equity-related sensitivity calculations.

Changes in market interest rates affect the interest income or expense of non-derivative variable-interest financial instruments, the interest payments of which are not designated as hedged items of cash flow hedges against interest rate risks. As a consequence, they are included in the calculation of income-related sensitivities.

Changes in the market interest rate regarding interest rate derivatives (interest rate swaps, cross-currency swaps) that are not part of a hedging relationship as set out in IAS 39 affect other financial income or expense and are therefore taken into consideration in the income-related sensitivity calculations. Currency derivatives are not exposed to interest rate risks and therefore do not affect the interest rate sensitivities.

If the market interest rates had been 100 basis points higher (lower) at December 31, 2012, profit or loss before taxes would have been EUR 212 million (December 31, 2011: EUR 223 million) lower (higher). The hypothetical effect of EUR –212 million on income results from the potential effects of EUR –191 million from interest rate derivatives and EUR –21 million from non-derivative, variable-interest financial liabilities. Potential effects from interest rate derivatives are partially balanced out by the contrasting performance of non-derivative financial instruments which cannot, however, be shown as a result of applicable accounting standards. If the market interest rates had been 100 basis points higher (lower) at December 31, 2012, the hedging reserve would have been EUR 179 million (December 31, 2011: EUR 208 million) higher (lower).

Other price risks. As part of the presentation of market risks, IFRS 7 also requires disclosures on how hypothetical changes in risk variables affect the price of financial instruments. Important risk variables are stock exchange prices or indexes.

As in the prior year, no major price risks existed as of December 31, 2012.

Credit risks. Deutsche Telekom is exposed to a credit risk from its operating activities and certain financing activities. With regard to financing activities, transactions are only concluded with counterparties that have at least a credit rating of BBB+/Baa1, in connection with an operational credit management system. At the level of operations, the outstanding debts are continuously monitored in each area, i.e., locally. Credit risks are taken into account through individual and collective allowances.

The solvency of the business with corporate customers, especially international carriers, is monitored separately. In terms of the overall risk exposure from the credit risk, however, the receivables from these counterparties are not so extensive as to justify extraordinary concentrations of risk.

In line with the contractual provisions, in the event of insolvency all derivatives with a positive or negative fair value that exist with the respective counterparty are offset against each other, leaving a net receivable or liability. When the netting of the positive and negative fair values of all derivatives was positive from Deutsche Telekom's perspective, the counterparty provided Deutsche Telekom with cash

pursuant to the collateral contracts mentioned in NOTE 1 "CASH AND CASH EQUIVALENTS," PAGE 222. The credit risk was thus further reduced (for details on the fair value of the cash reported under cash and cash equivalents, please refer to NOTE 37 "DISCLOSURES ON FINANCIAL INSTRUMENTS," PAGE 268 et seq.). On the basis of these contracts, derivatives with a positive fair value and a total carrying amount of EUR 1,287 million (December 31, 2011: EUR 1,533 million) have a maximum credit risk of EUR 60 million (December 31, 2011: EUR 45 million) as of the reporting date. When the netting of the positive and negative fair values of all derivatives was negative from Deutsche Telekom's perspective, Deutsche Telekom provided cash collateral to counterparties pursuant to collateral contracts. The corresponding receivables of EUR 246 million (December 31, 2011: EUR 302 million) were thus not exposed to any credit risks as of the reporting date (please also refer to NOTE 8 "OTHER FINANCIAL ASSETS," PAGE 230). No other significant agreements reducing the maximum exposure to the credit risks of financial assets existed. The maximum exposure to credit risk of the other financial assets thus corresponds to their carrying amounts.

In addition, Deutsche Telekom is exposed to a credit risk through the granting of financial guarantees. Guarantees amounting to a nominal total of EUR 2,523 million had been pledged as of the reporting date (December 31, 2011: EUR 100 million), which also represent the maximum exposure to credit risk. This maximum exposure also includes the following item as of December 31, 2012:

Under the framework agreement signed with Crown Castle concerning the leasing and use of cell sites in the United States, T-Mobile USA established two companies that are included in Deutsche Telekom's consolidated group as associates and two companies that were disposed of (please also refer to "Business combinations and other transactions" in the section "Summary of accounting policies," PAGES 219 – 220). For 6,654 cell sites T-Mobile USA has transferred the leases for the land on which the cell towers are built to these companies. Under certain conditions, T-Mobile USA will continue to be held liable for any default in the lease payment by Crown Castle to the owners of the land. In such a case, T-Mobile USA would be entitled to compensation from Crown Castle. In the event that Crown Castle were to file for bankruptcy and an insolvency court were to prohibit continuation of the framework agreement with T-Mobile USA, Deutsche Telekom expects that T-Mobile USA would be able to take over the continued usage of the relevant cell sites. It is unlikely that a payment default would occur or that an insolvency court would prohibit the framework agreement, as Deutsche Telekom expects that the transaction will allow Crown Castle to generate sufficient profits and cash flows to be able to meet its contractual obligations arising from the transaction.

Besides the entitlement to compensation, there are no further agreements that reduce the maximum risk of default. In the worst case scenario, the maximum default risk is EUR 2.4 billion. The carrying amount and the fair value of this financial guarantee at December 31, 2012 were both EUR 1 million.

There were no indications as of the reporting date that Deutsche Telekom will incur a loss from a financial guarantee.

Risks from financing and loan commitments. Deutsche Telekom again granted the Everything Everywhere joint venture an irrevocable loan commitment of a maximum of GBP 225 million at arm's length market conditions in the reporting period which has not yet been utilized. The credit facility can be utilized at any time and will expire on November 14, 2013. The credit facility will be extended each time by a further twelve months, unless terminated three months prior to the end of the term. The nominal amount of GBP 225 million is the maximum default risk associated with this loan commitment.

No significant agreements reducing the maximum default risk of financing and loan commitments exist. There were no indications as of the reporting date that Deutsche Telekom will incur a loss.

Liquidity risks. Please refer to NOTE 10 "FINANCIAL LIABILITIES," PAGE 231 et seq.

Hedge accounting.

Fair value hedges. To hedge the fair value risk of fixed-interest liabilities, Deutsche Telekom primarily used interest rate swaps and forward interest rate swaps ("pay variable, receive fixed") denominated in CHF, EUR, GBP, NOK, and USD. Fixed-income bonds/MTNs denominated in CHF, EUR, GBP, NOK, and USD were designated as hedged items. The changes in the fair values of the hedged items resulting from changes in the CHFLibor, Euribor, GBPLibor, NOK-OIBOR, or USDLibor swap rate are offset against the changes in the value of the interest rate swaps. The aim of this hedging is to transform the fixed-income bonds into variable-interest debt, thus hedging the fair value of the financial liabilities. Credit risks are not part of the hedging. In 2012, Deutsche Telekom for the first time designated a cross-currency swap totaling AUD 125 million as fair value hedge which converts a fixed-interest MTN into a variable interest-bearing security.

The effectiveness of the hedging relationship is tested prospectively and retrospectively at each reporting date using statistical methods in the form of a regression analysis. All hedging relationships were sufficiently effective as of the reporting date.

As the list of the fair values of derivatives shows (please refer to TABLE T 141 under "Derivatives," PAGE 277), Deutsche Telekom had interest rate derivatives with a net fair value of EUR +0.5 billion (December 31, 2011: EUR +0.4 billion) designated as fair value hedges at December 31, 2012. The remeasurement of the hedged items resulted in losses of EUR 0.0 billion being recorded in other financial income/expense in the 2012 financial year (2011: losses of EUR 0.3 billion); the changes in the fair values of the hedging transactions resulted in gains of EUR 0.1 billion (2011: gains of EUR 0.2 billion) being recorded in other financial income/expense.

Cash flow hedges – interest rate risks. Deutsche Telekom entered into payer interest rate swaps and forward payer interest rate swaps ("pay fixed, receive variable") to hedge the cash flow risk of variable-interest debt. The interest payments to be made in the hedging period are the hedged items and are recognized in profit or loss in the same period. The changes in the cash flows of the hedged items resulting from changes in the Euribor and Libor rates are offset against the changes in the cash flows of the interest rate swaps. The aim of this hedging is to transform the variable-interest bonds into fixed-income debt, thus hedging the cash flows of the financial liabilities. The terms of the hedging relationships will end in the years 2013 through 2018. Credit risks are not part of the hedging.

The effectiveness of the hedging relationship is tested prospectively and retrospectively using statistical methods in the form of a regression analysis.

Ineffectiveness of EUR –2 million was recognized in profit or loss under other financial income/expense in the reporting year (2011: EUR –25 million).

All designated hedging relationships were sufficiently effective as of the reporting date.

In 2012, Deutsche Telekom entered into forward payer interest rate swaps totaling EUR 1.2 billion for transactions expected in 2015. TABLE T 140 shows the contractual maturities newly incorporated into a hedging relationship in 2012 relating to the payments for the forward payer interest rate swaps.

T 140

Start	End	Nominal volume	Reference rate
February 2, 2015	February 2, 2018	EUR 1,200 million	6-month Euribor

As the list of the fair values of derivatives shows (please refer to TABLE T 141 under "Derivatives," PAGE 277), Deutsche Telekom had interest rate derivatives with a fair value of EUR –0.6 billion (2011: EUR –0.5 billion) amounting to a nominal total of EUR 7.8 billion (2011: EUR 8.8 billion) designated as hedging instruments for the hedging of interest rate risks as part of cash flow hedges at December 31, 2012.

The recognition directly in equity of the change in the fair value of the hedging instruments resulted in losses (before taxes) of EUR 0.3 billion (2011: losses of EUR 0.3 billion) in shareholders' equity in the 2012 financial year. Losses amounting to EUR 68 million (2011: losses of EUR 53 million) recognized directly in equity were reclassified to other financial income/expense in the income statement in the 2012 financial year.

Cash flow hedges – currency risks. Deutsche Telekom entered into currency derivative and cross-currency swap agreements to hedge cash flows not denominated in a functional currency. The payments in foreign currency to be made in the hedging period are the hedged items and are recognized in profit or loss in the same period. The terms of the hedging relationships will end in the years 2013 through 2030. The effectiveness of the hedging relationship is tested prospectively and retrospectively using statistical methods in the form of a regression analysis. All designated hedging relationships were sufficiently effective as of the reporting date.

No new cash flow hedges of this kind were designated in the reporting period.

In the 2012 financial year, gains (before taxes) totaling EUR 36 million (2011: losses of EUR 58 million) resulting from the change in the fair values of currency derivatives were taken directly to equity (hedging reserve). These changes constitute the effective portion of the hedging relationship. In the 2012 financial year, gains totaling EUR 58 million recognized directly in equity were reclassified to other financial income/expense (2011: gains of EUR 61 million to other financial income/expense and losses of EUR 188 million to other operating income). There was no material ineffectiveness of these hedges recorded as of the reporting date.

As the list of the fair values of derivatives shows (please refer to TABLE T 141), Deutsche Telekom had currency forwards of a net fair value of EUR 13 million (December 31, 2011: EUR 8 million), that are the result of foreign currency purchases totaling EUR 0.6 billion and foreign currency sales totaling EUR 1.2 billion (December 31, 2011: foreign currency purchases of EUR 0.6 billion and foreign currency sales of EUR 0.1 billion), as well as cross-currency swaps of a net fair value of EUR +0.2 billion (December 31, 2011: EUR +0.2 billion) and a total volume of EUR 1.8 billion (December 31, 2011: EUR 2.1 billion) designated as hedging instruments for cash flow hedges as of December 31, 2012.

Hedging of a net investment. In April 2011 Deutsche Telekom designated a net investment hedge for a nominal amount of USD 7 billion to hedge the net investment in T-Mobile USA against fluctuations in the U.S. dollar spot exchange rate. Currency forwards were used as hedging instruments (“sell USD – receive EUR”) with a change in the U.S. dollar spot exchange rate being designated as the hedged risk. Any changes in value of the hedged item resulting from changes in the U.S. dollar spot exchange rate are offset by changes in the value of the currency forwards. After the hedged amount had been reduced, currency forwards with a nominal volume of USD 1.2 billion and a fair value of EUR –0.1 billion (before taxes) remained designated as hedge instruments at December 31, 2011 and were due in full in the 2012 financial year. Gains totaling EUR 6 million (2011: losses of EUR 444 million) (before taxes) from the hedging relationship were recognized directly in equity (total other comprehensive income) in the 2012 financial year. The effectiveness of the hedging relationship was tested prospectively and retrospectively at each reporting date by comparing the cumulative value changes of hedging instruments and hedged item. The hedging relationship was fully effective for the total hedging period.

Derivatives. TABLE T 141 shows the fair values of the various derivatives carried. A distinction is made depending on whether these are part of an effective hedging relationship as set out in IAS 39 (fair value hedge, cash flow hedge, net investment hedge) or not. Other derivatives can also be embedded, i.e., a component of a composite instrument that contains a non-derivative host contract.

T 141

	Net carrying amounts Dec. 31, 2012 millions of €	Net carrying amounts Dec. 31, 2011 millions of €
ASSETS		
Interest rate swaps		
Held for trading	46	56
In connection with fair value hedges	490	431
In connection with cash flow hedges	–	–
Currency forwards/currency swaps		
Held for trading	12	259
In connection with cash flow hedges	22	21
Cross-currency swaps		
Held for trading	473	518
In connection with fair value hedges	8	–
In connection with cash flow hedges	236	248
Other derivatives in connection with cash flow hedges	–	–
LIABILITIES AND SHAREHOLDERS’ EQUITY		
Interest rate swaps		
Held for trading	164	74
In connection with fair value hedges	–	–
In connection with cash flow hedges	575	470
Currency forwards/currency swaps		
Held for trading	38	581
In connection with cash flow hedges	9	13
In connection with net investment hedges	–	78
Cross-currency swaps		
Held for trading	125	171
In connection with cash flow hedges	–	–
Other derivatives in connection with cash flow hedges	–	–
Embedded derivatives	8	7

Transfer of financial assets.

Factoring. In 2009, Deutsche Telekom entered into a factoring agreement under which a bank is required to purchase trade receivables in a monthly revolving nominal volume of EUR 300 million. This agreement, which runs until 2015, gives Deutsche Telekom the freedom to decide whether receivables will be sold and in which volume. The assessment of the risk associated with the sold receivables is based on the credit risk and, of lesser significance, the risk of late payments (late-payment risk). The maximum credit risk-related loss to be borne by Deutsche Telekom is limited to the variable purchase price discount retained by the bank on the sale of receivables and refunded in the amount of the unused portion. The remaining credit risk-related losses represent substantially all the risks and rewards of ownership of the receivables and are borne by the bank. The late-payment risk continues to be borne in full by Deutsche Telekom. The maximum exposure to loss resulting from credit risk and late-payment risk relating to the receivables sold and derecognized as of December 31, 2012 (nominal volume EUR 253 million) is EUR 8 million. At the derecognition date, the fair value of the expected refund of the variable purchase price discount less the fair value of the expected loss from the late-payment risk was capitalized under other financial assets and the remaining difference was expensed. As of December 31, 2012, the carrying amount of the other financial asset representing Deutsche Telekom's entire continuing involvement was EUR 3 million and its fair value was EUR 3 million. Deutsche Telekom expensed EUR 42 million in the 2012 financial year from its continuing involvement including program fees, and has expensed a total amount of EUR 213 million since 2009. The bank has the right to sell overdue receivables back to Deutsche Telekom. However, this does not affect the allocation of the credit risk-related losses in any way because the purchase price equals the actual proceeds from collection. The buy-back does not entail any liquidity risks for Deutsche Telekom whatsoever, as payment of the purchase price to the bank is only due after the proceeds from collection have been received. As in previous years, the volume of receivables sold was not subject to major fluctuations during the financial year. As of December 31, 2012, a provision of EUR 4 million was recognized for the receivables management to be performed by Deutsche Telekom.

In 2009, Deutsche Telekom entered into another factoring agreement under which a bank is required to purchase trade receivables in a monthly revolving nominal volume of EUR 740 million. This agreement, which runs until 2015, gives Deutsche Telekom the freedom to decide whether receivables will be sold and in which volume. The assessment of the risk associated with the sold receivables is based on the credit risk and, of lesser significance, the risk of late payments (late-payment risk). The maximum credit risk-related loss to be borne by Deutsche Telekom is limited to the variable purchase price discount retained by the bank on the sale of receivables and refunded in the amount of the unused portion. The remaining credit risk-related losses represent substantially all the risks and rewards of ownership of the receivables and are borne by the bank. The existing loan insurance reimburses losses relating to certain receivables to a maximum amount of EUR 65 million and thus reduces the exposure to loss. The late-payment risk continues to be borne in full by Deutsche Telekom. The maximum exposure to loss resulting from credit risk and late-payment risk relating to the receivables sold and derecognized as of December 31, 2012 (nominal volume EUR 740 million), excluding loan insurance coverage, is EUR 26 million. At the derecognition date, the fair value of the expected refund of the variable purchase price discount less the fair value of the expected loss from the late-payment risk was capitalized under other financial assets and the remaining difference was expensed. As of December 31, 2012, the carrying amount of the other financial asset representing Deutsche Telekom's entire continuing involvement was EUR 16 million and its fair value was EUR 16 million. Deutsche Telekom expensed EUR 82 million in the 2012 financial year from its continuing involvement including program fees, and has expensed a total amount of EUR 386 million since 2009. The bank has the right to sell overdue receivables back to Deutsche Telekom. However, this does not affect the allocation of the credit risk-related losses in any way because the purchase price equals the actual proceeds from collection. The buy-back does not entail any liquidity risks for Deutsche Telekom whatsoever, as payment of the purchase price to the bank is only due after the proceeds from collection have been received. As in previous years, the volume of receivables sold was not subject to major fluctuations during the financial year. As of December 31, 2012, a provision of EUR 4 million was recognized for the receivables management to be performed by Deutsche Telekom.

In October 2012, Deutsche Telekom entered into another factoring agreement under which a bank is required to purchase trade receivables in a monthly revolving nominal volume of EUR 280 million. This three-year agreement gives Deutsche Telekom the freedom to decide whether receivables will be sold and in which volume. The assessment of the risk associated with the sold receivables is based on the credit risk and, of lesser significance, the risk of late payments (late-payment risk). The purchase price corresponds to the nominal amount. 70 percent of the first EUR 15 million of credit risk-related losses will be borne by Deutsche Telekom and 30 percent by the bank, pro rata for each loss. Deutsche Telekom will bear the first EUR 56 million of any other credit risk-related losses in full. All other credit risk-related losses are borne by the bank. The existing loan insurance reimburses losses relating to certain receivables to a maximum amount of EUR 115 million and thus reduces the exposure to loss. The late-payment risk continues to be borne in full by Deutsche Telekom. The maximum exposure to loss resulting from credit risk and late-payment risk relating to the receivables sold as of December 31, 2012 (nominal volume EUR 280 million), excluding loan insurance coverage, is EUR 72 million. Substantially all the risks and rewards of ownership of the receivables were neither transferred nor retained (allocation of the material risks between Deutsche Telekom and the bank) and control of the receivables was transferred to the bank. All receivables sold as of December 31, 2012 have been derecognized. At the derecognition date, the fair value of the expected losses was expensed as financial liabilities. As of December 31, 2012, the carrying amount of the financial liability representing Deutsche Telekom's entire continuing involvement was EUR 4 million, the fair value of which was EUR 4 million. Deutsche Telekom expensed EUR 6 million in the financial year from its continuing involvement including program fees. The bank has the right to sell all receivables overdue by more than 90 days back to Deutsche Telekom at the nominal amount. This would not affect the allocation of the credit risk-related losses, as the latter would be passed back to the bank in line with the agreed risk allocation. The cash outflows caused by the buy-backs would occur in the short term, i.e., in 2013. The volume of receivables sold was not subject to major fluctuations since the beginning of the transaction. As of December 31, 2012, a provision of EUR 0.1 million was recognized for the receivables management to be performed by Deutsche Telekom.

Disclosures on capital management. The overriding aim of Deutsche Telekom's capital management is to strike a balance between the contrasting expectations of the four stakeholders:

- Shareholders
- Providers of debt capital
- Employees
- "Entrepreneurs within the enterprise"

For further information, please refer to the section "Management of the Group" in the combined management report, PAGE 80 et seq.

An important key performance indicator for the capital market communication with investors, analysts and rating agencies is relative debt, i.e., net debt to adjusted EBITDA. The ratio remained at the prior-level of 2.1 as of December 31, 2012. The target corridor for relative debt is between 2.0 and 2.5. Net debt is a non-GAAP figure not governed by International Financial Reporting Standards and its definition and calculation may vary from one company to another. A further essential key performance indicator is the equity ratio, i.e., the ratio of shareholders' equity to total assets as shown in the consolidated statement of financial position. The equity ratio was 28.3 percent as of December 31, 2012 (December 31, 2011: 32.6 percent). The target corridor is between 25 and 35 percent. In addition, Deutsche Telekom maintains a liquidity reserve covering all maturities of the next 24 months. The gearing was 1.2 as of December 31, 2012 (December 31, 2011: 1.0).

T 142

Calculation of net debt; shareholders' equity.

	Dec. 31, 2012 millions of €	Dec. 31, 2011 millions of €
Financial liabilities (current)	9,260	10,219
Financial liabilities (non-current)	35,354	38,099
FINANCIAL LIABILITIES	**44,614**	**48,318**
Accrued interest	(903)	(966)
Liabilities from corporate transactions	–	–
Other	(754)	(615)
GROSS DEBT	**42,957**	**46,737**
Cash and cash equivalents	4,026	3,749
Available-for-sale/held-for-trading financial assets	27	402
Derivative financial assets	1,287	1,533
Other financial assets	757	932
NET DEBT	**36,860**	**40,121**
SHAREHOLDERS' EQUITY	**30,543**	**39,941**

39 RELATED PARTY DISCLOSURES.

Federal Republic of Germany and other related parties. The Federal Republic of Germany is both a direct and an indirect shareholder (via KfW Bankengruppe) and holds approximately 32.0 percent (December 31, 2011: 32.0 percent) of the share capital of Deutsche Telekom AG. The Federal Republic usually represents a solid majority at the shareholders' meeting due to its high attendance rate, giving the Federal Republic control over Deutsche Telekom. Therefore, the Federal Republic and the companies controlled by the Federal Republic or companies over which the Federal Republic can exercise a significant influence are classified as related parties of Deutsche Telekom. Charges for services provided to the Federal Republic and its departments and agencies, and the individual companies are based on Deutsche Telekom's commercial pricing policies. Deutsche Telekom participates in the spectrum auctions of the Federal Network Agency. The acquisition of mobile communications spectrum through licenses may result in build-out requirements stipulated by the Agency.

The Federal Posts and Telecommunications Agency (Federal Agency) has been assigned certain tasks by law that affect cross-company issues at Deutsche Telekom AG, Deutsche Post AG, and Deutsche Postbank AG. The Federal Agency's responsibilities include the continuation of the Civil Service Health Insurance Fund (Postbeamtenkrankenkasse), the recreation service (Erholungswerk), the supplementary retirement pensions institution (Versorgungsanstalt der Deutschen Bundespost), and the welfare service (Betreuungswerk) for Deutsche Telekom AG, Deutsche Post AG, and Deutsche Postbank AG. The coordination and administrative tasks are performed on the basis of agency agreements. For the 2012 financial year, Deutsche Telekom made payments in the amount of EUR 61 million (2011: EUR 58 million, 2010: EUR 59 million). Payments are made to the special pension fund according to the provisions of the Posts and Telecommunications Reorganization Act (please also refer to NOTE 12 "PROVISIONS FOR PENSIONS AND OTHER EMPLOYEE BENEFITS," PAGE 235 et seq.).

The Federal Republic and the companies controlled by the Federal Republic and companies over which the Federal Republic can exercise a significant influence are customers or suppliers of Deutsche Telekom and as such have mutual contractual relationships. Deutsche Telekom did not execute any individually material transactions in the 2012 financial year at off-market terms and conditions or outside of its normal business activities.

Joint ventures. In the 2012 financial year, Deutsche Telekom generated revenue and other operating income totaling EUR 315 million from the Everything Everywhere joint venture established on April 1, 2010 and EUR 61 million from Toll Collect.

The Everything Everywhere joint venture repaid an issued bond that had a nominal amount of GBP 187 million at December 31, 2011 to Deutsche Telekom in the first quarter of 2012. There were receivables vis-à-vis the Everything Everywhere joint venture in the amount of EUR 96 million, liabilities of EUR 453 million, and loan commitments of EUR 0.3 billion at the end of the year. Loan guarantees and guarantee statements of EUR 0.6 billion given by the Company to third parties existed.

Loan guarantees and an equity maintenance undertaking had been granted to banks with regard to Toll Collect as of December 31, 2012. For further details, please refer to NOTE 33 "CONTINGENCIES," PAGE 261 et seq.

Related individuals. For information on the compensation of the Board of Management and Supervisory Board, please refer to NOTE 40, PAGE 281 et seq.

Employee representatives elected to the Supervisory Board of Deutsche Telekom continue to be entitled to a regular salary as part of their employment contract. The amount of the salary is the adequate compensation for their job or activity within the Company.

Besides this, no major transactions took place with related individuals.

40 COMPENSATION OF THE BOARD OF MANAGEMENT AND THE SUPERVISORY BOARD.

Compensation of the Board of Management.

The following information concerning the compensation of the Board of Management comprises the notes pursuant to § 314 of the German Commercial Code and the German Accounting Standard No. 17 (GAS 17), as well as the information specified in the guidelines set out in the German Corporate Governance Code.

Changes in the composition of the Board of Management and contract extensions. Thomas Sattelberger's appointment came to an end after five years effective midnight on May 2, 2012. As Labor Director Prof. Marion Schick has been in charge of the Human Resources department since May 3, 2012. She has been appointed until December 31, 2016. Effective midnight on May 31, 2012, Dr. Manfred Balz's appointment came to an end as a result of his resignation. At its meeting on February 22, 2012, the Supervisory Board appointed Dr. Thomas Kremer as member of the Board of Management responsible for Data Privacy, Legal Affairs and Compliance for a term of five years effective June 1, 2012.

René Obermann asked the Supervisory Board to release him from his duties as Chairman of the Board of Management effective midnight on December 31, 2013. The Supervisory Board agreed to this request at its meeting on December 20, 2012. At the same meeting, the Supervisory Board 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 from January 1, 2014.

Change in 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 two Board of Management members, Dr. Manfred Balz and Thomas Sattelberger, who left in the course of the year, are still subject to the provisions of the old compensation system which already complied with the requirements of VorstAG to a large extent. The new and old systems are explained on the following pages.

Basis of Board of Management compensation. The compensation of Board of Management members comprises various components. Under the terms of their service contracts, members of the Board of Management are entitled to an annual fixed remuneration and annual variable performance-based remuneration, a long-term variable remuneration component, as well as fringe benefits and deferred benefits based on a company pension entitlement. The Supervisory Board defines the structure of the compensation system for the Board of Management and reviews this structure and the appropriateness of compensation at regular intervals.

The fixed annual remuneration is determined for all Board of Management members based on market conditions in accordance with the requirements of stock corporation law. It is ensured that Board of Management compensation is oriented toward the sustained development of the Company and that there is a multi-year measurement base in the new system for the variable components.

At its discretion and after due consideration, the Supervisory Board may also reward extraordinary performance by individual or all Board of Management members in the form of a special bonus.

In accordance with market-oriented and corporate standards, the Company grants all members of the Board of Management additional benefits under the terms of their service contracts, some of which are viewed as non-cash benefits and taxed accordingly. This mainly includes being furnished with a company car and accident and liability insurance and reimbursements in connection with maintaining a second household.

Sideline employment generally requires prior approval. Generally, no additional compensation is paid for being a member of the management or supervisory board of other Group entities.

In the event of temporary incapacity for work caused by illness, accident, or any other reason for which the respective Board of Management member is not responsible, the fixed basic remuneration continues to be paid for a maximum of three months following the end of the month in which the Board of Management member's permanent inability to work is established.

Variable performance-based remuneration (old system).

The annual short-term variable performance-based remuneration of Board of Management members is based on the achievement of targets set by the Supervisory Board of Deutsche Telekom AG for each member of the Board of Management prior to commencement of the financial year. The set of targets is composed of corporate targets and personal targets for the individual members of the Board of Management, based on the parameters of revenue, revenue from growth areas, EBITDA adjusted for special factors, and free cash flow. The personal targets consist of targets oriented toward the sustained success of the Company concerning the implementation of strategy (30 percent) and adherence to the Guiding Principles, which accounts for 20 percent. The target agreement and the level of target achievement are determined by the Supervisory Board for the respective financial year.

In addition, the Board of Management members who remained within the old system participate in Deutsche Telekom AG's mid-term incentive plan (MTIP) launched for the first time in the 2004 financial year (❑ please also refer to **NOTE 36, PAGES 266 – 267**), which was issued for the last time for eligible Board of Management members with the 2011 tranche.

The reversal of provisions recognized for the 2010 and 2011 MTIP tranches resulted in income totaling EUR 204,113 for 2012. EUR 128,464 of this is allocable to Thomas Sattelberger and EUR 75,649 to Dr. Manfred Balz. The expense in the prior year totaled EUR 219,139. EUR 133,558 of this is allocable to Thomas Sattelberger and EUR 85,581 to Dr. Manfred Balz. Nominal award amounts of EUR 515,000 exist for Thomas Sattelberger and of EUR 330,000 for Dr. Manfred Balz for the 2011 MTIP tranche. The term of the 2011 MTIP tranche will expire on December 31, 2013.

Variable performance-based remuneration (new system).

The variable remuneration of the members of the Board of Management is divided into Variables I and II. Variable I contains both short-term and long-term components consisting of the realization of budget figures for specific performance indicators, the implementation of strategy and adherence to the Group's Guiding Principles. Variable II is oriented solely toward the long term. This ensures that the variable remuneration is oriented toward the sustained development of the Company and that there is a predominantly long-term incentive effect.

Variable I. The annual variable remuneration of Board of Management members is based on the achievement of targets set by the Supervisory Board of Deutsche Telekom AG for each member of the Board of Management at the beginning of the financial year. The set of targets is composed of corporate targets (50 percent) related to revenue, revenue from growth areas, EBITDA adjusted for special factors, and free cash flow, as well as personal targets for the individual members of the Board of Management. The personal targets consist of targets oriented toward the sustained success of the Company concerning the implementation of strategy (30 percent) and adherence to the Guiding Principles, which accounts for 20 percent. The agreement on targets and the level of target achievement for the respective financial year are determined by the plenary session of the Supervisory Board. Levels of target achievement exceeding 100 percent are rewarded on a straight-line basis, capped at 150 percent of the award amount. Any higher levels of target achievement will not be taken into consideration. To further ensure the long-term incentive effect and orientation toward the sustained development of the Company, a third of the variable remuneration set by the plenary session of the Supervisory Board must be invested in shares of Deutsche Telekom AG; these shares must be held by the respective Board member for a period of at least four years.

Variable II. The exclusively long-term-oriented Variable II is measured based on the fulfillment of four equally weighted performance parameters (adjusted operational return on capital employed (ROCE), adjusted earnings per share (EPS), customer satisfaction, and employee satisfaction). Each parameter determines a quarter of the award amount. Levels of target achievement exceeding 100 percent are rewarded on a straight-line basis, capped at 150 percent of the award amount. The assessment period is four years, with the assessment being based on average target achievement across the four years planned at the time the tranche was determined. The award amount is decoupled from other remuneration components and is set for each member of the Board of Management individually.

In the 2012 financial year, the following absolute nominal amounts were pledged to the Board of Management members for their participation in the 2012 tranche of Variable II in the event of 100-percent target achievement.

T 143

	2012 tranche €	2011 tranche €
René Obermann	1,092,000	1,092,000
Reinhard Clemens	650,000	650,000
Niek Jan van Damme	550,000	550,000
Timotheus Höttges	650,000	650,000
Dr. Thomas Kremer	492,708	355,208
Claudia Nemat	675,000	548,438
Prof. Marion Schick	550,000	412,500

Information on the share matching plan. In the 2012 financial year, the Board of Management members who fall under the new Board of Management compensation system, as described above, are contractually obliged to invest a third of Variable I in shares of Deutsche Telekom AG. Deutsche Telekom AG will grant one additional share for every share acquired as part of the Board of Management's aforementioned personal investment (share matching plan) that will be allotted to the beneficiaries of this plan on expiration of the four-year lock-up period. This ensures that the shares granted by the Company can only be sold after the four-year period, and that this element of the compensation system rewards only the members' continued service to the Company.

DRS 17 and IFRS 2 require disclosure not only of the total expense related to share-based payment from matching shares in the 2012 financial year and the fair value of the matched shares at their grant date, but also of the number of entitlements to matching shares and their development in the current financial year.

The fair value of the matching shares at grant date shown in TABLE T 144 does not represent a component of remuneration for the Board of Management members in 2012. It is an imputed value of the entitlements to matching shares determined on the basis of relevant accounting policies. TABLE T 144 is based on expected target achievement for the 2012 financial year and thus on the estimated amount of the personal investment to be made by the respective Board of Management member to establish his or her entitlements to matching shares. The final number of entitlements to matching shares identified for the 2012 financial year may be higher or lower than the amounts estimated here.

The total share-based payment expense for matching shares to be recognized for the 2011 and 2012 financial years pursuant to IFRS 2 is included in the two last columns of TABLE T 144.

T 144

	Number of entitlements granted to matching shares since 2010 at the beginning of the financial year	Number of new entitlements to matching shares granted in 2012	Fair value of the matching shares at grant date €	Cumulative total share-based payment expense in 2012 for matching shares for the years 2010 through 2012 €	Cumulative total share-based payment expense in 2011 for matching shares for the years 2010 and 2011 €
René Obermann	143,454	40,945	266,961	258,458	202,898
Reinhard Clemens	68,259	24,372	158,905	129,381	105,101
Niek Jan van Damme	59,061	20,622	134,458	109,567	85,516
Timotheus Höttges	86,072	24,372	158,905	157,625	118,168
Dr. Thomas Kremer	0	13,606	74,698	8,753	0
Claudia Nemat	7,011	25,309	165,017	34,786	2,246
Prof. Marion Schick	0	20,622	134,458	20,249	0

By December 31, 2012, Deutsche Telekom had acquired 232,169 shares for the purpose of awarding matching shares to Board of Management members as part of the share matching plan.

Arrangements in the event of termination of a position on the Board of Management. Service contracts for members of the Board of Management concluded since the 2009 financial year or changed on account of a changeover to the new compensation system include a severance cap in case of premature termination without good cause allowing a compensation payment which, in line with the recommendations of the German Corporate Governance Code, is limited to a maximum of two years' remuneration (severance cap) and may not exceed the remuneration due for the remaining term of the service contract.

The service contracts for members of the Board of Management at Deutsche Telekom AG do not include any benefits in the event of the termination of a position on the Board of Management as a result of a change of control.

Board of Management member service contracts generally stipulate a post-contractual prohibition of competition. Pursuant to these provisions, members of the Board of Management are prohibited from rendering services to or on behalf of a competitor for the duration of one year following their departure. As compensation for this restricted period, they receive either a payment of 50 percent of the last fixed annual remuneration and 50 percent of the most recent Variable I on the basis of 100-percent target achievement, or 100 percent of the last fixed annual remuneration.

Company pension plan.

Company pension plan (existing entitlement). The members of the Board of Management are entitled to a company pension. Benefits from the company pension plan are in direct relation to the beneficiary's annual salary. The Board of Management members receive company pension benefits based on a fixed percentage of their last fixed annual salary for each year of service rendered prior to their date of retirement. The pension payments may be in the form of a life-long retirement pension upon reaching the age of 62 or in the form of an early retirement pension upon reaching the age of 60. Opting for the early retirement pension scheme is connected with actuarial deductions, however. The company pension is calculated by multiplying a basic percentage rate of 5 percent (6 percent for René Obermann) by the number of years of service as a member of the Board of Management. After ten years of service, the maximum pension level of 50 percent (60 percent for René Obermann) of the last fixed annual remuneration will be attained.

The pension payments to be made increase dynamically, at a rate of 1 percent (3 percent for René Obermann). In addition, the pension agreements include arrangements for pensions for surviving dependents in the form of entitlements for widows and orphans. In specifically provided exceptional cases, entitlement to a widow's pension is excluded. The standard criteria for eligibility in the pension arrangements are in line with market conditions. In the event of a permanent inability to work (invalidity), the respective period of service through the scheduled end of the current period of appointment serves as the basis for the period of service eligible for calculating the pension.

In addition, the Company makes contributions, including the related taxes, for term life insurance with standard coverage (EUR 1.3 million) for one Board of Management member. The related expenses are included in the figures for non-cash benefits.

Company pension plan (new entitlement). A plan with a contribution-based promise in the form of a one-time capital payment upon retirement is set up for all Board of Management members with a new entitlement to a company pension. A contribution is paid into the Board member's pension account for each year of service at an interest rate corresponding to market levels. Annual additions to the pension account have no effect on cash or cash equivalents. The cash outflow is only effective upon the Board member's retirement. As a rule, the date of retirement is the beneficiary's 62nd birthday. For pension agreements signed before December 31, 2011, Board of Management members can also opt to draw early retirement benefits from their 60th birthday, subject to corresponding actuarial deductions. The amount to be provided annually is individualized and decoupled from other remuneration components. The exact definition of the contribution is based on a comparison with peer companies which are suitable for benchmarking and also offer plans with contribution-based promises.

In addition, the pension agreements include arrangements for pensions for surviving dependents in the form of entitlements for widows and orphans. In the event of a permanent inability to work (invalidity), the beneficiary is entitled to the pension fund.

Service cost and defined benefit obligation for each member of the Board of Management are shown in TABLE T 145:

T 145

	Service cost 2012 €	Present value of the defined benefit obligation (DBO) Dec. 31, 2012 €	Service cost 2011 €	Present value of the defined benefit obligation (DBO) Dec. 31, 2011 €
René Obermann	633,893	10,310,353	696,460	5,456,843
Dr. Manfred Balz	211,611	0 [a]	248,312	899,151
Reinhard Clemens	393,132	2,985,441	419,746	1,521,799
Niek Jan van Damme	248,106	1,260,019	250,568	726,336
Timotheus Höttges	306,848	2,924,289	337,339	1,475,193
Dr. Thomas Kremer	150,492	150,492	0	0
Claudia Nemat	191,850	349,412	47,633	47,633
Thomas Sattelberger	345,354	0 [a]	373,834	5,259,298
Prof. Marion Schick	249,144	249,144	0	0

[a] Since Dr. Manfred Balz and Thomas Sattelberger left the Company in the course of the year, the corresponding DBO amounts as of December 31, 2012 are included in the disclosures on previous Board of Management members who left the Group.

An annual contribution of EUR 290,000 was credited to the pension accounts of Niek Jan van Damme in accordance with the provisions of the new company pension plan, while EUR 270,000 is credited to the account of Dr. Manfred Balz annually. EUR 250,000 is credited to the accounts of Dr. Thomas Kremer, Claudia Nemat and Prof. Marion Schick each year. The contributions for Dr. Manfred Balz, Dr. Thomas Kremer and Prof. Marion Schick for 2012 were defined pro rata temporis.

The higher DBO amounts in TABLE T 145 above primarily result from the reduction of the discount rate of 2 percentage points.

The pension expense resulting from the company pension plan is shown as service cost. The additions to provisions for pensions recognized in 2012 amounted to EUR 3.3 million (2011: EUR 3.1 million). This amount includes interest expense totaling EUR 0.5 million (2011: EUR 0.7 million).

Stock option plan. Deutsche Telekom no longer issues any stock option plans. Individual Board of Management members still received stock options from the 2002 tranche of the 2001 Stock Option Plan.

The stock options granted were forfeited completely, since the 2002 tranche expired on July 12, 2012 without the eligible Board of Management members having exercised their stock options. In total 63,240 stock options forfeited upon expiry of the 2002 tranche. 28,830 of the forfeited stock options were allocable to René Obermann. 17,050 of the forfeited stock options were allocable to Timotheus Höttges and 17,360 to Dr. Manfred Balz.

Board of Management compensation for the 2012 financial year. In reliance on legal requirements and other guidelines, a total of EUR 15.0 million (2011: EUR 13.6 million) is reported in TABLE T 146, PAGE 286, as total compensation for the 2012 financial year for the members of the Board of Management.

This compensation comprises the fixed annual remuneration for Board of Management members who have changed over to the new Board of Management compensation system, as well as other benefits, non-cash benefits and remuneration in kind, short-term variable remuneration (Variable I), fully earned long-term variable remuneration (Variable II), and the fair value of the matching shares. This was calculated on the basis of the estimated amount of Variable I at the grant date and the resulting number of entitlements to matching shares.

For Board of Management members in the old compensation system, this compensation comprises the fixed annual remuneration, other benefits, non-cash benefits, remuneration in kind, and the short-term variable remuneration for the 2012 financial year.

The fixed annual remuneration and all other remuneration are totally unrelated to performance.

Total compensation. The compensation of the Board of Management is shown as follows:

T 146

		Non-performance-based compensation		Performance-based compensation			Total compensation
		Fixed annual remuneration €	Other remuneration €	Short-term variable remuneration €	Long-term variable performance-based remuneration (Variable II) €	Long-term variable performance-based remuneration (fair value of matching shares) €	€
René Obermann	2012	1,450,000	51,711	1,299,480	709,800	266,961	**3,777,952**
	2011	1,450,000	28,683	1,471,250	585,000	315,958	**3,850,891**
Dr. Manfred Balz	2012	333,333	6,342	147,000	–	–	**486,675**
(until May 31, 2012)	2011	800,000	16,102	355,700	–	10,190	**1,181,992**
Reinhard Clemens	2012	840,000	22,596	688,350	422,500	158,905	**2,132,351**
	2011	840,000	26,800	628,550	327,600	164,298	**1,987,248**
Niek Jan van Damme	2012	700,000	26,023	716,100	357,500	134,458	**1,934,081**
	2011	700,000	20,125	527,450	230,100	139,021	**1,616,696**
Timotheus Höttges	2012	900,000	22,415	762,450	422,500	158,905	**2,266,270**
	2011	900,000	21,214	870,250	351,000	189,575	**2,332,039**
Dr. Thomas Kremer	2012	408,333	28,996	351,954	–	74,698	**863,981**
(since June 1, 2012)	2011	–	–	–	–	–	**–**
Claudia Nemat	2012	900,000	54,749	750,600	–	165,017	**1,870,366**
	2011	225,000	10,900	166,219	–	42,654	**444,773**
Thomas Sattelberger	2012	270,968	1,600	343,487	–	–	**616,055**
(until May 2, 2012)	2011	800,000	4,762	941,417	–	15,902	**1,762,081**
Prof. Marion Schick	2012	462,903	17,969	397,664	–	134,458	**1,012,994**
(since May 3, 2012)	2011	–	–	–	–	–	**–**
	2012	**6,265,537**	**232,401**	**5,457,085**	**1,912,300**	**1,093,402**	**14,960,725**
	2011 [a]	**5,715,000**	**128,586**	**4,960,836**	**1,493,700** [b]	**877,598**	**13,175,720**

[a] Remuneration relating to Board of Management members who left the Company in the course of 2011 is no longer included in the table.
[b] The deviations relative to prior-year figures are attributable to remuneration in accordance with § 314 (1) No. 6a sentence 3 HGB amounting to EUR 1.5 million that was granted in the 2012 financial year, but relates to the 2011 financial year.

The amounts shown in the "Long-term variable performance-based remuneration (Variable II)" column had been pledged to the eligible Board of Management members in the 2010 financial year.

According to the provisions of the termination agreement concluded with Dr. Manfred Balz effective May 31, 2012, he would remain available to the Company for special projects until October 21, 2012 after having resigned as a Board of Management member, and would continue to receive his fixed monthly basic remuneration for that period. Dr. Manfred Balz is entitled to his short-term variable performance-based remuneration until May 31, 2012. The entitlements he had accrued through his participation in the 2010 and 2011 MTIP tranches until the termination date remain due to him pro rata temporis. Payment of pension benefits he had accrued during his employment at Deutsche Telekom AG began on November 1, 2012; these are shown under the disclosures on Board of Management members who left the Group.

Thomas Sattelberger's term of office as a member of the Board of Management expired effective midnight on May 2, 2012. He has a pro rata temporis entitlement to short-term variable performance-based remuneration until May 2, 2012. The entitlements he had accrued through his participation in the 2010 and 2011 MTIP tranches until the termination date remain due to him pro rata temporis. Thomas Sattelberger has been receiving monthly retirement benefits from his Board of Management pension since June 2012 which are shown under the disclosures on Board of Management members who left the Group.

No member of the Board of Management received benefits or corresponding commitments from a third party for his or her activity as a Board of Management member during the past financial year.

Former members of the Board of Management and those who left in the reporting year. A total of EUR 7.2 million (2011: EUR 5.0 million) was granted for payments to and entitlements for former members of the Board of Management and their surviving dependents and for those and their surviving dependents who left in the reporting year.

Provisions (measured in accordance with IAS 19) totaling EUR 142.5 million (December 31, 2011: EUR 100.6 million) were recognized for current pensions and vested rights to pensions for this group of persons and their surviving dependents.

Other. The Company has not granted any advances or loans to current or former Board of Management members, nor were any other financial obligations to the benefit of this group of people entered into.

Compensation of the Supervisory Board.

The compensation received by the members of the Supervisory Board is specified under § 13 of the Articles of Incorporation of Deutsche Telekom AG. Supervisory Board members receive fixed annual remuneration of EUR 40,000.00 plus variable, performance-related remuneration depending on the development of net profit per no par value share.

The performance-related annual remuneration with long-term incentive effect amounts to EUR 1,000.00 for every EUR 0.02 by which the net profit per no par value share in the second financial year following the financial year in question (reference year) exceeds the net profit per no par value share in the financial year preceding the financial year in question. The performance-related annual remuneration as a long-term incentive is limited to a maximum of EUR 40,000.00. The 2012 variable remuneration becomes due upon the end of the 2015 ordinary shareholders' meeting, provided the terms and conditions for the granting of such remuneration are met.

Since the terms and conditions for the payment of the performance-based variable remuneration were not met as of December 31, 2012, the 2010 performance-based remuneration was not paid out.

The chairperson of the Supervisory Board receives double, and the deputy chairperson one and a half times the remuneration of an ordinary member of the Supervisory Board. Total compensation also increases by 50 percent for each membership of a Supervisory Board committee (with the exception of the Mediation Committee and the Nomination Committee), by 100 percent for membership of the Audit Committee, and by a further 50 percent for each Supervisory Board committee chaired. Members of the Supervisory Board who were not in office for the entire financial year receive one twelfth of the remuneration for each month or part thereof that they held a seat. This applies both to fixed annual remuneration and to annual remuneration with a long-term incentive.

Members of the Supervisory Board receive an attendance fee amounting to EUR 1,000.00 for each meeting of the Supervisory Board or its committees that they have attended. The Company reimburses value-added tax payable on remuneration and expenses.

The total compensation of the members of the Supervisory Board in 2012 amounted to EUR 2,017,266.67 (plus VAT).

No loans were granted to the members of the Supervisory Board.

The compensation of the individual members of the Supervisory Board for 2012 is as follows:

T 147

Member of the Supervisory Board	Fixed remuneration €	Meeting attendance fee €	Total €
Baldauf, Sari (since November 1, 2012)	6,666.67	–	6,666.67
Becker, Hermann Josef	100,000.00	21,000.00	121,000.00
Dr. Bernotat, Wulf	83,333.33	16,000.00	99,333.33
Dr. Beus, Hans Bernhard [a]	60,000.00	15,000.00	75,000.00
Brandl, Monika	80,000.00	14,000.00	94,000.00
Bury, Hans Martin (until October 31, 2012)	66,666.67	11,000.00	77,666.67
Dr. von Grünberg, Hubertus	80,000.00	10,000.00	90,000.00
Guffey, Lawrence H.	80,000.00	13,000.00	93,000.00
Hanas, Klaus-Dieter (since June 1, 2012)	23,333.33	4,000.00	27,333.33
Hauke, Sylvia [b]	40,000.00	8,000.00	48,000.00
Hocker, Ulrich (until May 24, 2012)	25,000.00	4,000.00	29,000.00
Holzwarth, Lothar [c]	83,200.00	18,000.00	101,200.00
Kallmeier, Hans-Jürgen [d]	100,000.00	17,000.00	117,000.00
Kollmann, Dagmar P. (since May 24, 2012)	45,000.00	6,000.00	51,000.00
Prof. Lehner, Ulrich (Chairman)	206,800.00	26,000.00	232,800.00
Litzenberger, Waltraud	123,200.00	24,000.00	147,200.00
Löffler, Michael (until May 31, 2012)	16,666.67	4,000.00	20,666.67
Prof. Middelmann, Ulrich	103,200.00	18,000.00	121,200.00
Schröder, Lothar (Deputy Chairman) [e]	163,200.00	25,000.00	188,200.00
Dr. Schröder, Ulrich	60,000.00	12,000.00	72,000.00
Sommer, Michael	40,000.00	7,000.00	47,000.00
Spoo, Sibylle	40,000.00	8,000.00	48,000.00
Dr. h.c. Walter, Bernhard	100,000.00	10,000.00	110,000.00
	1,726,266.67	**291,000.00**	**2,017,266.67**

[a] Plus a subsequent payment of EUR 1,666.67 for the 2011 financial year due to a correction.
[b] In addition to remuneration for her activities as a member of the Supervisory Board of Deutsche Telekom AG, Sylvia Hauke also received other remuneration amounting to EUR 13,500.00 in the 2012 financial year (for her mandate as member of the supervisory board of Telekom Deutschland GmbH).
[c] In addition to remuneration for his activities as a member of the Supervisory Board of Deutsche Telekom AG, Lothar Holzwarth also received other remuneration amounting to EUR 16,500.00 in the 2012 financial year (for his mandate as member of the supervisory board of Telekom Deutschland GmbH).
[d] In addition to remuneration for his activities as a member of the Supervisory Board of Deutsche Telekom AG, Hans-Jürgen Kallmeier also received other remuneration amounting to EUR 10,000.00 in the 2012 financial year (for his mandate as member of the supervisory board of T-Systems International GmbH).
[e] In addition to remuneration for his activities as a member of the Supervisory Board of Deutsche Telekom AG, Lothar Schröder also received other remuneration amounting to EUR 37,500.00 in the 2012 financial year (EUR 22,500.00 for his mandate as member of the supervisory board of Telekom Deutschland GmbH and EUR 15,000.00 as Chairman of the Data Privacy Advisory Council).

41 DECLARATION OF CONFORMITY WITH THE GERMAN CORPORATE GOVERNANCE CODE IN ACCORDANCE WITH § 161 AktG.

In accordance with § 161 AktG, the Board of Management and the Supervisory Board of Deutsche Telekom AG have submitted the mandatory declaration of conformity and made it available to shareholders on Deutsche Telekom AG's website. The full text of the Declaration of Conformity can be found on the Deutsche Telekom website (@ WWW.TELEKOM.COM) under Investor Relations in the Corporate Governance section.

42 EVENTS AFTER THE REPORTING PERIOD.

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. This does not increase the level of 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. The Board of Management of Deutsche Telekom 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 Deutsche Telekom AG's share buy-back 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 in these functions. This gradual workforce reduction will enable Telekom Deutschland to manage the process in a responsible, socially conscious manner. Deutsche Telekom expects this to make a significant contribution to lowering personnel costs.

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. This does not increase the level of 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' opportunities to access 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.

Claims relating to charges for shared use of cable ducts. For explanations on the proceedings, please refer to NOTE 33 "CONTINGENCIES," PAGE 261 et seq.

43 AUDITOR'S FEES AND SERVICES IN ACCORDANCE WITH § 314 HGB.

TABLE T 148 provides a breakdown of the auditor's professional fees recognized as expenses in the 2012 financial year:

T 148

PricewaterhouseCoopers Aktiengesellschaft, Wirtschaftsprüfungsgesellschaft.

	2012 millions of €
Auditing services	5
Other assurance services	19
Tax advisory services	0
Other non-audit services	2
	26

Professional fees for auditing services include in particular fees for the statutory auditing of annual and consolidated financial statements as well as fees for other auditing services.

Professional fees for other assurance services primarily relate to fees for the review of the interim financial statements as well as auditing activities in connection with the documentation of the internal control system for financial reporting.

Professional fees for tax advisory services primarily include professional fees for tax advisory services performed as part of current or planned transactions.

Other non-audit services mainly relate to services in connection with the Company's compliance with requirements stipulated by the Federal Network Agency and other authorities.

RESPONSIBILITY STATEMENT.

To the best of our knowledge, and in accordance with the applicable reporting principles, the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group, and the Group management report, which is combined with the management report of Deutsche Telekom AG, includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal opportunities and risks associated with the expected development of the Group.

Bonn, February 12, 2013

Deutsche Telekom AG
Board of Management

René Obermann

Reinhard Clemens

Niek Jan van Damme

Timotheus Höttges

Dr. Thomas Kremer

Claudia Nemat

Prof. Marion Schick

INDEPENDENT AUDITOR'S REPORT.

To Deutsche Telekom AG, Bonn.

Report on the consolidated financial statements.

We have audited the accompanying consolidated financial statements of Deutsche Telekom AG and its subsidiaries, which comprise the consolidated statement of financial position, the consolidated income statement and statement of comprehensive income, the consolidated statement of changes in equity, the consolidated statement of cash flows and the notes to the consolidated financial statements, for the financial year from January 1 to December 31, 2012.

Board of Management's responsibility for the consolidated financial statements. The Board of Management of Deutsche Telekom AG is responsible for the preparation of these consolidated financial statements. This responsibility includes that these consolidated financial statements are prepared in accordance with International Financial Reporting Standards, as adopted by the EU, and the additional requirements of German commercial law pursuant to § 315a (1) HGB ("Handelsgesetzbuch": German Commercial Code) and that these consolidated financial statements give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these requirements. The Board of Management is also responsible for the internal controls as the Board of Management deems to be necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with § 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany) (IDW), and additionally observed the International Standards on Auditing (ISA). Accordingly, we are required to comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing audit procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The selection of audit procedures depends on the auditor's professional judgment. This includes the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In assessing those risks, the auditor considers the internal control system relevant to the entity's preparation of consolidated financial statements that give a true and fair view. The aim of this is to plan and perform audit procedures that are appropriate in the given circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control system. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board of Management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Audit opinion. According to § 322 (3) sentence 1 HGB we state that our audit of the consolidated financial statements has not led to any reservations.

In our opinion based on the findings of our audit, the consolidated financial statements comply, in all material respects, with IFRSs, as adopted by the EU, and the additional requirements of German commercial law pursuant to § 315a (1) HGB and give a true and fair view of the net assets and financial position of the Group as at December 31, 2012 as well as the results of operations for the financial year then ended, in accordance with these requirements.

Report on the Group management report.

We have audited the accompanying Group management report, which is combined with the management report of the parent company, of Deutsche Telekom AG for the financial year from January 1 to December 31, 2012. The Board of Management of Deutsche Telekom AG is responsible for the preparation of the combined management report in accordance with the requirements of German commercial law applicable pursuant to § 315a (1) HGB. We conducted our audit in accordance with § 317 (2) HGB and German generally accepted standards for the audit of the combined management report promulgated by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany) (IDW). Accordingly, we are required to plan and perform the audit of the combined management report to obtain reasonable assurance about whether the combined management report is consistent with the consolidated financial statements and the audit findings, as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development.

According to § 322 (3) sentence 1 HGB we state that our audit of the combined management report has not led to any reservations.

In our opinion based on the findings of our audit of the consolidated financial statements and combined management report, the combined management report is consistent with the consolidated financial statements, as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development.

Frankfurt/Main, February 12, 2013

PricewaterhouseCoopers
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Harald Kayser
Wirtschaftsprüfer

Thomas Tandetzki
Wirtschaftsprüfer