



THE 2014 FINANCIAL YEAR

**ARCHITECTURE OF  
THE DIGITAL FUTURE**



LIFE IS FOR SHARING.

The background features abstract geometric patterns composed of thin pink lines forming various polygons and triangles. Some of these shapes are filled with a solid pink color, including a large triangle on the left side and several smaller ones scattered throughout the composition. The overall aesthetic is modern and digital.

# **ARCHITECTURE OF THE DIGITAL FUTURE**

## NAVIGATION AID



Further information  
available on the  
Internet



Further information  
can be found in the  
Annual Report



Glossary for  
definition of terms



Sustainability at  
Deutsche Telekom



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# 2014 FACTS AND FIGURES



LIFE IS FOR SHARING.



# ARCHITECTURE OF THE DIGITAL FUTURE

We see ourselves as architects of the digital future, and we have big plans. Our exciting services and practical solutions will offer best customer experience. We want to create virtual spaces for our customers – spaces for entertainment, for working, for playing, for relaxing, and for living.

What exactly are we aiming for? We will standardize the network infrastructure in our European markets and simplify communications across borders even further. This will create a huge communications space, with plenty of room for emotions.

We will assume responsibility for Europe as a place of business by constantly improving transmission rates, providing the best networks, and ensuring the highest security standards. And as architects of digitization, we are supporting entire industries in connecting work, production, and sales.



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## DEUTSCHE TELEKOM AT A GLANCE

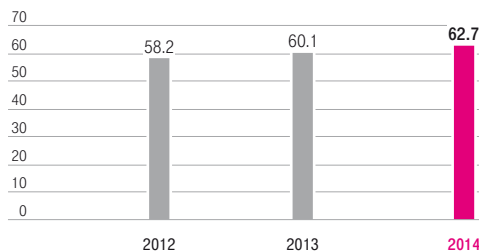
We had a successful close to 2014 with a good fourth quarter. With adjusted EBITDA of EUR 17.6 billion for full year 2014, we were right on the mark and delivered on the guidance published in February 2014. At EUR 4.1 billion, free cash flow was in line with the communicated corporate target of around EUR 4.2 billion.

Net revenue increased substantially by 4.2 percent in 2014. This strong growth was primarily attributable to our United States operating segment, which increased its revenue by more than 20 percent year-on-year (on a euro basis). The main driver here was the unbroken strong acquisition of new customers. Our United States operating segment made the largest contribution to net revenue in the reporting year. In the Germany operating segment, revenue decreased only slightly compared with the prior year. We held our own in this market,

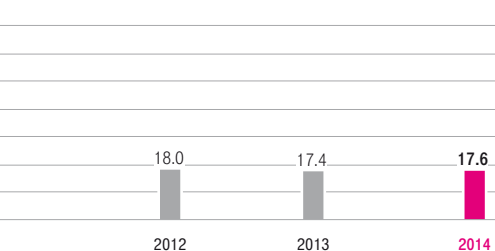
performing especially well in mobile communications. In the Europe operating segment, our revenue was again substantially adversely affected by regulatory decisions and by competition-induced price reductions. The initiated realignment of T-Systems' business model had a negative impact on revenue in our Systems Solutions operating segment, as did the general downward trend in prices for IT and communications services.

Adjusted EBITDA increased slightly by 0.8 percent year-on-year. While adjusted EBITDA grew in the United States and Systems Solutions operating segments, it continued to come under pressure in particular in the Europe operating segment, as expected, on account of the decline in revenue. Our Germany operating segment achieved its target value of around 40 percent with an adjusted EBITDA margin of 39.6 percent.

**Net revenue**  
billions of €



**Adjusted EBITDA**  
billions of €





In a year-on-year comparison, our earnings performance was substantially impacted by the first-time inclusion of MetroPCS in the prior year, with the contributions to earnings only taken into account from the second quarter of 2013. Our earnings in the reporting year were affected by the sale of 70 percent of the shares in the Scout24 group consummated in early February 2014 and the acquisition of the GTS Central Europe group in May 2014. Overall, changes in the composition of the Group made a positive contribution of EUR 0.8 billion to our revenue development and of EUR 0.3 billion to the development of our adjusted EBITDA.

Our EBIT increased substantially by EUR 4.9 billion compared with the prior year to EUR 7.2 billion. This was largely due to income of EUR 1.7 billion from the deconsolidation of the Scout24 group real-

ized in connection with the sale of the investment. Impairment losses recognized on goodwill and other non-current assets in the prior year offset the increase in depreciation and amortization resulting primarily from the acquisition of MetroPCS. The result was a total decrease of EUR 0.3 billion in depreciation and amortization.

Like EBIT, our net profit increased substantially by EUR 2.0 billion to EUR 2.9 billion. Adjusted for special factors, net profit decreased by EUR 2.8 billion to around EUR 2.4 billion.

Net debt increased over the course of the year from EUR 39.1 billion to EUR 42.5 billion. Free cash flow (EUR 4.1 billion) and the sale of the Scout24 group (EUR 1.6 billion) in particular had a positive impact. Contrasting effects primarily related to the acquisition of mobile spectrum (EUR 2.3 billion), dividend payments including to non-controlling interests (EUR 1.3 billion), outflows for the acquisition of stakes in other companies (EUR 1.4 billion), and exchange rate effects (EUR 1.8 billion).

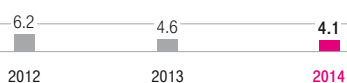
Cash capex (before spectrum investment) totaled EUR 9.5 billion in the reporting year and mainly related to further rolling out broadband and expanding capacities in existing networks. In mobile communications, we invested in LTE, increased network coverage, and upgraded capacity to meet increasing demand for data volumes. In the fixed network, priority was given to expanding the fiber-optic infrastructure, to IPTV, and to the continued migration of the existing telephone network to an IP-based network.

Our key performance indicator ROCE (return on capital employed) improved by 1.7 percentage points in 2014 to 5.5 percent. A substantial improvement in net operating profit after taxes (NOPAT), which more than offset a slight increase in the average net operating assets (NOA), contributed to this development. The improvement in NOPAT is also positively impacted by income from the deconsolidation of the Scout24 group as well as by income from a transaction completed in the United States operating segment concerning the acquisition and exchange of spectrum. The increase in average NOA is mainly attributable to asset growth in our United States operating segment.

2014 was also a good year for our shareholders: They benefited not only from the dividend of EUR 0.50 per share paid out for the 2013 financial year, but also from an increase of 6.6 percent in our share price.

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



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

# SELECTED FINANCIAL DATA OF THE GROUP

T 001

billions of €

		Change compared to prior year % <sup>a</sup>	2014	2013	2012	2011
<b>REVENUE AND EARNINGS</b>						
Net revenue		4.2	62.7	60.1	58.2	58.7
Of which: domestic <sup>a</sup>	%	(5.5)	39.9	42.2	44.3	44.9
Of which: international <sup>a</sup>	%	4.0	60.1	57.8	55.7	55.1
Profit (loss) from operations (EBIT)		47.0	7.2	4.9	(4.0)	5.6
Net profit (loss)		n.a.	2.9	0.9	(5.4)	0.5
Net profit (loss) (adjusted for special factors)		(12.1)	2.4	2.8	2.5	2.9
EBITDA <sup>b,c</sup>		12.5	17.8	15.8	18.0	20.0
EBITDA (adjusted for special factors) <sup>b,c</sup>		0.8	17.6	17.4	18.0	18.7
EBITDA margin (adjusted for special factors) <sup>a</sup>	%	(0.9)	28.0	28.9	30.9	31.8
<b>PROFITABILITY</b>						
ROCE	%	1.7	5.5	3.8	(2.4)	3.8
<b>STATEMENT OF FINANCIAL POSITION</b>						
Total assets		9.5	129.4	118.1	107.9	122.5
Shareholders' equity		6.2	34.1	32.1	30.5	40.0
Equity ratio <sup>a</sup>	%	(0.8)	26.3	27.1	28.3	32.7
Net debt <sup>c</sup>		8.7	42.5	39.1	36.9	40.1
Relative debt (Net debt/EBITDA (adjusted for special factors)) <sup>a,b</sup>		n.a.	2.4	2.2	2.1	2.1
<b>CASH FLOWS</b>						
Net cash from operating activities		2.9	13.4	13.0	13.6	16.2
Cash capex		(7.0)	(11.8)	(11.1)	(8.4)	(8.4)
Free cash flow (before dividend payments, spectrum investment) <sup>d,e,f,g</sup>		(10.1)	4.1	4.6	6.2	6.4
Net cash used in investing activities		(8.7)	(10.8)	(9.9)	(6.7)	(9.3)
Net cash (used in) from financing activities		n.a.	(3.4)	1.0	(6.6)	(6.0)
<b>EMPLOYEES</b>						
Average number of employees (full-time equivalents, without trainees)	thousands	(0.6)	228	230	232	240
Revenue per employee <sup>a</sup>	thousands of €	4.9	274.5	261.8	250.4	244.0
<b>T-SHARE - KEY FIGURES</b>						
Earnings per share (basic and diluted)	€	n.a.	0.65	0.21	(1.24)	0.13
Dividend per share <sup>g</sup>	€	n.a.	0.50	0.50	0.70	0.70
Total dividend <sup>h</sup>	billions of €	n.a.	2.3	2.2	3.0	3.0
Total number of ordinary shares at the reporting date <sup>i</sup>	millions	1.9	4,536	4,451	4,321	4,321

	2010	2009	2008	2007	2006
	62.4	64.6	61.7	62.5	61.3
	43.7	43.4	46.8	49.1	52.9
	56.3	56.6	53.2	50.9	47.1
	5.5	6.0	7.0	5.3	5.3
	1.7	0.4	1.5	0.6	3.2
	3.4	3.4	3.4	3.0	3.9
	17.3	19.9	18.0	16.9	16.3
	19.5	20.7	19.5	19.3	19.4
	31.2	32.0	31.6	30.9	31.7
	3.5	3.9	-	-	-
	127.8	127.8	123.1	120.7	130.2
	43.0	41.9	43.1	45.2	49.7
	33.7	32.8	35.0	37.5	38.2
	42.3	40.9	38.2	37.2	39.6
	2.2	2.0	2.0	1.9	2.0
	14.7	15.8	15.4	13.7	14.2
	(9.9)	(9.2)	(8.7)	(8.0)	(11.8)
	6.5	7.0	7.0	6.6	3.0
	(10.7)	(8.6)	(11.4)	(8.1)	(14.3)
	(6.4)	(5.1)	(3.1)	(6.1)	(2.1)
	252	258	235	244	248
	247.2	250.8	262.5	256.5	246.9
	0.39	0.08	0.34	0.13	0.74
	0.70	0.78	0.78	0.78	0.72
	3.0	3.4	3.4	3.4	3.1
	4,321	4,361	4,361	4,361	4,361

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

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

<sup>c</sup> EBITDA, EBITDA adjusted for special factors, net debt, and free cash flow are non-GAAP figures not governed by the International Financial Reporting Standards (IFRS). They should not be viewed in isolation as an alternative to profit or loss from operations, net profit or loss, net cash from operating activities, the liabilities reported in the consolidated statement of financial position, or other Deutsche Telekom key performance indicators presented in accordance with IFRS. For detailed information and calculations, please refer to the section "Development of business in the Group" in the combined management report in this Annual Report, PAGE 82 ET SEQ.

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

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

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

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

<sup>h</sup> Subject to approval by the 2015 shareholders' meeting concerning the dividend payments for the 2014 financial year. For more detailed explanations, please refer to Note 28 "Dividend per share," PAGE 236.

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

# KEY DATA OF THE GROUP

T 002

		2014	2013	2012
<b>GROUP</b>				
Mobile customers	millions	150.5	142.5	127.8
Fixed-network lines <sup>a</sup>	millions	29.8	30.8	32.1
Broadband lines <sup>a,b</sup>	millions	17.4	17.1	16.9
<b>GERMANY</b>				
Mobile customers	millions	39.0	38.6	36.6
Fixed-network lines	millions	20.7	21.4	22.4
Of which: retail IP-based	millions	4.4	2.1	0.9
Broadband lines	millions	12.4	12.4	12.4
Television (IPTV, satellite)	millions	2.4	2.2	2.0
Unbundled local loop lines (ULLs)	millions	8.8	9.3	9.4
Wholesale unbundled lines	millions	2.2	1.6	1.3
Wholesale bundled lines	millions	0.3	0.4	0.5
<b>UNITED STATES</b>				
Mobile customers	millions	55.0	46.7	33.4
<b>EUROPE</b>				
Mobile customers	millions	56.0	56.7	57.4
Fixed-network lines	millions	9.0	9.3	9.7
Of which: IP-based	millions	3.5	2.5	1.6
Retail broadband lines	millions	5.0	4.7	4.5
Television (IPTV, satellite, cable)	millions	3.7	3.5	2.9
Unbundled local loop lines (ULLs)/wholesale PSTN	millions	2.3	2.2	2.2
Wholesale bundled lines	millions	0.1	0.2	0.2
Wholesale unbundled lines	millions	0.1	0.1	0.1
<b>SYSTEMS SOLUTIONS</b>				
Order entry	millions of €	7,456	7,792	8,737
Computing & Desktop Services				
Number of servers managed and serviced	units	61,654	62,308	57,121
Number of workstations managed and serviced	millions	1.58	1.31	1.93
Systems Integration				
Hours billed	millions	6.1	6.6	6.3
Utilization rate	%	83.8	82.5	85.1

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

	2011	2010	2009	2008
	125.1	124.6	130.6	126.8
	34.7	36.0	38.5	41.5
	16.9	16.4	15.4	13.9
	35.4	34.7	39.1	39.1
	23.4	24.7	26.2	28.3
	0.5	0.1	0.1	0.0
	12.3	12.0	11.5	10.6
	1.6	1.2	0.8	0.4
	9.6	9.5	9.1	8.3
	1.2	1.0	0.6	0.2
	0.7	1.0	1.6	2.5
	33.2	33.7	33.8	32.8
	56.0	56.2	57.7	54.9
	10.6	11.3	12.3	13.2
	1.1	n.a.	n.a.	n.a.
	4.6	4.4	3.9	3.3
	2.7	2.4	1.9	1.3
	2.1	1.5	1.1	0.7
	0.2	0.2	0.2	0.3
	0.1	0.0	0.0	0.0
	7,396	9,281	9,305	10,235
	58,053	58,073	47,092	56,734
	2.00	1.95	1.86	1.51
	n.a.	n.a.	n.a.	n.a.
	n.a.	n.a.	n.a.	n.a.

#### Group

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

#### Germany

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

#### United States

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

#### Europe

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

The lines of our subsidiary Euronet Communications in the Netherlands have no longer been included in the Europe operating segment since January 2, 2014 following the sale of the shares held in the company. The comparatives for 2013 and 2012 have been adjusted accordingly. The ICSS/GNF business of the local business units (LBUs), which had previously been organizationally assigned to the Systems Solutions operating segment, was brought together as of January 1, 2014 and is now reported under the Europe operating segment. Furthermore, as of January 1, 2014, the local business customer units of T-Systems Czech Republic, which had previously been managed under the Systems Solutions operating segment, were merged with T-Mobile Czech Republic; they are reported in the Europe operating segment. The comparatives for 2013 and 2012 have been adjusted accordingly.

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

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

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

#### Systems Solutions

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

# PRINCIPAL SUBSIDIARIES

T 003

Name and registered office	Deutsche Telekom share	Net revenue <sup>c</sup>	Profit (loss) from operations <sup>c</sup>	Shareholders' equity <sup>c</sup>	Average number of employees
	Dec. 31, 2014 %	2014 millions of €	2014 millions of €	2014 millions of €	2014
Telekom Deutschland GmbH, Bonn, Germany	100.00	21,760	4,597	4,223	12,423
T-Mobile US, Inc., Bellevue, Washington, United States <sup>a,b</sup>	66.29	22,408	1,405	14,060	37,858
T-Systems International GmbH, Frankfurt/Main, Germany	100.00	6,472	(517)	997	21,590
Hellenic Telecommunications Organization S.A. (OTE), Athens, Greece <sup>a</sup>	40.00	3,918	365	3,591	21,903
Magyar Telekom Public Limited Company, Budapest, Hungary <sup>a,b</sup>	59.23	2,013	262	2,137	14,559
T-Mobile Netherlands Holding B.V., The Hague, Netherlands <sup>a,b</sup>	100.00	1,551	360	2,508	1,439
T-Mobile Polska S.A., Warsaw, Poland <sup>b</sup>	100.00	1,492	328	2,395	4,641
T-Mobile Czech Republic a.s., Prague, Czech Republic <sup>a,b</sup>	100.00	874	228	1,588	3,419
Hrvatski Telekom d.d., Zagreb, Croatia <sup>a,b</sup>	51.00	905	148	1,964	5,359
T-Mobile Austria Holding GmbH, Vienna, Austria <sup>a,b</sup>	100.00	815	59	973	1,113
Slovak Telekom a.s., Bratislava, Slovakia <sup>a,b</sup>	51.00	768	98	1,956	3,752

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

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




For information about our places of operations, please visit

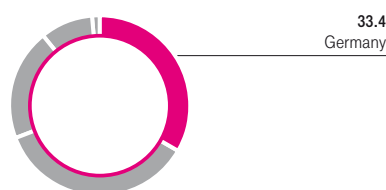
[www.telekom.com/worldwide](http://www.telekom.com/worldwide)

# THE OPERATING SEGMENTS

## GERMANY

We held our own well in our home market of Germany again in 2014. We defended our position as market leader in the fixed network and, in mobile communications, we even extended our market lead in service revenues. The decrease in revenue of the Germany operating segment improved 0.5 percentage points compared with 2013 and amounted to 0.8 percent. Adjusted EBITDA declined slightly by 1.4 percent to EUR 8.8 billion. By the end of the reporting year, the number of television customers had increased by 12.2 percent compared with the prior year to 2.4 million; the number of mobile customers increased to 39.0 million. The total number of fiber-optic lines increased by almost 1 million to a total of 2.5 million. 

Contribution of the segment to net revenue  
%




For more information, please refer to the section "Development of business in the operating segments," PAGE 96 ET SEQ.

T 004

billions of €

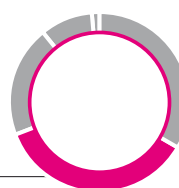
	Change %	2014	2013	2012	2011	2010
<b>TOTAL REVENUE</b>	<b>(0.8) %</b>	<b>22.3</b>	<b>22.4</b>	<b>22.7</b>	<b>23.2</b>	<b>24.2</b>
Profit from operations (EBIT)	5.1 %	4.7	4.4	4.2	4.6	5.1
EBITDA (adjusted for special factors)	(1.4) %	8.8	8.9	9.2	9.6	9.7
Number of employees at the reporting date	3.0 %	68,754	66,725	67,497	69,574	70,902

## UNITED STATES

In our United States operating segment, the strong growth in new customers continued unchanged: T-Mobile US increased its customer base to 55.0 million as of the end of 2014, up 17.9 percent year-on-year. Encouragingly, customer numbers increased in all our customer categories. Total revenue grew 20.8 percent to EUR 22.4 billion. In addition to the inclusion of MetroPCS' results for the full year for the first time, the growth of the MetroPCS brand and the development of additional markets also contributed to this. Adjusted EBITDA increased by 10.9 percent to EUR 4.3 billion in the reporting year. 

Contribution of the segment to net revenue  
%

35.8  
United States



For more information, please refer to the section "Development of business in the operating segments," PAGE 96 ET SEQ.

T 005

billions of €

	Change %	2014	2013	2012	2011	2010
<b>TOTAL REVENUE</b>	<b>20.8 %</b>	<b>22.4</b>	<b>18.6</b>	<b>15.4</b>	<b>14.8</b>	<b>16.1</b>
Profit (loss) from operations (EBIT)	0.1 %	1.4	1.4	(7.5)	(0.7)	2.1
EBITDA (adjusted for special factors)	10.9 %	4.3	3.9	3.8	3.8	4.2
Number of employees at the reporting date	7.0 %	39,683	37,071	30,288	32,868	37,760

## EUROPE

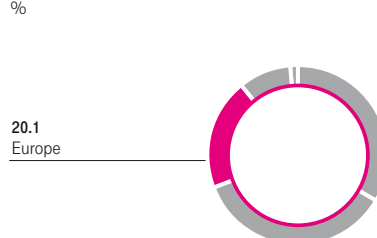
There was a varied picture in the development of customer numbers in our Europe operating segment. Our telecommunications markets continued to come under pressure from ongoing intense competition; slight economic improvements in some countries of our operating segment had a positive impact. The number of our IP-based lines grew substantially by 41.0 percent to almost 3.5 million. Our TV business remains a constant growth driver: In 2014, we recorded year-on-year growth of 6.0 percent. Total revenue amounted to EUR 13.0 billion, 5.3 percent less than in the prior year, with decisions by regulatory authorities having a substantial negative impact on our segment revenue. Adjusted EBITDA amounted to EUR 4.4 billion. 



For more information, please refer to the section "Development of business in the operating segments,"

PAGE 96 ET SEQ.

### Contribution of the segment to net revenue




T 006

billions of €

	Change %	2014	2013	2012	2011	2010
<b>TOTAL REVENUE</b>	<b>(5.3) %</b>	<b>13.0</b>	<b>13.7</b>	<b>14.4</b>	<b>15.1</b>	<b>16.8</b>
Profit from operations (EBIT)	75.3 %	1.7	1.0	1.5	0.8	1.0
EBITDA (adjusted for special factors)	(2.6) %	4.4	4.5	5.0	5.3	5.7
Number of employees at the reporting date	(2.4) %	51,982	53,265	57,937	58,794	63,338

## SYSTEMS SOLUTIONS

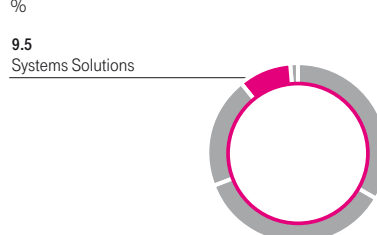
Our corporate customer arm, T-Systems, concluded major new deals in 2014, for example, with ThyssenKrupp and Daimler. We were also awarded the contract to set up and operate a satellite-based toll system for trucks in Belgium. Nevertheless, order entry decreased by 4.3 percent year-on-year. Total revenue amounted to EUR 8.6 billion, a decrease of 4.8 percent. The main reason for this decrease was the expected decline revenue in connection with the realignment of our business model in favor of sustainable, profitable growth. Adjusted EBITDA increased by EUR 61 million or 7.9 percent in the reporting year due to a substantially higher contribution from Telekom IT. 



For more information, please refer to the section "Development of business in the operating segments,"

PAGE 96 ET SEQ.

### Contribution of the segment to net revenue



T 007


billions of €

	Change %	2014	2013	2012	2011	2010
<b>TOTAL REVENUE</b>	<b>(4.8) %</b>	<b>8.6</b>	<b>9.0</b>	<b>9.6</b>	<b>10.0</b>	<b>9.9</b>
Loss from operations (EBIT)	(43.5) %	(0.4)	(0.3)	(0.3)	(0.4)	(0.2)
EBITDA (adjusted for special factors)	7.9 %	0.8	0.8	0.7	0.7	0.8
Number of employees at the reporting date	(3.6) %	47,762	49,540	52,106	52,170	51,742

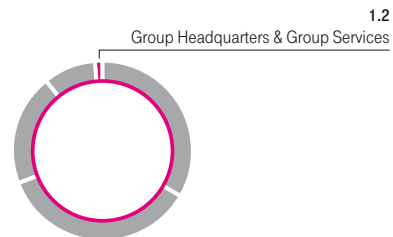
The ICSS/GNF business of the local business units (LBUs), which had previously been organizationally assigned to the Systems Solutions operating segment, was brought together as of January 1, 2014 and is now reported under the Europe operating segment. Furthermore, as of January 1, 2014, the local business customer units of T-Systems Czech Republic, which had previously been managed under the Systems Solutions operating segment, were merged with T-Mobile Czech Republic; they are reported in the Europe operating segment. The comparatives for 2013 and 2012 have been adjusted accordingly. For more information, please refer to Note 32 "Segment reporting" in the notes to the consolidated financial statements, PAGE 239 ET SEQ.



## GROUP HEADQUARTERS & GROUP SERVICES

Total revenue in our Group Headquarters & Group Services segment in 2014 decreased by 12.6 percent year-on-year, mainly due to the revenue lost in connection with the sale of 70 percent of the shares in the Scout24 group which was consummated in early February 2014. Adjusted EBITDA decreased by EUR 12 million compared with the prior year, mainly due to the loss of the Scout24 group's contribution to operations. 

### Contribution of the segment to net revenue %



For more information, please refer to the section "Development of business in the operating segments," PAGE 96 ET SEQ.

T 008

billions of €

	Change %	2014	2013	2012	2011	2010
<b>TOTAL REVENUE</b>	<b>(12.6) %</b>	<b>2.5</b>	<b>2.9</b>	<b>2.8</b>	<b>2.8</b>	<b>3.1</b>
Profit (loss) from operations (EBIT)	93.1 %	(0.1)	(1.6)	(1.8)	1.3	(2.5)
EBITDA (adjusted for special factors)	(1.8) %	(0.7)	(0.7)	(0.7)	(0.6)	(0.9)
Number of employees at the reporting date	(10.7) %	19,631	21,995	21,858	21,726	23,035

# MEASURING SUSTAINABLE PERFORMANCE

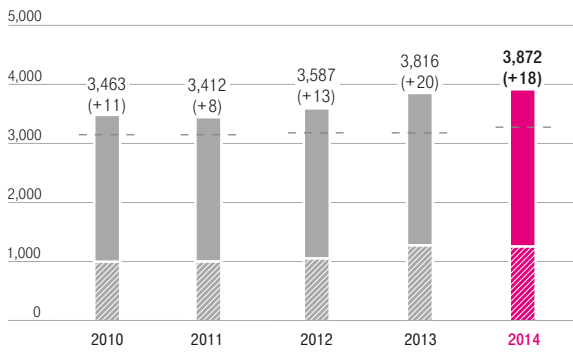
Across the Group, Deutsche Telekom strives for sustainable business development. "We take responsibility," that means we square up to the challenges facing society as a whole and are committed to the environment and society. The strategic orientation of Corporate Responsibility is derived from our Group strategy. We define specific areas of focus, such as protecting the climate and ensuring a sustainable supply chain. In 2014, we made huge strides forward. Thanks to a joint project with major suppliers on critical issues such as working hours or occupational health and safety, we identified, for example, competitive advantages: Better working conditions have a positive influence on employee loyalty and motivation, raise productivity and improve the quality of products. We have developed key performance indicators to measure our success. To measure our performance, for example, we use the CO<sub>2</sub> Emissions, Energy Consumption, and Sustainable Procurement ESG KPIs shown on this page. (ESG: Environment, Social, and Governance).



For further information on Deutsche Telekom's commitment to corporate responsibility, please refer to the section "Corporate responsibility" in the combined management report, PAGE 116 ET SEQ.

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

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



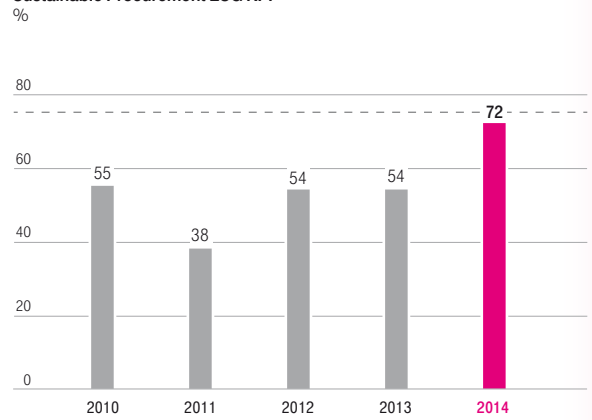
■ CO<sub>2</sub> emissions (Scopes 1 and 2). Emissions are measured in CO<sub>2</sub>-equivalent values based on energy and fuel consumption in accordance with the Greenhouse Gas Protocol and employing the emission factors specified by the International Energy Agency and the Greenhouse Gas Protocol.

▨ T-Mobile US share

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

<sup>a</sup> Changes applied retrospectively since 2010 to account for the extension of the KPI scope to include all Group units contributing to the climate protection target. Furthermore, minor adjustments for 2013 to include natural gas and fuel consumption in three national companies.

## Sustainable Procurement ESG KPI

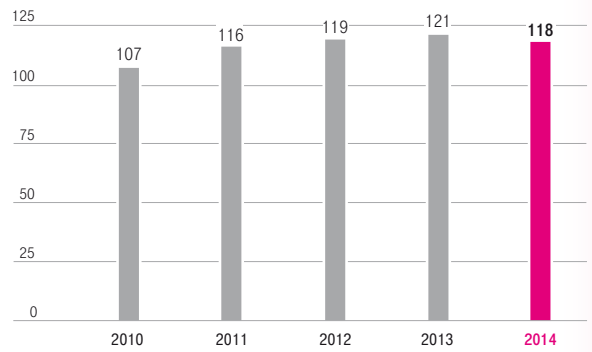


■ Procurement volume covered by supplier self-assessments and/or audits as a percentage of total sourcing volume.

--- Target value

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

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



Revenue billions of €	58.4	55.4	55.7	57.8	61.9
Energy consumption (thousand MWh)	6,262.6	6,409.4	6,624.7	6,992.9	7,333.0

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

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



Glossary, PAGE 277 ET SEQ.

# FINANCIAL CALENDAR

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

Press conference on the 2014 financial statements and publication of the 2014 Annual Report	February 26, 2015
Group report as of March 31, 2015	May 13, 2015
2015 shareholders' meeting (Cologne)	May 21, 2015
Dividend payout <sup>b</sup>	June 17, 2015
Group report as of June 30, 2015	August 6, 2015
Group report as of September 30, 2015	November 5, 2015
Press conference on the 2015 financial statements and publication of the 2015 Annual Report	February 25, 2016

All dates are subject to change.

<sup>a</sup> For more dates, an updated schedule, and information on webcasts, please go to

[www.telekom.com/financial-calendar](http://www.telekom.com/financial-calendar).

<sup>b</sup> Deutsche Telekom is again considering paying out the dividend either in cash or in the form of shares.

The cash dividend is expected to be paid out on June 17, 2015. Subject to approval by the relevant bodies and the fulfillment of other legal provisions.

The English version of these "2014 facts and figures" is a translation of the German version. The German version is legally binding.

## CONTACTS

Deutsche Telekom AG  
Corporate Communications  
Friedrich-Ebert-Allee 140  
53113 Bonn, Germany  
Phone +49 (0) 228 181 4949  
Fax +49 (0) 228 181 94004  
E-mail: [media@telekom.de](mailto:media@telekom.de)

[www.telekom.com](http://www.telekom.com)  
[www.twitter.com/deutschetelekom](https://www.twitter.com/deutschetelekom)

Please refer all questions relating to the T-Share to:

Phone +49 (0) 228 181 88880  
Fax +49 (0) 228 181 88899  
E-mail: [investor.relations@telekom.de](mailto:investor.relations@telekom.de)

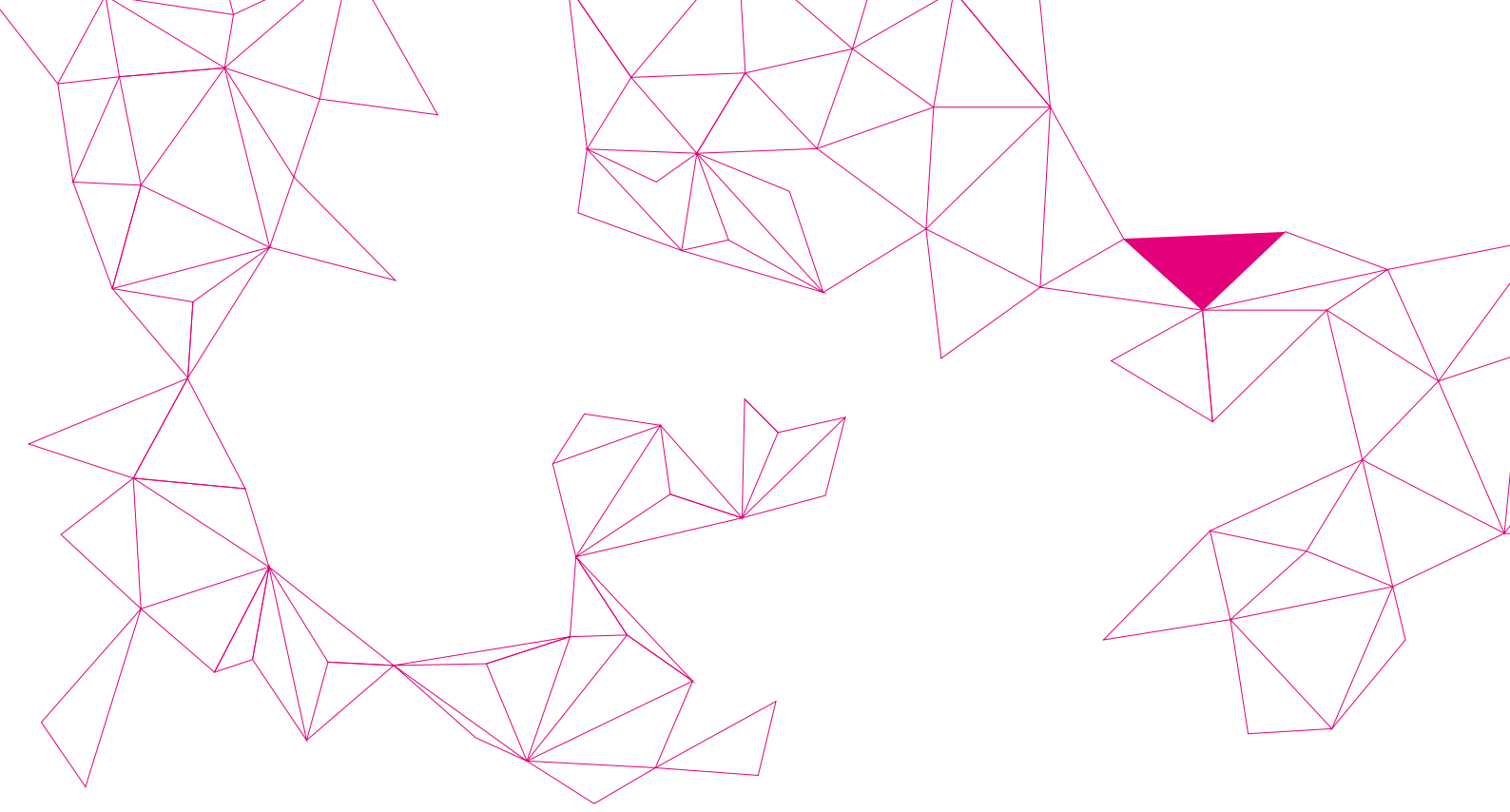
Our Annual Report is available online at:

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



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

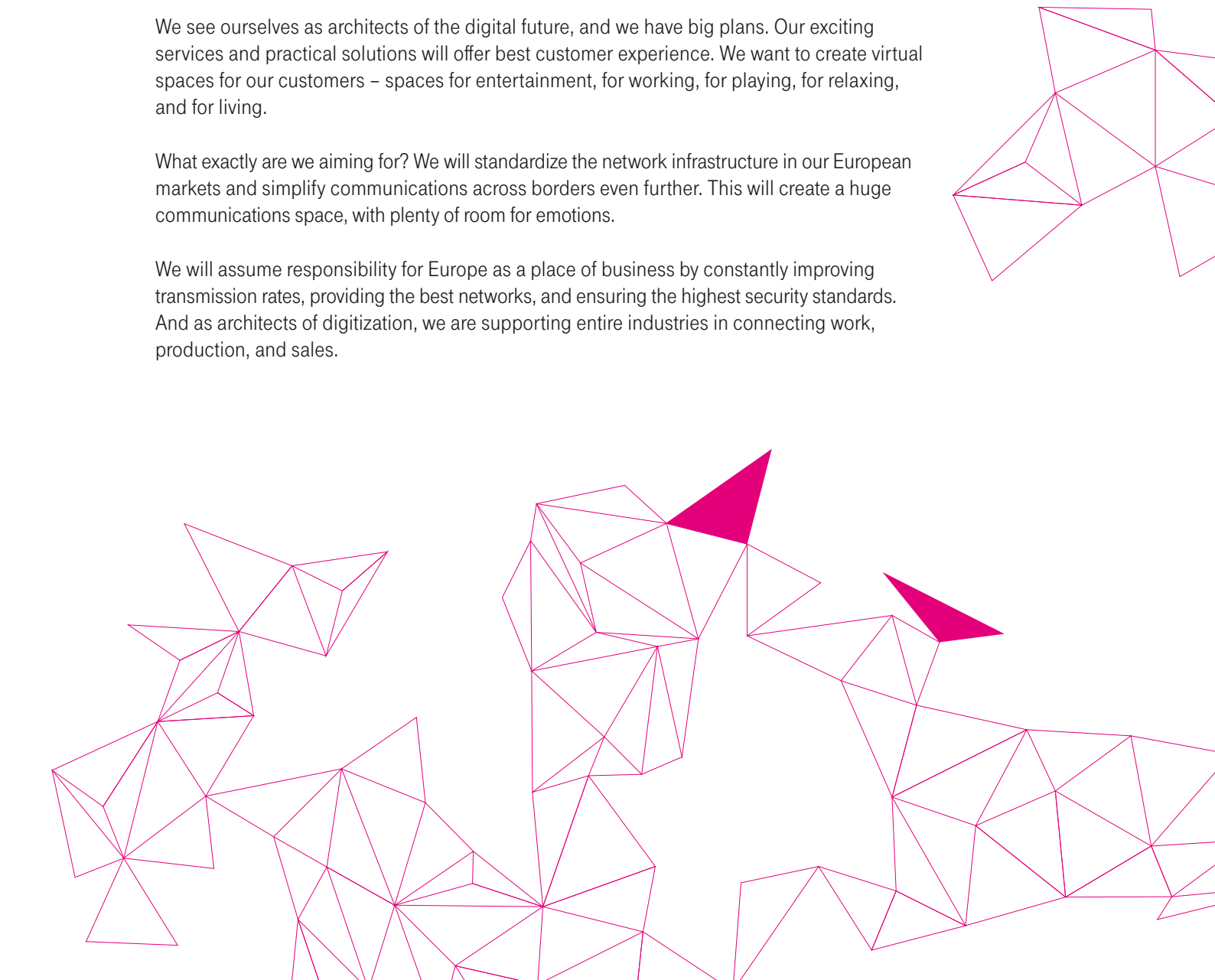
[WWW.TELEKOM.COM](http://WWW.TELEKOM.COM)



We see ourselves as architects of the digital future, and we have big plans. Our exciting services and practical solutions will offer best customer experience. We want to create virtual spaces for our customers – spaces for entertainment, for working, for playing, for relaxing, and for living.

What exactly are we aiming for? We will standardize the network infrastructure in our European markets and simplify communications across borders even further. This will create a huge communications space, with plenty of room for emotions.

We will assume responsibility for Europe as a place of business by constantly improving transmission rates, providing the best networks, and ensuring the highest security standards. And as architects of digitization, we are supporting entire industries in connecting work, production, and sales.





# LETTER FROM THE CHAIRMAN OF THE BOARD OF MANAGEMENT

**“WE HAVE SPENT THE LAST FEW MONTHS INVESTING, EXPANDING AND RESTRUCTURING ON A MASSIVE SCALE. AND BECAUSE OF THIS, DEUTSCHE TELEKOM IS GROWING!”**



**TIMOTHEUS HÖTTGES**  
Chairman of the Board of Management



Dear Shareholders,

2014 was a good year for your Company, Deutsche Telekom. We are making great strides toward becoming the leading European telecommunications provider. We have spent the last few months investing, expanding and restructuring on a massive scale. And because of this, Deutsche Telekom is growing!

Market leadership in our home market of Germany and many European countries, more than 8 million new customers in the United States, and a share price that has been at an eight-year high for several weeks now: The transformation of the Group is running full steam ahead. And it's already plain to see that our strategy is paying off.

Our T-Share closed out the year on EUR 13.25, that is up 6.6 percent over the prior year. Last year, the share performance resulted in a total shareholder return of 9.2 percent for you as our investors – way ahead of the DAX 30. Shareholders who chose the option, which we offered in Germany for the second time already, of receiving their dividend in the form of shares instead of cash benefited from this in particular measure. This option offers the opportunity for investors to leave funds in our company, improve financial ratios further, and to benefit even more from the success of their investment in the long term. The acceptance rate of some 45 percent of dividend-bearing shares exceeded our expectations.

Our financial figures are sound; we have achieved what we set out to do: net revenue increased substantially by 4.2 percent to EUR 62.7 billion in 2014 driven predominantly by our business in the United States, where (on a Euro basis) our revenue grew over 20 percent year-on-year. Factors here included the merger of our U.S. subsidiary with our competitor MetroPCS, and especially the undiminished growth of our customer base in the United States.

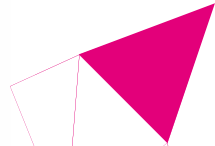
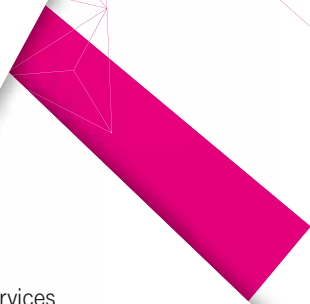


Adjusted EBITDA – earnings before interest, taxes, depreciation, and amortization – was EUR 17.6 billion, precisely the figure we had communicated in our guidance. At EUR 4.1 billion, free cash flow was in line with our target of approximately EUR 4.2 billion.

On this basis, the Board of Management and Supervisory Board will therefore propose a dividend of EUR 0.50 per dividend-bearing share to the shareholders' meeting as planned. To those shareholders who wish to support our growth strategy and to continue strengthening our financial position, we will once again offer the option to receive the dividend in the form of shares.

How did our individual segments perform in 2014? In Germany, we defended our market lead in the fixed network and even extended our lead in mobile service revenues. This success is due to our outstanding network. Once again it won all of the mobile and fixed-network tests, such as the test "connect." For the first time, we also won the hotline test in the mobile business.

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We substantially improved LTE coverage yet again, and the fiber-optic and vectoring build-out is progressing at full speed. In addition, MagentaEINS, our first integrated product comprising fixed-network, mobile, and other services, such as the television service Entertain, has already won some 650,000 customers since its launch in September.

2014  
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Market leadership in our f  
customers in the United S  
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Our network offers customers state-of-the-art line technology; a technology which should be completely switched over to all-IP by 2018. Even though the migration can't always run entirely smoothly, given its magnitude, Telekom Deutschland is completely on track with 5.8 million IP lines at present. We have had peak times where we switched over as many as 60,000 lines a week; we call it the world's biggest IP migration. Besides managing our day-to-day business, this is a strenuous effort for our technical staff, and I would like to thank them explicitly.

The IP migration is also well underway in the European subsidiaries, with the number of IP-based fixed-network lines rising by 41 percent in 2014 to 3.5 million, or in other words, to a share of 38.6 percent. Towards the end of the year, the IP migration in Slovakia was in fact completed, the second country to do so after Macedonia.

In the Europe segment, a slowdown in revenue losses and dedicated cost management were instrumental in increasing the adjusted EBIT-DA margin from 33.2 percent in the prior year to now 34.2 percent.

As expected, revenue in the T-Systems Market Unit declined by 5.1 percent year-on-year to EUR 6.9 billion, due to continuing price pressure in the industry and the transformation program T-Systems 2015+. Under this program, some activities, including unprofitable operations, were deliberately discontinued.

At the same time, in 2014 we closed two of the biggest deals in the Group's history – Cloud services for ThyssenKrupp and systems integration services for Daimler. In addition, we were awarded the contract to set up and operate a satellite-based toll system for trucks in Belgium.

Our colleagues in the United States enjoyed out-and-out success in 2014. Not only did they achieve record customer growth, they also recorded higher revenue growth than any other competitor. Total revenue reached EUR 22.4 billion in 2014, representing an increase of 20.8 percent compared with EUR 18.6 billion in 2013.

The number of T-Mobile US customers increased by 8.3 million to 55 million in 2014. This continued success is due in particular to the company's extremely successful Un-Carrier strategy with its innovative, radically simplified rate plans.

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Other factors include a modern range of devices, such as the iPhone 6, and network quality with LTE coverage now available to 265 million residents across the country.

Dear shareholders,

The successful year 2014 was hard earned by the employees of Deutsche Telekom, and I would like to offer them my warmest thanks. We made further progress on the road to becoming the leading European telecommunications provider. Deutsche Telekom is already leagues ahead of all other European providers in terms of its brand value. Customers trust us not only more than our direct competitors, but also more than they trust the major Internet companies. Our strategy has proven to be the right one. We will therefore continue to work consequently on its implementation. It is founded on integrated products that are based on state-of-the-art broadband networks and simple, excellent service.

2014  
toward becoming  
investing, expanding and re

Market leadership in our  
customers in the United S  
now: The transformation  
strategy is paying off.

Our T-Share closed out  
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That is why we are converting our fixed network to IP technology. The aim is to create a pan-European IP network platform that will deliver efficiencies thanks to cross-border network management. It will also allow us to bring our own products as well as those of our partners to our customers across Europe faster and more easily than before.

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We are continuing to build out our mobile networks to achieve increasing population coverage and higher transmission speeds.

And we are using a hybrid access technology that unites the advantages of both network types. This makes us pioneers in the market.

The Company's value also increased as a result of successful transactions in 2014. After selling 70 percent of our stake in the Scout group for around EUR 1.6 billion, we also increased the value of our British mobile joint venture with Orange. The agreed purchase of EE will make BT the first fully integrated provider in the United Kingdom, and we can participate in its value accretion through our shareholding of 12 percent.

Another major element of our strategy is the accelerated migration of services into the Cloud, enabling customers to use and pay for them only as needed and enjoy secure access to their data no matter where they are. Ultimately, our strategy is all about providing first-rate products and services that our customers can use in a simple, reliable and secure way. Quality pays off – a clear principle that has also guided us in our major investments. That's what we believe in. And the development of the past has shown that our customers agree.

For 2015, we expect revenues to remain on an upward trajectory, thanks especially to the continued positive development in the U.S. Adjusted EBITDA is anticipated to increase to around EUR 18.3 billion. For us, transparency is key here. To ensure that adjusted EBITDA remains comparable to the prior year, we calculate it subject to the average U.S. dollar exchange rate in 2014.

Other factors include a modern range of devices, such as the iPhone 6, and improved network quality with LTE coverage now available to 265 million residents across the country.

Dear shareholders,

2014 was a year of progress toward becoming a leading telecommunications provider, investing, expanding and redefining our business.

Market leadership in our home market and growing customer base in the United States are key indicators. Now: The transformation strategy is paying off.

Our T-Share closed at 100.00 EUR at the end of the year, the same level as at the beginning of the year.

The successful year 2014 was hard earned by all of us at Deutsche Telekom, and I would like to offer them my sincere thanks for their progress on the road to becoming the leading European telecommunications provider. Deutsche Telekom is not only more than a telecommunications provider in Europe, but also a trusted partner for our customers.

Thus this figure reflects the development in our operating business excluding any effects resulting merely from currency exchange fluctuations. We expect free cash flow to reach around EUR 4.3 billion, accompanied by continued strong investments in the future of the Group of around EUR 9.8 billion (excluding spectrum investment).

The shareholders are to participate in these rising earnings: For the financial years 2015 to 2018, the Board of Management strives to increase the dividend in line with growth in free cash flow, which is expected to rise by an average ten percent per year. In this context, the Board of Management underlines its intention to pay a dividend of at least EUR 0.50 per dividend-bearing share for each of these financial years. The objective is to offer shareholders an attractive return on their capital employed. This planned dividend is subject to approval by the relevant bodies and to other legal requirements.

Deutsche Telekom has a clear strategy, which it implements reliably and systematically. On the road to becoming the leading European telecommunications provider, we set ourselves apart from the competition through a modern, IP-based infrastructure combined with integrated Deutsche Telekom products, and concentrate on continuously improving service quality. We continue to focus on growth and therefore good, long-term returns for our shareholders.

Bonn, February 2015

Yours sincerely,

Tim Höttinger

EUR **62.7** BILLION  
NET REVENUE

**“THE SUCCESSFUL YEAR 2014 WAS  
HARD EARNED BY THE EMPLOYEES  
OF DEUTSCHE TELEKOM, AND I  
WOULD LIKE TO OFFER THEM  
MY WARMEST THANKS.”**

**9.2** PERCENT  
TOTAL SHAREHOLDER  
RETURN



**THE 2014 BOARD OF MANAGEMENT  
OF DEUTSCHE TELEKOM AG**







# THE 2014 BOARD OF MANAGEMENT OF DEUTSCHE TELEKOM AG



**“EUROPE’S STRENGTH IS ITS DIVERSITY, ITS CREATIVITY. WE SHOULD BE LEVERAGING THIS TO CREATE OUTSTANDING TECHNOLOGICAL SOLUTIONS AND AGREE ON COMMON OPEN STANDARDS AND OPEN PLATFORMS. THIS WILL ENABLE US TO KEEP AND INCREASE VALUE CREATION IN EUROPE. INNOVATION – MADE IN EUROPE.”**

## TIMOTHEUS HÖTTGES

**Chairman of the Board of Management of Deutsche Telekom AG**

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



**“WE AIM TO BECOME THE LEADING EUROPEAN PROVIDER OF INNOVATIVE PLATFORM-BASED PRODUCTS, ALONG WITH SECURE, RELIABLE INFORMATION AND TELECOMMUNICATIONS SOLUTIONS AND SERVICES.”**

## REINHARD CLEMENS

**Member of the Deutsche Telekom AG Board of Management responsible for T-Systems**

Reinhard Clemens (born in 1960) has been Member of the Deutsche Telekom AG Board of Management with responsibility for T-Systems and Chief Executive Officer (CEO) of T-Systems since December 1, 2007. On January 1, 2012, he also took over responsibility for all Group IT activities. Reinhard Clemens launched his career as General Manager of the Association for Industry Automation in 1990. In 1994, he began his career at IBM, holding various positions in sales, service and outsourcing until he left the company in 2001 to join Systematics AG. There he served as member of the board of management responsible for sales. In 2001, Reinhard Clemens began working for EDS in Germany. As the chairman of the executive board, he was responsible for sales, business operations and strategy in Central Europe. He graduated with a degree in electrical engineering from the RWTH University in Aachen, Germany, where he also worked as a research assistant for the machine tool engineering chair.

**“OUR PACKAGES DELIVER EXTENSIVE CONTENT, OUTSTANDING NETWORK QUALITY, AND GOOD SERVICE.”**

## NIEK JAN VAN DAMME

**Member of the Deutsche Telekom AG Board of Management and Managing Director Telekom Deutschland GmbH**

Niek Jan van Damme (born in 1961) has been Member of the Board of Management of Deutsche Telekom AG since March 2009. He has headed the Germany department since July 2009, where he is in charge of sales, marketing, and service for fixed-network and mobile standard products for consumers and business customers in Germany. In April 2010, he was also appointed Managing Director of Telekom Deutschland GmbH. Since April 2014, he has also been in charge of innovation and product development. From January 2004 to 2009, Niek Jan van Damme was Chairman of the Managing Board of T-Mobile Netherlands where his successes included the integration of the mobile communications and fixed-network activities of Orange Netherlands into T-Mobile Netherlands (October 2007). In that position, he represented one of the core mobile communications markets on the Executive Committee of the T-Mobile International group. Niek Jan van Damme studied economics at the Vrije Universiteit Amsterdam. He started his career with Procter & Gamble in 1986 before joining the Dutch retailer Ahold in 1993. Niek Jan van Damme was a Managing Partner at Floor Heijn Retail from 1997 until he joined Ben Nederland, later T-Mobile Netherlands, as Director for Marketing Communications in June 1999.

**“WE WANT TO GENERATE ADDED VALUE FOR THE COMPANY AND OUR SHAREHOLDERS. WITH AN INTEGRATED NETWORK STRATEGY IN GERMANY AND EUROPE, A CONSISTENT FINANCE STRATEGY AND BY DEVELOPING A FORWARD-LOOKING PORTFOLIO.”**

**THOMAS DANNENFELDT**

**Member of the Deutsche Telekom AG Board of Management responsible for Finance**

Thomas Dannenfeldt (born in 1966) has been Chief Financial Officer of Deutsche Telekom AG since January 2014. Prior to this, he was Director of Finance at Telekom Deutschland GmbH, which was founded in 2010. He was initially appointed CFO of T-Mobile Deutschland in July 2009 before also taking on the same position at T-Home in January 2010. When the T-Mobile and T-Home units were merged to form Telekom Deutschland GmbH in April 2010, he became CFO of Telekom Deutschland. From 2007 through 2009, Thomas Dannenfeldt was a member of the T-Home Board of Management responsible for the Market and Quality Management department, before also taking charge of the Finance department of T-Mobile. Up until 2007, he was in charge of sales management supply chain management, and sales development at T-Mobile International for the national companies in Europe. After studying business mathematics at the University of Trier, Thomas Dannenfeldt began his career in 1992 at T-Mobile Deutschland. He moved to T-Mobile International in 2003.

**“COMPANIES MUST PROVIDE THEIR CUSTOMERS WITH MORE DATA PRIVACY AND DATA SECURITY SUPPORT. WE NEED GREATER TRANSPARENCY AND DATA PRIVACY REGULATIONS MUST BE FORMULATED IN A WAY THAT EVERYONE UNDERSTANDS THEM.”**

**THOMAS KREMER**

**Member of the Deutsche Telekom AG Board of Management responsible for Data Privacy, Legal Affairs and Compliance, Chief Human Resources Officer (interim)**

Dr. Thomas Kremer (born in 1958) has been Member of the Deutsche Telekom AG Board of Management responsible for Data Privacy, Legal Affairs and Compliance since June 2012. He has been the interim Chief Human Resources Officer since January 2014. Previously, he worked for ThyssenKrupp AG. He joined the legal department of Krupp in 1994 and as of 2003 became General Counsel of the holdings's legal department of ThyssenKrupp AG, which was subsequently responsible for developing the compliance program. Additionally, he was appointed Chief Compliance Officer of the ThyssenKrupp Group in 2007. In 2009, Thomas Kremer assumed leadership of the newly formed Corporate Center Legal & Compliance. He was appointed Executive Vice President in 2011. Thomas Kremer spent a period of time working as an attorney at Sozietät Schäfer, Wipprecht, Schickert (now CMS Hasche Sigle) in Düsseldorf. After studying law, Thomas Kremer worked as a research assistant at the University of Bonn. His areas of research included laws governing limited liability companies, stock corporations, and corporate groups. He gained a doctorate in law in 1994. In September 2013, Thomas Kremer was appointed to the Government Commission on the German Corporate Governance Code.

**“AS THE LEADING EUROPEAN TELECOMMUNICATIONS PROVIDER, WE REPRESENT TECHNOLOGY LEADERSHIP. WE WANT TO MAKE HIGH-QUALITY SERVICES AVAILABLE EVERYWHERE FOR OUR CUSTOMERS WITH PAN-EUROPEAN, INTEGRATED IP NETWORKS.”**

**CLAUDIA NEMAT**

**Member of the Deutsche Telekom AG Board of Management responsible for Europe and Technology**

Claudia Nemat (born in 1968) has been Member of the Board of Management of Deutsche Telekom AG responsible for the Europe business area and the strategic management of technology since October 2011. Before she joined Deutsche Telekom, she spent 17 years working in various management positions at business consulting firm McKinsey & Company in Europe, USA and Latin America, most recently as Senior Partner in charge of the high-tech sector in Europe, the Middle East, and Africa. In addition, she was responsible for managing projects in information and communications technology (ICT) integration, sustainable IT, and medical technology for international companies. Her areas of interest as a consultant included leadership and performance culture, the influence of diversity on corporate success, and technology leadership of European companies. In July 2013, Claudia Nemat joined the Supervisory Board of LANXESS AG. Claudia Nemat holds a degree in physics from Cologne University, where she also taught at the Institute for Theoretical Physics and Mathematics.





# TEN EMPLOYEE QUESTIONS TO TIMOTHEUS HÖTTGES



**1. Zsolt Villas, T-Systems Hungary, Debrecen:** What are our strengths over those of the competition?

**Timotheus Höttges:** We're better at building networks. The combination of fixed and mobile is one of our biggest strengths on the market. But that's not all: we also offer the best service around. Together with our partners, we want to provide best customer experience. We've recognized many trends early on – helping some of them to achieve breakthrough, like mobile Internet. Of course we've seen the occasional setback, but in our long company history we've never backed down. Deutsche Telekom has great staying power.



**3. Peyman Jazayeri, T-Systems International GmbH, Bonn:** Why is IP a priority for us? Why is the migration to IP so important?

**Timotheus Höttges:** Because it's good for our customers! The Internet Protocol is the gateway to the future of telecommunications. IP is the standard for data traffic through networks. IP ensures that all devices speak the same language and that a wide variety of content, such as text, voice and music, becomes available on practically any device. A standardized IP network is also highly streamlined, allowing us to bring new services to market much more quickly. In other words, with IP we can respond to our customers' needs more promptly. Finally, IP networks are much more efficient. This saves us money that we can re-invest in innovations that make our customers' lives easier.



**2. Frantisek Trachta, T-Mobile Czech Republic, Prague:** Why are you in favor of consolidation in Europe's telecommunications industry? What benefits will come from having fewer providers?

**Timotheus Höttges:** The European market is highly fragmented, with around 200 network operators and 28 national regulatory authorities. By contrast, in the United States there's only a handful of national carriers, and all of them play by the same rules. The telecommunications sector's top priority at the moment is to expand and upgrade its infrastructure, with investments in the billions. This is why Deutsche Telekom wants to build a pan-European network based on standard Internet technology. To make these investments, companies need economies of scale as well as uniform rules, at least across the EU.



**4. Jascha Minow, Deutsche Telekom, Darmstadt:** In addition to what we're doing in the European market, shouldn't we have a footprint in a few real growth markets?

**Timotheus Höttges:** Europe is a growth market, so we are currently growing here too. The sharing economy, Industry 4.0, the need for seamless online access whenever, wherever – these and other trends have enormous growth potential. We want to seize the resulting opportunities. Right here. Europe is our home, and that's the way things will stay. We know Europe better than anyone else. Our risks grow by leaps and bounds when we invest in countries whose cultures are less familiar to us and, consequently, whose market trends are more difficult for us to assess. Also, we can invest each euro only once. And we are already incurring enormous costs in expanding European broadband networks, including fixed and mobile networks.

**“DEUTSCHE TELEKOM IS ALREADY THE MOST EUROPEAN OF ALL TELECOMMUNICATIONS COMPANIES. AND OUR FUTURE LIES HERE IN EUROPE. WE KNOW EUROPE BETTER THAN ANYONE ELSE.”**



**5. Matthias Riekemann, Telekom Deutschland, Bonn:** You plan to invest more in partnerships with start-ups. What can the start-ups expect in this regard, and what's in it for Deutsche Telekom?

**Timotheus Höttges:** The main thing with such investments is to draw the line more clearly between our core business and the kinds of business we can handle with the help of partners. We want to have better access to innovation and once again step up our commitment to working in partnerships. For this we plan to invest 500 million euros over a five-year period. At the heart of this is a new investment vehicle by the name of Deutsche Telekom Capital Partners. At the same time, we want such efforts to be profitable – and, thus, to enhance the Group's financial flexibility. One important way we can achieve that goal is to help build, and increase the value of existing affiliations that lie outside of our core business.



**6. Jutta Rahenbrock, T-Systems, Cologne:** People are becoming increasingly concerned about their data being misused. How can we guard against that possibility?

**Timotheus Höttges:** Here, we have to see the difference between the political level and the industry level. First of all, I believe that we need strong data privacy protection. That is why we support the European General Data Protection Regulation (GDPR). We need a common set of regulations in Europe that would then also apply to overseas companies seeking to offer their services here. Second, companies themselves must work to provide simple encryption solutions and more of such solutions. Finally, customers must be able to know what is happening with their data, and they must be able to decide how much of their own data they wish to provide. Our society will benefit from applications that can process and analyze enormous volumes of data, i.e. from applications falling into the category of “big data”. For example, big data will improve traffic management and our ability to predict and prevent epidemics. But it must also be ensured that data cannot be misused, for instance by anonymizing them. Otherwise, we'll lose people's trust.



**7. Janina Schöneberg, T-Systems, Berlin:** You've criticized telecommunications regulation in Germany and Europe. What are your main complaints?

**Timotheus Höttges:** Regulation is there to ensure fair competition; also, I believe it serves to ensure that companies are able to invest sufficiently in their infrastructure. In the past, regulation has mainly had a different focus: lower prices. There's no doubt that this goal has been achieved. Time and again, the regulatory authorities have lowered the rates our competitors pay for using our infrastructure. But now it is clear that this focus has left companies without the resources they need for broadband expansion. The European telecommunications industry has been weakened. Therefore, we need regulation to change course. The focus must be on broadband expansion and encouraging investments. A state-of-the-art network infrastructure is what we need for our society's digital evolution, and for its ever-growing interconnectedness. Suitable incentives for that focus have to be provided. And wherever competition in Europe functions properly, regulation can be scaled back.



**8. Norbert Markowsky, Telekom Shop, Bonn:** Wages are rising, competition is getting fiercer. Isn't it maybe time we started raising our prices too?

**Timotheus Höttges:** That's a fair question, considering the billions we have invested. However, pricing is ultimately subject to supply and demand. Plus there is heavy competition in the telecommunications market. And the regulatory authority is still there, and it still has a voice in our pricing. Therefore, our approach is to boost our revenue with supplementary services that enhance customers' pure data lines. Entertain is a good example.



**9. Christos Rizogiannis, OTE, Athens:** What do you like about being CEO, and what are your biggest challenges?

**Timotheus Höttges:** I love being able to turn up anywhere in the company and nobody asks me why I am there. In my previous role as Chief Financial Officer, everyone knew I always had budget issues on my mind. What is more, I meet lots of interesting people and learn a great deal from them. As to the challenges, the complexity of the issues I have to deal with is certainly one of them. That's a challenge that motivates me, however. The more difficult an issue gets, the more I enjoy it.



**10. Aleksandar Razmovski, T-Mobile Macedonia, Skopje:** Is Deutsche Telekom planning to make more acquisitions so it becomes Europe's leading network operator?

**Timotheus Höttges:** You don't talk about acquisitions, you just go ahead and make them. But in answer to your question, right now I don't think it makes sense to expand across national borders because the situation currently doesn't allow for more than very limited synergies between the countries. At the moment we're expanding our business models in countries where we already have a footprint. And through alliances, for instance with the French company Orange, we are realizing economies of scale in procurement. In this way we are strengthening Deutsche Telekom – and not by spending huge sums on acquisitions.

# WHAT CONNECTS US.

It is in our nature to seek the company of others: humans need this interaction in order to move forward. Sharing fosters closeness. It is the very reason we choose to share our important moments with those important to us.

We share events, experiences, and opinions – sometimes even our possessions. We share knowledge and our ideas. And quite often, by sharing these thoughts, we turn them into something bigger, something better. That is what drives us.

We, Deutsche Telekom, are more than just another company, which provides infrastructure. Whatever the circumstances, we are a trusted companion in both private and work lives. Whenever we can, we are forever making life easier for people. Enriching it is our mission.

Our network is an artery pump that is reliable, and secure. It provides connectivity to all who need it.

We are close to the consumer. Our services are transparent, fair, and open to all.



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We identify innovative products at an early stage and develop them in collaboration with our partners.

We do all of this better than anyone else. This ability forms the basis of trust – an essential ingredient for long-lasting relationships.

Precisely this is the essence of our work at Deutsche Telekom. Together, with passion, focus and efficiency, we are entering a world of infinite possibilities.

This connects us.



LIFE IS FOR SHARING.

## BY 2018,

all countries where we operate a fixed network will migrate to IP: Germany, Greece, Croatia, Montenegro, Romania, and Hungary.

## BY THE END OF 2017,

at least 50 percent of Europe will have LTE network coverage.

# OUR COMMITMENT TO EUROPE

Our goal is clear: we want to become the leading European telecommunications provider. To make that happen, we rely on integrated networks, close cooperation with our partners, and products that delight our customers. We want to be the preferred provider for consumers and business customers alike.

We already consider ourselves the most European telecommunications provider. Europe accounts for 75 percent of our corporate value. It's home to 80 percent of our employees. That's reason enough to take responsibility and invest in Europe's digital future.

## IN JANUARY 2014,

we switched our network in Macedonia over to full IP. Why? Here's an example: IP customers in Macedonia can already order a broadband fixed-network line using their smartphones. They press a button and the line is there. Since December the same has been true for Slovakia.

We are the first network operator  
in Europe to switch over

## AN ENTIRE

country to IP.

By 2017, we anticipate we'll have around

# TEN MILLION

TV customers across Europe.



## THE ACQUISITION OF GTS

will enable our mobile subsidiaries in Eastern Europe to offer business and multinational customers cross-border voice and data services, virtual private networks, and cloud services thanks to an extensive regional optical fiber network and data centers.



# A RESPONSIBILITY FOR EUROPE

Europe's telecommunications industry is at a turning point. In areas such as semiconductor chips, terminal devices, and Internet services, the dominance of U.S. and Asian companies seems unassailable. And while telecommunications revenues are pointing clearly upwards in Asia and the U.S., in Europe they're declining - despite the worldwide rise in data traffic and the resulting investments in better and faster networks. Investment capacity across Europe has been weakened, particularly by regulatory policies that seek to bring prices down.

To maintain Europe's ability to shape its own digital destiny, we need a fresh approach to regulation. Governments need to put in place uniformly high data protection standards which also apply to non-European providers that plan to do business here. To encourage investment in network expansion, regulation has to focus on more than just low consumer prices. Finally, with more than 200 carriers and 28 national regulatory authorities this market is exceptionally fragmented and urgently requires consolidation. Now is the time to prepare Europe's infrastructure for the challenges of the future. A uniform set of competition rules has to be adopted for all providers that operate in Europe.

Deutsche Telekom wants to broaden its horizons. We want to develop new business models for as many countries as possible. To this end, we are developing a network for Europe that puts customers' needs first, no matter where in Europe they are.

Open platforms are one way to keep value creation in Europe and then to strengthen it. To enable them, companies need to overcome what is often still a silo approach. They need to work with partners. We've recognized this and are working to promote open technology standards. This will help start-ups to grow up fast and start shaping Europe's digital industry.

As a European provider, Deutsche Telekom wants to take responsibility for shaping the European market: on behalf of its employees, on behalf of Europe as a place of business, and on behalf of society at large.

# THE NETWORK OF THE FUTURE

Europe is currently witnessing one of the biggest technology projects ever to take place on the continent, comparable only to a complete overhaul of its railway lines: Deutsche Telekom is gradually replacing its existing networks with a pan-European, fully Internet Protocol-based network. We want to offer our consumers and business customers excellent network coverage wherever they happen to be. For this, we need an integrated fixed-network and mobile infrastructure that speaks one single language – IP.

IP is the standard language for data transmission through networks such as the Internet. Devices such as TVs, phones, cell phones and PCs but also fridges, alarm systems and cars will be connected to the Internet and can exchange data via IP. All communication devices such as smartphones, tablets, and landline phones can be contacted using a single phone number.

Businesses can set up video conferences or make calls from Outlook themselves. Consumers can use their smartphones to take pictures of their kids and send them to their grandparents' TV miles away.

Thanks to IP, Deutsche Telekom will be able to launch new products and services much faster than today, giving it a sharper competitive edge. We'll use our future pan-European network to develop new business models for as many countries as possible. In other words, we'll no longer have to introduce new technologies in each market individually – which is currently much more effort since the countries still have their own special systems. And last but not least, disruptions in the network can be more easily found and resolved.







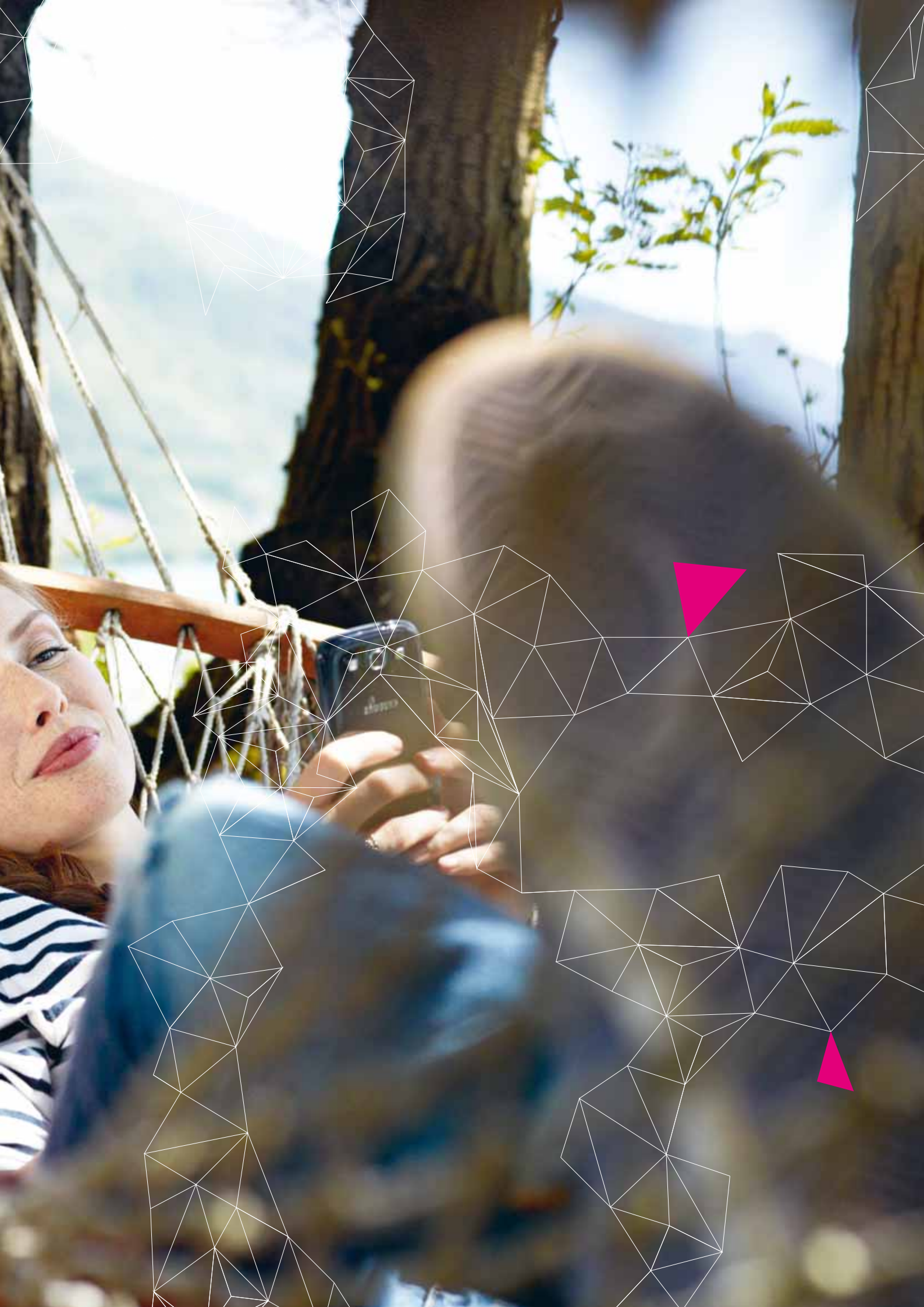
## HYBRID TECHNOLOGY, GREATER SPEED

Experts believe that by 2017, worldwide IP traffic will rise by 71 percent to 82 million terabyte – two terabyte is already equivalent to one million songs. To meet the enormous demand for more bandwidth, we're creating an intelligent mix of technologies.

For instance, the most recent addition to our portfolio is a hybrid router that unifies LTE, Wi-Fi, and fixed networks, combining speeds of up to 100 Mbps from the fixed network with up to 150 Mbps of mobile bandwidth.

The device allows Deutsche Telekom to offer higher speeds even in rural regions. It's a step towards bridging the gap between urban and rural regions and tying customers over until the optical fiber networks have been fully rolled out in the next few years.





By 2018, we'll have invested over

**EUR 250 MILLION**

in new customer service IT in Germany.

# CLOSE TO OUR CUSTOMERS

If you want to offer the best service in Europe, you have to be there when customers need something – whether that's digital or analog services, technical assistance, or on-demand self-service.

**BY THE END OF 2016,**

we'll have doubled the number of VDSL-ready households in Germany to 24 million.

**P3 COMMUNICATIONS,**

a leading international engineering company in the telecommunications sector, in June 2014 even granted two accolades to the OTE subsidiary's mobile data service.

## VECTORIZING

will allow us to offer download speeds of up to 100 Mbps and upload speeds of up to 40 Mbps.

We plan to increase the number of shops to 1,200 by 2018 in Germany alone, taking the total number of shops

## ACROSS EUROPE TO OVER 1,900.



We are consistently voted the

## “BEST NETWORK”

in an ongoing series of independent tests. In 2014, we again won all of the major network quality tests in Germany, our home market.

An independent speed test by Ookla, the world's most popular Internet speed test, confirmed in April 2014 that we also excel internationally:

## COSMOTE,

a subsidiary of our Greek shareholding OTE, has the fastest mobile data network in Greece.

## BY 2018,

we'll have switched all of our customers to the state-of-the-art high-performance IP technology.





## MILESTONES IN CUSTOMER SERVICE

Naturally, in the digital age customer service has to be provided online, too – it needs to be fast, reliable, and in real time. We are the first company in Germany to launch customer services via social media channels, a complement to our classic customer hotlines. With “Telekom hilft” (Telekom helps), our advisers already handle more than 1,400 inquiries via Twitter, Facebook and other social media every single day – and the figure is rising. In addition, around 1,000 customers a day visit the “Telekom hilft” online community. Customers in Hungary and Germany can connect to an adviser via videolink or chat for help with installing a router, for instance. In Germany, Deutsche Telekom has enhanced its existing reputation as a customer service leader by establishing a new “Telekom hilft” video call and chat app.





# ROMANIA GOES MAGENTA

In 2014, we launched our fixed network plus mobile communications services, provided by Romtelecom and COSMOTE Romania, under the same magenta-colored brand in Romania: Telekom Romania. The change is obvious. The shops, the website, and the providers' social media all have a new look. All customers of Romtelecom and COSMOTE Romania now enjoy innovative services under the new brand and T-Logo, including TV.








## MOBILE PAY- MENTS MADE IN EUROPE

When it comes to developing new products and bringing them to market, we can rely on expertise and knowledge from Europe. All of our national companies are responsible for innovation and are helping us to implement new projects. T-Mobile Poland, for instance, was the first Group company to launch MyWallet, a mobile payment system, in 2012.

The experience in Poland helped greatly to improve the service before rolling it out to our customers in Germany, Hungary, and Slovakia in 2014. With MyWallet, customers can use contactless technology to pay for their purchases at one of over 1.6 million MasterCard PayPass points around the world.


In future, our European customers can use their digital smartphone wallets to pay easily and securely for their purchases, store concert tickets, or collect loyalty points.



Our early-warning system records up to one million cyber attacks every single day ([www.sicherheitstacho.eu](http://www.sicherheitstacho.eu)). We use so-called honeypots to lure hackers to our systems and evaluate the attacks once they've been attempted, which delivers valuable information for future defense solutions.

Our activities in this area are as much about products and services as they are about dialog.

In October 2014, we entered into a partnership with the leading cyber security specialists FireEye: The FireEye solutions complement the "Advanced Cyber Defense" security portfolio developed by us, which is tailored to meet the security requirements of multinational corporations. This collaboration between FireEye and T-Systems is the first comprehensively managed service to protect companies quickly and effectively against IT espionage and cyber attacks.



In August 2014, we became one of the first providers to launch a mobile encryption solution for smartphones. The “Mobile Encryption app” for Android and iOS devices is globally applicable: in contrast to other solutions, it works in all phone networks, and even without a SIM card via Wi-Fi or a satellite link. The app allows encrypted communication even in countries that block Internet phone calls.

We are in constant contact with international Cyber Emergency Response Teams (CERT). We invite experts, politicians, and industry representatives to our annual Cyber Security Summit to discuss current challenges and work together to develop new ways to combat cybercrime.

## CONFIDENCE IN CYBERSPACE

IT security is one of the biggest challenges of our time – for private users as well as major corporations. As society becomes more networked and digitized, it also becomes more vulnerable to threats. The number of cyber attacks is on the rise, and they’re becoming increasingly sophisticated.

As one of Europe’s leading network operators, we feel we have a responsibility here. We want our customers to feel safe and well-informed as citizens of the digital world. We assist them in many ways, for instance with the guidelines we’ve written on [www.sicherdigital.de](http://www.sicherdigital.de) (in German only; see also [www.telekom.com/security](http://www.telekom.com/security)) or our range of simple security solutions, which are regularly updated. Our portfolio ranges from security packages for desktop computers and our browser 7, which has currently unrivaled security functions including training sessions and services which defend businesses against cyber attacks in real time.



## **DROPBOX,**

Europe's leading online data storage service, makes it easier for our customers to view, edit and share photos, videos, and documents.

## **WITH T-MOBILE-ZONE,**

a monthly subscription TV service, customers of T-Mobile Polska can access the broadcasting group's content on demand and view it whenever and wherever they like on their mobile devices.

# **SIMPLY MORE VARIETY**

With IP technology, we can build standardized platforms into which our partners simply plug in their services as they would with a power strip. We all benefit: partners, customers, and ourselves. The partners can focus on developing their products and services while we operate in the background, taking care of technical issues, managing the processes, and integrating their offerings in our portfolio. The customers can choose from an extensive range of innovative products and services and buy the partner-developed options directly from us. We're the face to the customer. We handle invoicing, customer services and - when selling to business customers - any maintenance services for partner solutions.

Consumers can pay for the partner services, such as Dropbox, Spotify or Evernote, through their Telekom bill.

The same simple ordering and payment system applies to business customer services and solutions from the cloud, too. Deutsche Telekom's growing partner ecosystem includes solutions from SAP, Microsoft, Cisco, Salesforce, VMWare, Oracle, Informatica, and others. In addition to the classic network and IT infrastructure options, Deutsche Telekom offers three cloud portals with a wide range of partner solutions to meet all needs.

## **WITH THE CLOUD INTEGRATION CENTER**

major customers can manage their entire IT environment via a highly secure private cloud, including proprietary IT components as well as bought-in applications and services.

## SPOTIFY

is a music streaming service with over 10 million customers that gives users access to millions of songs.

## EVERNOTE

is already helping more than 100 million customers worldwide to create notes on their phones, save website addresses and articles for later, draft to-do lists, and make audio recordings.

Using the two public app stores

### **BUSINESS MARKETPLACE AND BUSINESS MARKETPLACE FOR ENTERPRISE,**

small and medium-sized enterprises, and corporate customers have access to a number of certified business applications from the TelekomCloud which they can test online, order, and immediately use. Most of our shareholdings also offer a comparable range of business cloud solutions.

# CONNECTED HOME EVEN ON THE ROAD

By 2020, intelligent sensors and networked devices will have been installed in one million German homes. By 2025, connected and remote-controlled Smart Home functions will even be standard in all newly built homes.

With QIVICON, a home management solution, Deutsche Telekom is bringing connected homes within everyone's reach, offering more convenience, safety, and energy efficiency. A cross-brand, manufacturer-independent platform, QIVICON is all about networking devices inside the home. Users can monitor and control connected devices such as fridges, washing machines, heating systems, and cameras anytime and anywhere with a smartphone app. Smart Home owners can set the ambient temperature in individual rooms. Or they can let the blinds go up and down, making the house look occupied when they're on vacation. In an emergency, too, connected homes are a real bonus. The intelligent sensors around the house recognize water leakages or smoke and alert residents straight away via a smartphone alarm.

The portfolio is growing all the time. And what's more, QIVICON is mobile. When customers move, all of their devices move with them.





# THE BACKBONE OF INDUSTRY 4.0

The world is facing the next industrial revolution: the road to Industry 4.0. Industry 4.0 is all about networked machines, the collection and analysis of data, and the automation of entire production cycles. Intelligent networks help industry to respond more rapidly and accurately to customers' needs and to minimize production and delivery times.

The raw material of this revolution – the data – runs through our networks. We make that data available around the clock, wherever its users may be, and offer solutions that enable them to manage the data professionally. All solutions and services in this field run on our secure IT platforms via which we offer cloud services, security services, convergent mobile-fixed network products, and solutions for virtual collaboration.





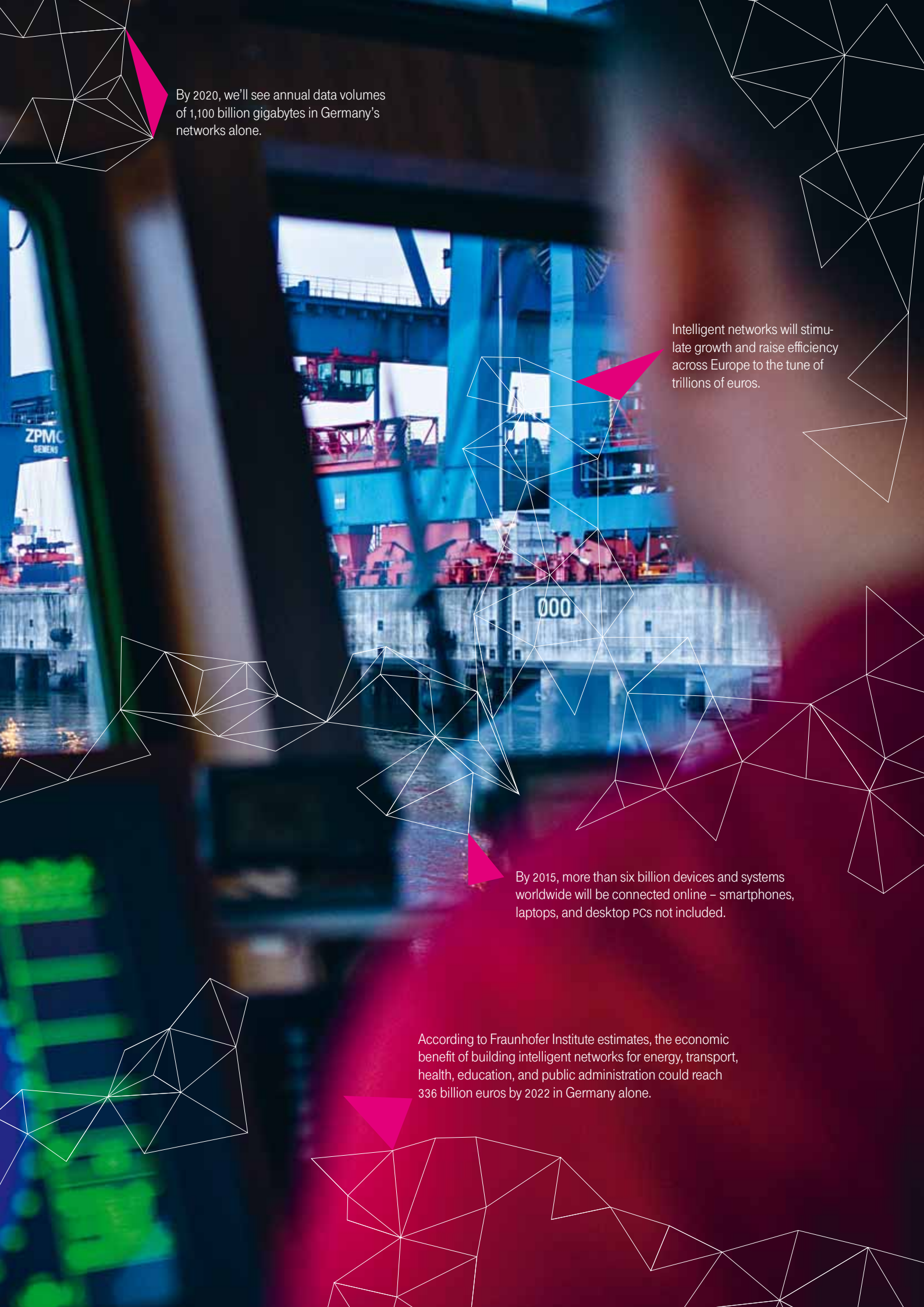




## INTELLIGENT SHOWCASE PROJECTS

One prime example of a new form of digitization is the port of Hamburg, Germany's largest seaport and the second largest port in Europe. Up to 40,000 trucks are loaded and unloaded here every day. Deutsche Telekom is supporting the Hamburg Port Authority as it transforms into a smartPORT. Our solutions help manage the ever increasing flow of goods more efficiently, avoid truck downtime and congestion, and keep track of the situation on the ground 24/7. Our portal is a communication hub for all parties: port managers, terminal and parking space operators, freight forwarders, and drivers. A rapid response to the traffic and infrastructure situation saves all parties time and money – plus less congestion is better for the environment.

Another example is our partnership with agricultural machinery manufacturer CLAAS to demonstrate how networked machinery can raise the efficiency of harvesting processes. The intelligent combine harvester alerts the tractor pulling the truck via LTE when the grain store is close to full. The tractor selects the best route to the combine and notifies silo management that it's on its way back. The combine also receives and analyzes meteorological data. If rain is forecast in three hours' time, for instance, it suggests to the farmer to switch from fuel-preserving mode to a high-speed setting.



By 2020, we'll see annual data volumes of 1,100 billion gigabytes in Germany's networks alone.

Intelligent networks will stimulate growth and raise efficiency across Europe to the tune of trillions of euros.

By 2015, more than six billion devices and systems worldwide will be connected online – smartphones, laptops, and desktop PCs not included.

According to Fraunhofer Institute estimates, the economic benefit of building intelligent networks for energy, transport, health, education, and public administration could reach 336 billion euros by 2022 in Germany alone.

# THE SUPERVISORY BOARD



SARI BALDAUF



JOSEF BEDNARSKI



DR. WULF H. BERNOTAT



MICHAEL SOMMER



MONIKA BRANDL



JOHANNES GEISMANN



LARS HINRICHS



DR. HUBERTUS VON GRÜNBERG



PROF. ULRICH LEHNER



DAGMAR P. KOLLMANN



DR. ULRICH SCHRÖDER



KARL-HEINZ STREIBICH



KLAUS-DIETER HANAS



SYLVIA HAUKE



HANS-JÜRGEN KALLMEIER



DR. H. C. BERNHARD WALTER †



WALTRAUD LITZENBERGER



PETRA STEFFI KREUSEL



SIBYLLE SPOO



LOTHAR SCHRÖDER

## SUPERVISORY BOARD'S REPORT TO THE 2015 SHAREHOLDERS' MEETING

The 2014 financial year was marked in particular by the further development and implementation of the Group strategy, the transformation of the Group, the continued positive development of business in the United States, the persistently challenging macroeconomic environment in Southern and Eastern Europe, and ongoing high competitive and regulatory pressure. Despite these ongoing challenges, the Group generated good results in the 2014 financial year and fulfilled the expectations. The Supervisory Board exercised its statutory functions as an advisory and supervisory body and gave the Board of Management its full support.





## SUPERVISORY BOARD ACTIVITIES IN THE 2014 FINANCIAL YEAR

The Supervisory Board continually monitored the Board of Management's activities to manage the business and the Group as a whole. Specifically, its supervisory role consisted of ensuring that these activities were lawful, compliant, appropriate, and efficient. The primary prerequisites for fulfilling this role were the Board of Management's written and oral reports. In particular, the Board of Management regularly reported to the Supervisory Board on corporate strategy, planning, business developments, the risk situation, risk management, compliance, and any deviations in the business developments from original plans, as well as significant business transactions involving the Company and significant subsidiaries and associates. The Supervisory Board regularly reviewed the situation of the Company on the basis of the Board of Management's written and oral reports each time the Supervisory Board or one of its committees met. The business trends were discussed at each meeting of the Supervisory Board. The Board of Management fulfilled its duties to inform the Supervisory Board quickly and in full. The Board of Management's reports met all statutory requirements, the standards of good corporate governance, and the criteria imposed on them by the Supervisory Board with regard to both content and scope. In addition to the reports, the Supervisory Board requested and received supplementary information. The Supervisory Board reviewed, critically analyzed and verified the plausibility of these reports and other information.

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

Between meetings, the Chairman of the Supervisory Board regularly met with the Board of Management and especially with its Chairman to discuss issues relating to the Company's strategy, its plans, the development of its business, the situation in terms of risks and risk management as well as compliance, and was informed of the general business situation and significant events.

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

- Business development and strategy in the United States (e.g., acquisition of spectrum, network investments)
- Migration to all-IP in Germany and Europe
- Disposal and acquisition of equity interests (e.g., Scout24, T-Mobile Czech Republic)
- Foundation and establishment of the Deutsche Telekom Capital Partners fund structure
- Further development of the Group strategy and transformation of the Group
- Monitoring of further development of innovation areas
- Monitoring of intra-Group restructuring measures (e.g., T-Systems)
- Development of the Group's portfolio of shareholdings
- Group budget and medium-term planning as well as finance strategy and shareholder remuneration policy
- The development of staffing requirements, headcount, and qualitative personnel planning
- The Group's risk and compliance situation
- Results of the impairment tests that must be carried out at regular intervals under International Financial Reporting Standards (IFRS), and review of accounting methods used for intangible assets in accordance with German GAAP
- Corporate governance, with special emphasis given to new recommendations of the German Corporate Governance Code on Board of Management compensation
- Annual financial statements, consolidated financial statements for the 2014 financial year
- Share dividend
- Motions for resolution to the 2014 ordinary shareholders' meeting, in particular the Supervisory Board's recommendation to the shareholders' meeting concerning the appointment of external auditors and Supervisory Board recommendations to the shareholders' meeting concerning the appointment of members of the Supervisory Board as shareholders' representatives
- Efficiency and adequate independence of the Supervisory Board
- Long-term succession planning for the Board of Management
- Succession management in the Human Resources Board of Management department



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

### ORGANIZATION OF THE SUPERVISORY BOARD'S ACTIVITIES

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

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

The **Finance Committee** mainly deals with complex financial and business management topics within the Company. Members: Dr. Ulrich Schröder (Chairman), Josef Bednarski, Dr. Wulf H. Bernotat, Monika Brandl, Sylvia Hauke, Karl-Heinz Streibich.

The **Audit Committee's** area of responsibility is defined by German legislation and the German Corporate Governance Code. These include, in particular, monitoring the accounting process, the effectiveness of the internal control system, risk management and the internal auditing system, compliance and data privacy. The committee also handles matters relating to the audit of the Company's financial statements, verifies the independence of the external auditors, and monitors any additional services provided by the external auditors, the commissioning of the external auditor, the stipulation of the main focuses of the audit and the agreement on fees. After thorough discussion, the Audit Committee issued a recommendation to the Supervisory Board about the external auditors to be nominated by the 2015 shareholders' meeting.

Dr. h. c. Bernhard Walter (deceased on January 11, 2015), Chairman of the Audit Committee, was an independent member and had expert knowledge of accounting and auditing (§ 100 (5) of the German Stock Corporation Act (Aktengesetz – AktG)). He was also particularly knowledgeable and experienced in the application of accounting standards

and internal control procedures. The other committee members: Dr. Hans Bernhard Beus (until February 5, 2014), Johannes Geismann (since February 6, 2014), Hans Jürgen Kallmeier, Dagmar P. Kollmann, Petra Steffi Kreusel, Waltraud Litzenberger. The Supervisory Board elected Ines Kolmsee to the Audit Committee on February 4, 2015, following her appointment by the responsible district court. Dagmar P. Kollmann was appointed Chairwoman of the Audit Committee by the Supervisory Board on February 4, 2015. Dagmar P. Kollmann has expert knowledge of accounting, auditing and internal control procedures, has never served on the Board of Management of Deutsche Telekom AG, and meets all other requirements of § 100 (5) AktG.

In the 2014 financial year, the Audit Committee again held its annual extraordinary meeting on fundamental Group issues in addition to its regular meetings. The 2014 extraordinary meeting mainly dealt with the effectiveness of risk management, compliance, accounting, data privacy and data security, financial statement audits, the responsibilities of the Audit Committee, and new legal developments at national and European level.

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

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

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

The **Technology and Innovation Committee** supports and promotes innovation and technological developments at infrastructure and product level and supports the Board of Management with advice on how to tap new growth areas. Members: Dr. Hubertus von Grünberg (Chairman), Sari Baldauf, Lars Hinrichs, Hans-Jürgen Kallmeier, Lothar Schröder, Michael Sommer.

The Special Committee for business in the United States was reestablished on May 14, 2014 and resumed its work. The committee is responsible for monitoring the strategic positioning of the Group in the United States. Members: Prof. Ulrich Lehner (Chairman), Josef Bednarski, Dr. Wulf H. Bernotat, Sylvia Hauke, Dr. Ulrich Schröder, Lothar Schröder.

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


#### MEETINGS OF THE SUPERVISORY BOARD

In the 2014 financial year, the Supervisory Board held four regular meetings and two extraordinary meetings. The Supervisory Board also met for an in-depth conference to discuss issues of strategic relevance. The General Committee of the Supervisory Board met eight times during the reporting year (including one joint meeting with the Finance Committee). The Audit Committee convened five times in the 2014 financial year, the Finance Committee had five meetings (one together with the General Committee and one in combination with the Technology and Innovation Committee). The Staff Committee of the Supervisory Board held four meetings, the Nomination Committee met five times, and the Technology and Innovation Committee had three meetings. The Special Committee for business in the United States met twice. There was no need for a meeting of the Mediation Committee in the reporting year. Dr. h. c. Bernhard Walter (deceased on January 11, 2015) attended less than half of the meetings of the Supervisory Board due to illness. With regard to the frequency of the Board members' participation in Supervisory Board meetings in the 2014 financial year, there were no other events that would have to be reported pursuant to the recommendations of the German Corporate Governance Code.

#### CONFLICTS OF INTEREST

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

#### CORPORATE GOVERNANCE

The Supervisory Board and Board of Management are aware that good corporate governance is essential for corporate success. The provisions of the German Corporate Governance Code are hence reflected in the Company's statutes. The Board of Management and the Supervisory Board last issued their declaration of conformity with the Corporate Governance Code on December 30, 2014. 



The Company's corporate governance policy is also presented in greater detail in a separate section of the Annual Report (PAGE 49 ET SEQ.).

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

Timotheus Höttges succeeded René Obermann as Chairman of the Board of Management on January 1, 2014.

Thomas Dannenfeldt succeeded Timotheus Höttges as Board member responsible for Finance effective January 1, 2014.

Prof. Marion Schick's appointment as member of the Board of Management for Human Resources and as Labor Director was terminated by mutual agreement effective midnight April 30, 2014. Dr. Thomas Kremer had been acting as deputy of Prof. Schick since January 2014, and since her departure has been interim Member of the Board of Management responsible for Human Resources in addition to fulfilling his own duties as Member of the Board of Management responsible for Data Privacy, Legal Affairs and Compliance.

#### CHANGES IN THE COMPOSITION OF THE SUPERVISORY BOARD

Shareholders' representatives: At the shareholders' meeting on May 15, 2014, Johannes Geismann, Lars Hinrichs and Karl-Heinz Streibich, who had previously been court-appointed as members of the Supervisory Board, were elected to the Supervisory Board.

Dr. Ulrich Schröder was re-elected for a further term of office on the Supervisory Board at the shareholders' meeting on May 15, 2014.

Dr. h. c. Walter passed away on January 11, 2015. Ines Kolmsee, who had been proposed as a candidate by the Nomination Committee in line with the nomination targets set by the Supervisory Board, was appointed as shareholders' representative on the Supervisory Board by the relevant district court effective January 31, 2015 until the end of the 2015 shareholders' meeting.

Employees' representatives: There were no changes on the employee representative side in the 2014 financial year.

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

#### REVIEW OF ANNUAL FINANCIAL STATEMENTS OF THE PARENT COMPANY AND CONSOLIDATED FINANCIAL STATEMENTS FOR THE 2014 FINANCIAL YEAR

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

PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Frankfurt/Main, which was appointed as auditor of the single-entity financial statements and auditor of the consolidated financial statements ("external auditor") for the 2014 financial year by the shareholders' meeting on the recommendation of the Audit Committee and proposed for appointment by the entire Supervisory Board, audited the annual financial statements as of December 31, 2014, which were prepared in accordance with the provisions of the German

Commercial Code (Handelsgesetzbuch – HGB), and the management report, which was combined with the Group management report, as well as the consolidated financial statements as of December 31, 2014, which were prepared in accordance with IFRS as adopted by the EU and the additional requirements of German commercial law pursuant to § 315a (1) HGB, and the Group management report, which was combined with the management report, and issued an unqualified audit opinion for each document.

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

The external auditor also confirmed to the Audit Committee and the Supervisory Board in their financial statement review meetings on February 24 and 25, 2015 respectively that there are no circumstances that may give rise to doubts about the external auditor's impartiality. In this context, the auditor also reported on any services rendered in addition to auditing services. In the Supervisory Board meeting on February 24, 2015, the Audit Committee informed the Supervisory Board about its monitoring of the auditor's independence while taking account of the non-audit services provided and about its conclusion that the auditor continues to be independent as necessary.

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

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

In preparation, the Audit Committee had conducted a thorough review of the aforementioned documents. The annual financial statements, the consolidated financial statements, and the combined management report and Group management report, as well as the Board of Management's proposal for the appropriation of net income were explained in detail by the Board of Management to the members of the Audit Committee at its meeting on February 24, 2015. The members of the Board of Management also answered the committee members' questions. Moreover, the external auditor explained its audit, in particular the key audit areas defined in agreement with the Audit Committee and the Supervisory Board, the main results of its audit,

and its audit report. The external auditor did not identify any material weaknesses in the internal control system at Group level, in the risk management system, or in the accounting process. The members of the Audit Committee acknowledged and critically reviewed the audit report and audit opinion, and discussed them, as well as the audit itself, with the external auditor. The review included questions about the nature and extent of the audit and about the audit findings. The Audit Committee satisfied itself that the audit and the audit report were compliant. In particular, it satisfied itself that the audit report, and the audit conducted by the external auditor, met the legal requirements. The Audit Committee agrees with the external auditor that there are no material weaknesses, in particular with regard to the accounting process, in the internal control or risk management systems at Group level. The Audit Committee recommended to the Supervisory Board to approve the results of the audit conducted by the external auditor and, since it had no objections to the documents submitted by the Board of Management, to approve the annual financial statements and the consolidated financial statements, as well as the combined management report and Group management report, and to support the Board of Management's proposal for the appropriation of net income.

The Supervisory Board performed the final review of the annual financial statements, the consolidated financial statements, and the combined management report and Group management report, as well as the Board of Management's proposal for the appropriation of net income on February 25, 2015, taking into account the report and recommendations of the Audit Committee and the external auditor's audit report. The members of the Board of Management attended this meeting, explained the documents they had submitted, and answered the questions from the Supervisory Board. The external auditor also attended this meeting and reported on its audit and the main findings of its audit, explained its audit report, and answered the questions raised by the Supervisory Board, in particular relating to the nature and extent of the audit and the audit findings. Based on this and the report presented by the Audit Committee, the Supervisory Board satisfied itself that the audit and the audit report were compliant. The Supervisory Board followed the Audit Committee's recommendation and approved the result of the external auditor's audit.

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

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

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

When the Board of Management and the Supervisory Board approved the Company's medium-term financial planning for the next three years on December 18, 2014, the Supervisory Board conducted an in-depth examination of the medium-term financial and investment plans, discussing in particular the development of earnings, free cash flow, and balance sheet ratios. The Board of Management's proposal concerning the appropriation of net income was examined by the Audit Committee on February 24, 2015 and by the Supervisory Board on February 25, 2015. The external auditor was present at both meetings. The Supervisory Board followed the Audit Committee's recommendation to approve and support the Board of Management's proposal to pay out shareholder remuneration of around EUR 2,257.3 million and to carry forward EUR 2,409.5 million to unappropriated net income.

#### REVIEW OF THE DEPENDENT COMPANY REPORT

The Board of Management presented its dependent company report for the 2014 financial year to the Supervisory Board in good time.

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

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

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

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

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

Prior to the review and resolution by the Supervisory Board, the Audit Committee conducted a thorough review of the aforementioned documents. At its meeting on February 24, 2015, the Audit Committee asked the members of the Board of Management to explain the details of the dependent company report. The members of the Board of Management also answered the committee members' questions. Moreover, the external auditor, who also attended the meeting, reported on its audit, in particular its key audit areas and the significant results of its audit, and explained its audit report. The members of the Audit Committee acknowledged and critically reviewed the audit report and audit opinion, and discussed them, as well as the audit itself, with the external auditor. The review included questions about the nature and extent of the audit and about the audit findings. The Audit Committee satisfied itself that the audit and the audit report were compliant. In particular, it satisfied itself that the audit report, and the audit conducted by the external auditor, met the legal requirements. The Audit Committee recommended to the Supervisory Board to approve the results presented by the external auditor and, as the committee saw no grounds for objections to the Board of Management's declaration on the dependent company report, to pass a corresponding resolution.

The Supervisory Board performed the final review at its meeting on February 25, 2015, taking into account the resolution and the Audit Committee's recommendation as well as the external auditor's report. The members of the Board of Management also attended this meeting, explained the dependent company report, and answered questions from the Supervisory Board. The external auditor also attended this meeting and reported on its audit of the dependent company report and the main findings of its audit, explained its audit report, and answered the questions raised by the Supervisory Board, in particular relating to the nature and extent of the audit of the dependent company report and the audit findings. Based on this and the report presented by the Audit Committee, the Supervisory Board satisfied itself that the audit of the dependent company report and the audit report were compliant. In particular, it satisfied itself that the audit report, and the audit conducted by the external auditor, met the legal requirements. The Supervisory Board did not find any indications of discrepancies, incompleteness, or any other objections as part of its audit. The Supervisory Board also satisfied itself that the group of dependent companies had been defined with due care and that the necessary systems had been put in place for recording legal transactions and measures subject to disclosure. The Supervisory Board followed the Audit Committee's recommendation and approved the result of the external auditor's audit of the dependent company report. Based on the final result of the Supervisory Board's own review of the dependent company report, the Supervisory Board has no objections to the Board of Management's declaration on the dependent company report.

The Supervisory Board would like to thank the members of the Board of Management, the members of the works councils and all of Deutsche Telekom's employees for their commitment and dedication in the 2014 financial year.

Bonn, February 25, 2015  
The Supervisory Board

Prof. Ulrich Lehner  
Chairman

# CORPORATE GOVERNANCE REPORT


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


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

In the 2014 financial year, the Board of Management and Supervisory Board once again carefully examined the corporate governance of Deutsche Telekom AG and the Deutsche Telekom Group as well as the contents of the German Corporate Governance Code. During the reporting period just ended, as in prior years, Deutsche Telekom AG again fulfilled all of the Code's recommendations. The Supervisory Board and Board of Management of Deutsche Telekom AG therefore released an unqualified Declaration of Conformity with the German Corporate Governance Code on December 30, 2014:

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

- I. The Board of Management and Supervisory Board of Deutsche Telekom AG hereby declare that, in the period since submission of the most recent declaration of conformity pursuant to § 161 AktG on December 30, 2013, Deutsche Telekom AG has complied with the recommendations of the Government Commission on the German Corporate Governance Code announced by the Federal Ministry of Justice on June 10, 2013 in the official section of the Federal Gazette (Bundesanzeiger), without exception.
- II. The Board of Management and Supervisory Board of Deutsche Telekom AG hereby declare further that Deutsche Telekom AG has complied with the recommendations of the Government Commission on the German Corporate Governance Code, published by the Federal Ministry of Justice in the official section of the Federal Gazette (Bundesanzeiger) on September 30, 2014, without exception.

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

**Cooperation between the Supervisory Board and the Board of Management.** The Supervisory Board and the Board of Management work closely together for the good of the Company and maintain regular contact. The Supervisory Board of Deutsche Telekom AG holds four regular meetings a year. In 2014, there were also two extraordinary meetings and one in-depth conference on the strategic alignment of the Company. The Board of Management keeps the Supervisory Board fully and regularly informed in good time on corporate strategy, planning, business developments, the risk situation, risk management, compliance, and any deviations in the business developments from original plans, as well as significant business transactions involving the Company and major Group companies. The Board of Management regularly submits written and oral reports. The reporting obligations of the Board of Management have been specified by the Supervisory Board and go beyond statutory requirements. The activities of the Board of Management and the Supervisory Board are specified in separate Rules of Procedure. Those that govern the Board of Management provide guidance on its schedule of responsibilities and the majorities required for resolutions, among other issues. The Chairmen of the two Boards exchange information regularly. 

**Composition of the Board of Management.** In accordance with the Board of Management's schedule of responsibilities, there are seven Board departments: the department of the Chairman of the Board of Management; Finance; Human Resources; Data Privacy, Legal Affairs and Compliance; T-Systems; Germany; and Europe and Technology. Each Board of Management member is authorized to manage the spheres of responsibility allocated to him/her. Certain matters are subject to approval by the full Board of Management. Furthermore, every Board member can submit matters to the full Board of Management for decision. As a rule, members of the Board of Management should not be older than 62 years of age (standard age limit).

**Composition of the Supervisory Board.** The Supervisory Board of Deutsche Telekom AG consists of twenty members, ten representing the shareholders and ten representing the employees. The Supervisory Board members representing the shareholders are elected by the shareholders' meeting by simple majority. As in previous years, elections to the Supervisory Board were held at the last shareholders' meeting on May 15, 2014. The approximately five-year terms of office of the individual Supervisory Board members representing the shareholders end on different dates. This ensures continuity in terms of the Supervisory Board's composition. The Supervisory Board members



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For details about cooperation between the Board of Management and Supervisory Board, please refer to the section "Supervisory Board's report to the 2015 shareholders' meeting," PAGE 42 ET SEQ. of the Annual Report.



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For details about changes to the composition of the Supervisory Board during the reporting period, please refer to the Supervisory Board's report to the shareholders' meeting on **PAGE 42 ET SEQ.** of the Annual Report.

representing employees were most recently elected at the delegates' assembly on November 26, 2013 according to the provisions of the German Codetermination Act (Mitbestimmungsgesetz – MitbestG) and appointments to the committees of the Supervisory Board made accordingly.

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

- The Supervisory Board hereby sets itself the goal, while taking into account the Company's specific situation, to take into consideration in the recommendations it makes to the competent election bodies concerning future appointments to the Supervisory Board not only the requisite expertise of a candidate, but also the aspect of diversity.
- The Supervisory Board has to be composed in such a way that its members as a group possess the knowledge, ability and expert experience required to properly perform its tasks.
- The Supervisory Board supports an appropriate degree of female representation on the Supervisory Board. It aims to have a proportion of 30 percent women on the Supervisory Board, the Company's intended proportion of women in management positions, by the end of 2015.
- In view of the Company's international focus, candidates with an international background should be given appropriate consideration in future appointments to the Supervisory Board.
- Conflicts of interest are to be avoided in appointments to the Supervisory Board.
- Supervisory Board members should not be older than 67 at the time of their appointment (standard age limit).
- The Supervisory Board must include at least sixteen members who are independent within the meaning of Section 5.4.2 of the German Corporate Governance Code. It is assumed that those Supervisory Board members elected in accordance with the Codetermination Act are independent in principle as defined. On the shareholders' representative side, at least six members of the Supervisory Board must be independent.

Regarding the achievement level of the Supervisory Board membership target:


The proportion of women on the Supervisory Board totaled 35 percent in the 2014 financial year, meaning the target of bringing the proportion to 30 percent by the end of 2015 had already been fulfilled. Following the appointment by court order of Ms. Ines Kolmsee on January 31, 2015, the proportion of women on the Supervisory Board totaled 40 percent.

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

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


**Tasks assigned to the Supervisory Board.** The Supervisory Board appoints the members of the Board of Management, advises the Board of Management on issues concerning the governance of the Company and supervises its activities. The Supervisory Board is directly involved in all decisions of strategic importance to the Company. The work of the Supervisory Board is specified in Rules of Procedure. To clarify the reporting requirements on the part of the Board of Management, the Supervisory Board has drawn up a catalog of transactions subject to approval. This catalog forms an integral part of the Rules of Procedure for the Supervisory Board and the Board of Management, respectively. The Supervisory Board assesses the efficiency of its work on a regular basis. The last self-assessment was carried out in 2013. The self-assessment carried out to this end was based on a comprehensive questionnaire and intense discussion within the Supervisory Board. The next efficiency audit is planned for fall 2015.


In order to perform its tasks more effectively, the Supervisory Board has seven standing committees. The General Committee deals with personnel matters relating to the Board of Management and prepares the meetings of the Supervisory Board. The Staff Committee deals with general personnel matters not relating to the Board of Management. The Finance Committee mainly deals with complex financial and business management topics within the Company. The Audit Committee performs the tasks required by law and in accordance with the German


Corporate Governance Code. These include, in particular, monitoring the accounting process, the effectiveness of the internal control system, the risk management and internal auditing system, the audit of financial statements, compliance, and data privacy. The Technology and Innovation Committee supports and promotes innovation and technological developments at infrastructure and product level and supports the Board of Management with advice on how to tap new growth areas. Furthermore, the Supervisory Board has formed a Nomination Committee, which consists exclusively of shareholders' representatives. The Nomination Committee is responsible in particular for proposing to the Supervisory Board suitable candidates for the latter to subsequently recommend to the shareholders' meeting for election. Finally, there is a Mediation Committee, which was formed in accordance with § 27 (3) of the Codetermination Act. The committee for business in the United States, which had been set up on a temporary basis in 2013, was reestablished on May 14, 2014 and resumed its work. 

The committees' chairpersons report to the Supervisory Board on a regular basis on the work of the committees. Dr. h. c. Bernhard Walter was Chairman of the Audit Committee in the financial year. He held this position until his death in January 2015. Ms. Dagmar P. Kollmann took over as Chairwoman of the Audit Committee on February 4, 2015. Like Dr. Walter before her, Ms. Dagmar P. Kollmann is particularly knowledgeable and experienced in the fields of accounting, auditing, and internal control procedures. In the same way as Dr. Walter, she never served on the Board of Management of the Company. She likewise satisfies the requirements of § 100 (5) AktG.

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

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

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

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

**Compliance.** Compliance involves the observance of legal requirements and internal Group rules. Deutsche Telekom AG has a Group-wide compliance organization that is continuously being improved (for details, please refer to the 2013 Corporate Responsibility Report ). There is also a Compliance Committee which supports the Board of Management in further developing the framework for an effective compliance management system. The members of the Compliance Committee are experienced managers in the areas of compliance, legal affairs, security, internal auditing, and human resources. The Chief Compliance Officer, appointed by the Board of Management, chairs the Compliance Committee. A compliance officer has been appointed for each of the operating segments. Individual business units have additional compliance officers/contacts depending on their respective size and risk situation. Clear reporting structures have been implemented throughout the Group. The significance attached to compliance is underlined by the decision to pool all compliance activities in the Board of Management department for Data Privacy, Legal Affairs and Compliance.



For details on conflicts of interest that have arisen, please refer to the Supervisory Board's report to the shareholders' meeting on **PAGE 42 ET SEQ.** of the Annual Report.



For details about the composition, tasks and working methods of the committees, please refer to the Supervisory Board's report to the shareholders' meeting on **PAGE 42 ET SEQ.** of the Annual Report.



For more information, please refer to the section "Risk and opportunity management" on **PAGE 146 ET SEQ.** of the Annual Report.



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For further details of the members of the Supervisory Board and any seats they hold on the supervisory boards of other companies, please refer to **PAGE 270 ET SEQ.** of the Annual Report.



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

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



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

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

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

**Internal controls over financial reporting.** Deutsche Telekom AG has implemented a process to systematically assess the effectiveness of its internal controls over financial reporting. This process again provided evidence of the controls' effectiveness throughout the Group for the 2014 financial year. The Audit Committee assumes the task of monitoring the accounting and financial reporting processes on behalf of the Supervisory Board. The system of internal controls over financial reporting is updated on an ongoing basis and monitored separately by Internal Audit and external auditors.

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



For a description of the main features of the accounting-related internal control system, please refer to the section "Accounting-related internal control system" in the Group management report on **PAGE 164** of the Annual Report.

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

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

Bonn, February 25, 2015

The Supervisory Board and the Board of Management



# THE T-SHARE

T 009

## T-Share information

		2014	2013
<b>XETRA CLOSING PRICES</b>			
Share price on the last trading day	€	13.25	12.43
Year high	€	13.71	12.60
Year low	€	10.35	8.01
<b>TRADING VOLUME</b>			
German exchanges	billions of shares	3.0	3.7
Market capitalization on the last trading day	billions of €	60.1	55.3
<b>WEIGHTING OF THE T-SHARE IN MAJOR STOCK INDEXES ON THE LAST TRADING DAY</b>			
DAX 30	%	5.1	4.6
Dow Jones Euro STOXX 50®	%	2.1	1.2
<b>T-SHARE - KEY FIGURES</b>			
Earnings per share (basic and diluted)	€	0.65	0.21
Proposed dividend	€	0.50	0.50
Number of shares issued	millions, at year-end	4,535.57	4,451.18

## CAPITAL MARKETS ENVIRONMENT

The global economy showed moderate growth in the 2014 financial year. The International Monetary Fund's current estimate from January 2015 assumes global economic growth of around 3.3 percent for 2014, which showed contrasting trends: While growth rates increased in the United States, the United Kingdom, and many European countries in 2014, they stagnated in emerging economies.

The expansive monetary policies of the central banks and persistently low level of interest continued to fuel the buying mood on the stock markets, although growth was not as strong as it was in 2013.

## DEVELOPMENT OF INTERNATIONAL INDEXES

The DAX climbed for the third year in a row. Ultimately it rose by around 3 percent in the course of the year, closing at 9,806 points. It reached an annual high of 10,087 points on December 5, 2014. The low of 8,572 points was reached on October 15, 2014.

The Dow Jones Euro STOXX 50® recorded slight growth – although weaker than that of the DAX. The index increased by around 4 percent year-on-year on a total return basis (share price performance plus reinvested dividend, i.e., similar to the DAX), closing the year at 3,146 points. The year high of 3,315 points was reached on June 19, 2014, the year low of 2,875 points on October 16.

Growth on the U.S. and Japanese stock markets was much more robust, although it did not achieve the double-digit rates of the prior year.

In the United States, the Dow Jones increased by around 8 percent in 2014, ending the year at a closing price of 17,823 points. The index reached its low for the year on February 3, at 15,373 points. The high of 18,054 points was reached on December 26, 2014.

Japan's Nikkei also recorded an upwards trend, closing the year at 17,451 points, up by around 7 percent. The annual high of 17,936 points was recorded on December 8, 2014, the low of 13,910 points on April 14, 2014.

## T-SHARE PERFORMANCE

For shareholders in the European telecommunications sector, 2014 was again a good year overall. The sector index Dow Jones STOXX Telecommunications® increased by around 12 percent on a total return basis in 2014, once again much faster than the DAX or the Dow Jones Euro STOXX 50®. In particular, the incipient consolidation in the European telecommunications sector gave a boost to the share price performance.

Our T-Share ended the year at a closing price of EUR 13.25, or plus 6.6 percent.

On a total return basis (share price performance plus reinvested dividend, i.e., similar to the DAX), our share recorded growth of around 11 percent, thereby substantially outperforming the DAX.

third quarter in early November, the share took a turn for the better. The annual low of EUR 10.35 was recorded on October 16, the high of EUR 13.71 on December 5.

The share price remained highly volatile well into the fourth quarter. While the business figures presented were received very positively, the share price was beset by fears regarding the growing intensity of competition on the German mobile market and media reports at the start of August that Sprint has abandoned its plans for a business combination with T-Mobile us. But with the publication of the business figures for the

Shareholders were again granted the option of drawing their dividend for 2014 in the form of shares instead of cash. There was an acceptance rate of some 45 percent. The exercising of the option results in an increase in the number of shares issued by 84.4 million to around 4,536 million. This corresponds to a capital increase of almost 2 percent.

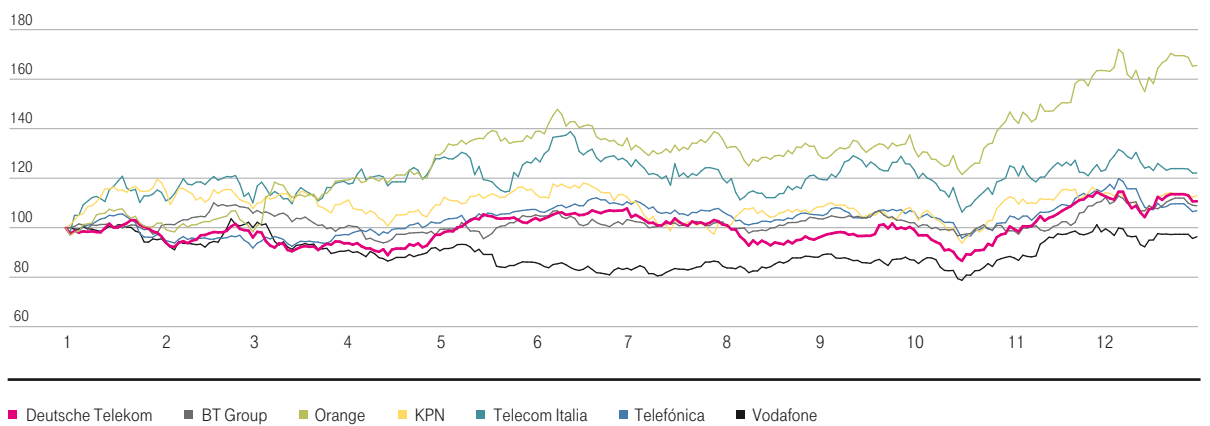
G 01

**T-Share as compared to DAX, Dow Jones Euro STOXX 50®, and Dow Jones STOXX® Telecommunications**  
January 1 to December 31, 2014 (based on total shareholder return<sup>a</sup>)



G 02

**T-Share as compared to other European telecommunications companies**  
January 1 to December 31, 2014 (based on total shareholder return<sup>a</sup>)



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

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

Members of the Deutsche Telekom AG Board of Management and Supervisory Board bought a total of 104,310 Deutsche Telekom shares in 2014. Total direct or indirect holdings in the Company or associated financial instruments by members of the Board of Management and the Supervisory Board do not exceed 1 percent of the shares issued by the Company.

## DIVIDEND

The Board of Management and Supervisory Board of Deutsche Telekom AG propose to this year's shareholders' meeting, to be held on May 21, 2015, the distribution of a dividend of EUR 0.50 per share.

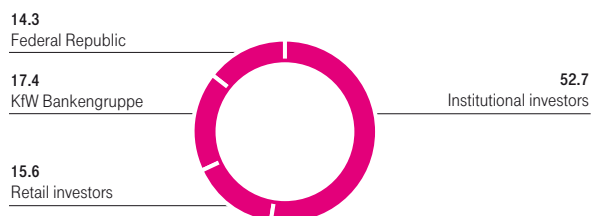
## SHAREHOLDER STRUCTURE

The Federal Republic's shareholding including that of KfW (Kreditanstalt für Wiederaufbau) continues to stand at approximately 32 percent. The proportion of institutional investors increased slightly to approximately 53 percent of share capital, while the share of retail investors decreased slightly to around 16 percent. As a result, the percentage of shares in free float remains at about 68 percent.

G 03

### Shareholder structure

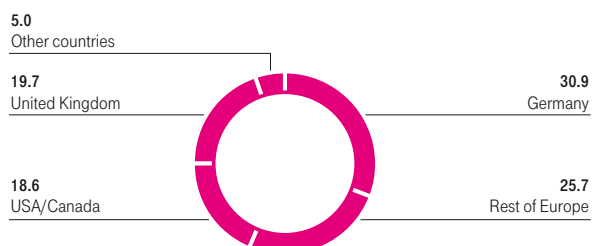
% (as of December 31, 2014)



G 04

### Geographical distribution of free float

% (as of December 31, 2014)



## INVESTOR RELATIONS

In the 2014 financial year, Deutsche Telekom continued its intensive dialog with institutional investors, retail investors and financial analysts in individual and group discussions during its roadshows in Europe, Asia and North America. Top management as well as Investor Relations presented the Group strategy and the Company's financial position along with annual and quarterly results.

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

Our series of webinars continued in 2014 with two events on the issues of "Provisions for pensions" and "Socially responsible investment". The website content has been updated, presenting, for example, the major M&A transactions of the past years and the mobile spectrum auctions. □

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

We actively exploit the opportunities of social networks. On Twitter, the number of subscribers to our offer @DT\_IR increased further in 2014: 940 users now follow this service, tailored specifically to the interests of investors. All the live recordings of our quarterly presentations and investor events can be viewed conveniently on YouTube and on mobile devices using apps.

In the large-scale Extel Survey, Deutsche Telekom's IR team and top management topped the tables. Tim Höttges was named best Chief Executive Officer in the European telecommunications industry. The Investor Relations team of Deutsche Telekom was not only rated best IR team in the European telecommunications industry, but also best IR team across the board. The study was conducted by Thomson Reuters Extel Survey. Each year, around 15,000 investors and analysts are surveyed. They rate various aspects of IR work and explain what they consider to be best practice.



The webinars are available at:  
[www.telekom.com/webinars](http://www.telekom.com/webinars)



# COMBINED MANAGEMENT REPORT

This report combines the Group management report of the Deutsche Telekom Group, comprising Deutsche Telekom AG and its consolidated subsidiaries, and the management report of Deutsche Telekom AG.

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## OVERVIEW OF THE 2014 FINANCIAL YEAR

### NET REVENUE

- Net revenue increased substantially by 4.2 percent. The United States operating segment in particular contributed to this revenue trend as a result of the inclusion of MetroPCS since May of last year and continued strong customer additions.
- Our Germany operating segment sustained slight revenue losses.
- Decisions by regulatory authorities and competition-induced price reductions adversely affected our revenue in the Europe operating segment.
- The contribution to revenue made by our Systems Solutions segment decreased as a result of the realignment of the business model to generate sustainable growth.
- Adjusted for effects of changes in the composition of the Group totaling EUR 0.8 billion, net revenue increased by 2.9 percent year-on-year.

### ADJUSTED EBITDA

- Adjusted EBITDA increased slightly by 0.8 percent.
- The inclusion of MetroPCS' operations since May 2013 in particular had a positive effect on adjusted EBITDA.
- Adjusted EBITDA was reduced by higher costs incurred for our integrated network build-out in Germany, higher market investments in the United States, and EBITDA decreases in some European countries. The negative effects were partially offset by our comprehensive cost management.
- The adjusted EBITDA margin decreased from 28.9 percent to 28.0 percent in the reporting period. The operating segments with the strongest margins are still Germany with 39.6 percent and Europe with 34.2 percent.

### NET PROFIT/LOSS

- Net profit increased substantially to EUR 2.9 billion.
- The increase was due in particular to income from divestitures in connection with the disposal of the Scout24 group totaling EUR 1.7 billion. Income of some EUR 0.4 billion from a transaction completed in the United States concerning the acquisition and exchange of A-block spectrum also had a positive effect.
- Expenses of some EUR 0.3 billion from the decommissioning of the MetroPCS CDMA network had a negative effect.
- Impairment losses recognized on goodwill and other non-current assets were down by EUR 0.7 billion year-on-year at EUR 0.1 billion. This decrease was partially offset by a EUR 0.4 billion increase in depreciation and amortization, especially in the United States operating segment.

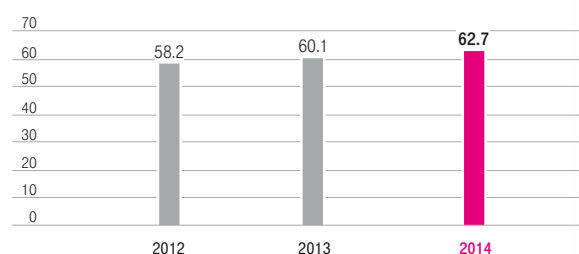
### EQUITY RATIO

- Total assets increased to EUR 129.4 billion.
- Shareholders' equity increased by EUR 2.0 billion to EUR 34.1 billion.
- This increase was attributable to a profit (EUR 3.2 billion) and to currency translation effects, which were recognized directly in equity (EUR 1.8 billion).
- Dividend payments to Deutsche Telekom AG shareholders for the 2013 financial year (EUR 2.2 billion) had a decreasing effect. The capital increase carried out to grant our shareholders the option of converting their dividend entitlements into shares, increased shareholders' equity by EUR 1.0 billion. The cash dividend paid out to our shareholders amounted to EUR 1.2 billion.
- The acquisition of the remaining shares in T-Mobile Czech Republic (EUR 0.8 billion), actuarial losses (EUR 1.1 billion after taxes) recognized directly in equity, and the dividend payments to non-controlling interests (EUR 0.1 billion) also reduced shareholders' equity.

G 05

#### Net revenue

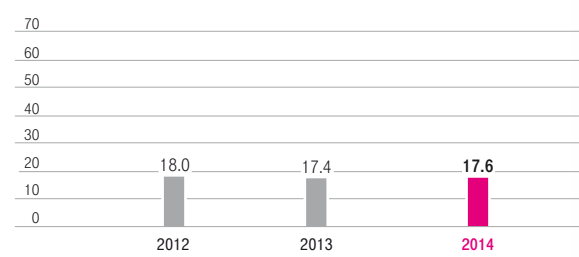
billions of €



G 06

#### Adjusted EBITDA

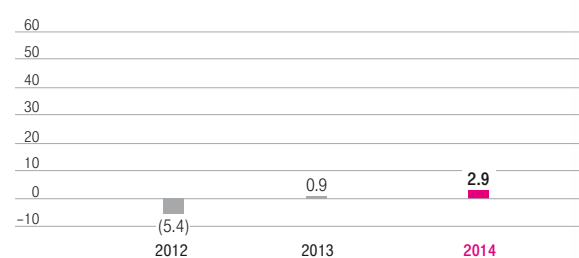
billions of €



G 07

#### Net profit/loss

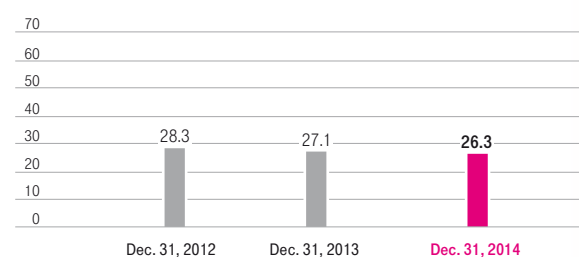
billions of €



G 08

#### Equity ratio

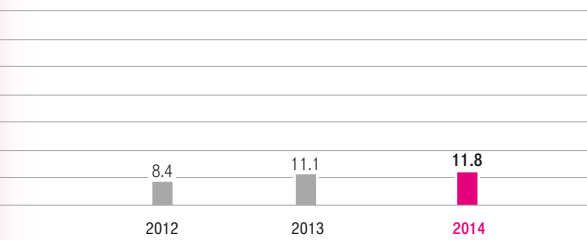
%



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G 09

**Cash capex**  
billions of €



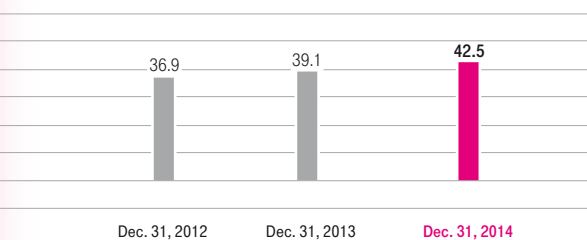
G 10

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



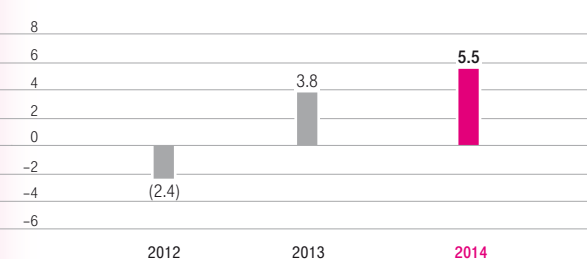
G 11

**Net debt**  
billions of €



G 12

**ROCE**  
%



**CASH CAPEX**

- Cash capex (including spectrum investment) increased to EUR 11.8 billion.
- The spectrum acquired in the reporting year of EUR 2.3 billion in total mainly related to the United States, Hungary, the Czech Republic, Poland, and Slovakia.
- Adjusted for the effects of spectrum acquisition, cash capex was up on the prior-year level by EUR 0.7 billion and mainly related to further rolling out broadband and expanding capacities in existing networks.

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

- Free cash flow decreased year-on-year by EUR 0.5 billion.
- The increase of EUR 0.7 billion in cash capex (before spectrum investment) contributed to this trend.
- Net cash from operating activities increased by EUR 0.4 billion.

**NET DEBT**

- Net debt increased by EUR 3.4 billion.
- Among other effects, the acquisition of mobile spectrum (EUR 2.3 billion), exchange rate effects (EUR 1.8 billion), dividend payments – including to non-controlling interests – (EUR 1.3 billion), the acquisition of the remaining shares in T-Mobile Czech Republic (EUR 0.8 billion), and the acquisition of the GTS Central Europe group (EUR 0.5 billion) in particular increased net debt.
- Free cash flow (EUR 4.1 billion) as well as the sale of 70 percent of the shares in the Scout24 group (EUR 1.6 billion) reduced net debt.

**ROCE**

- ROCE improved from 3.8 percent to 5.5 percent.
- This increase was partly due to a substantial improvement in the operating result – which was also positively impacted by income from the deconsolidation of the Scout24 group – which more than offset the slight increase in the average value of assets tied up in the course of the year.

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



For a more detailed explanation, please refer to the section "Development of business in the Group," PAGE 82 ET SEQ.

## DEUTSCHE TELEKOM AT A GLANCE

We had a successful close to 2014 with a good fourth quarter. With adjusted EBITDA of EUR 17.6 billion for full year 2014, we were right on the mark and delivered on the guidance published in February 2014. At EUR 4.1 billion, free cash flow was in line with the communicated corporate target of around EUR 4.2 billion.

Net revenue increased substantially by 4.2 percent in 2014. This strong growth was primarily attributable to our United States operating segment, which increased its revenue by more than 20 percent year-on-year (on a euro basis). The main driver here was the unbroken strong acquisition of new customers. Our United States operating segment made the largest contribution to net revenue in the reporting year. In the Germany operating segment, revenue decreased only slightly compared with the prior year. We held our own in this market, performing especially well in mobile communications. In the Europe operating segment, our revenue was again substantially adversely affected by regulatory decisions and by competition-induced price reductions. The initiated realignment of T-Systems' business model had a negative impact on revenue in our Systems Solutions operating segment, as did the general downward trend in prices for IT and communications services.

Adjusted EBITDA increased slightly by 0.8 percent year-on-year. While adjusted EBITDA grew in the United States and Systems Solutions operating segments, it continued to come under pressure in particular in the Europe operating segment, as expected, on account of the decline in revenue. Our Germany operating segment achieved its target value of around 40 percent with an adjusted EBITDA margin of 39.6 percent.

In a year-on-year comparison, our earnings performance was substantially impacted by the first-time inclusion of MetroPCS in the prior year, with the contributions to earnings only taken into account from the second quarter of 2013. Our earnings in the reporting year were affected by the sale of 70 percent of the shares in the Scout24 group consummated in early February 2014 and the acquisition of the GTS Central Europe group in May 2014. Overall, changes in the composition of the Group made a positive contribution of EUR 0.8 billion to our revenue development and of EUR 0.3 billion to the development of our adjusted EBITDA.

Our EBIT increased substantially by EUR 4.9 billion compared with the prior year to EUR 7.2 billion. This was largely due to income of EUR 1.7 billion from the deconsolidation of the Scout24 group realized in connection with the sale of the investment. Impairment losses recognized on goodwill and other non-current assets in the prior year offset the increase in depreciation and amortization resulting primarily from the acquisition of MetroPCS. The result was a total decrease of EUR 0.3 billion in depreciation and amortization.

Like EBIT, our net profit increased substantially by EUR 2.0 billion to EUR 2.9 billion. Adjusted for special factors, net profit decreased by EUR 2.8 billion to around EUR 2.4 billion.

Net debt increased over the course of the year from EUR 39.1 billion to EUR 42.5 billion. Free cash flow (EUR 4.1 billion) and the sale of the Scout24 group (EUR 1.6 billion) in particular had a positive impact. Contrasting effects primarily related to the acquisition of mobile spectrum (EUR 2.3 billion), dividend payments including to non-controlling interests (EUR 1.3 billion), outflows for the acquisition of stakes in other companies (EUR 1.4 billion), and exchange rate effects (EUR 1.8 billion).

Cash capex (before spectrum investment) totaled EUR 9.5 billion in the reporting year and mainly related to further rolling out broadband and expanding capacities in existing networks. In mobile communications, we invested in LTE, increased network coverage, and upgraded capacity to meet increasing demand for data volumes. In the fixed network, priority was given to expanding the fiber-optic infrastructure, to IPTV, and to the continued migration of the existing telephone network to an IP-based network.

Our key performance indicator ROCE (return on capital employed) improved by 1.7 percentage points in 2014 to 5.5 percent. A substantial improvement in net operating profit after taxes (NOPAT), which more than offset a slight increase in the average net operating assets (NOA), contributed to this development. The improvement in NOPAT is also positively impacted by income from the deconsolidation of the Scout24 group as well as by income from a transaction completed in the United States operating segment concerning the acquisition and exchange of spectrum. The increase in average NOA is mainly attributable to asset growth in our United States operating segment.

2014 was also a good year for our shareholders: They benefited not only from the dividend of EUR 0.50 per share paid out for the 2013 financial year, but also from an increase of 6.6 percent in our share price.



Glossary, PAGE 277 ET SEQ.



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## HIGHLIGHTS IN THE 2014 FINANCIAL YEAR

### DEVELOPMENTS AT SENIOR MANAGEMENT LEVEL

On January 1, 2014, **Timotheus Höttges** succeeded **René Obermann** as Chairman of the Deutsche Telekom AG Board of Management. Also at the start of the year, **Thomas Dannenfeldt** took over the post of Chief Financial Officer from **Timotheus Höttges**. The Supervisory Board had adopted both changes on May 15, 2013. **Prof. Marion Schick**, Chief Human Resources Officer and Labor Director, left our Group with effect from April 30, 2014 for health reasons. Dr. **Thomas Kremer** had been acting as deputy of Prof. Marion Schick since January 2014, and since her departure he has been interim Member of the Board of Management responsible for Human Resources in addition to fulfilling his own duties as Member of the Board of Management responsible for Data Privacy, Legal Affairs and Compliance.

### EMPLOYEES

**Collective agreements for Group Headquarters and Telekom Deutschland.** On April 9, 2014, Deutsche Telekom and the ver.di union agreed the terms for a collective agreement for Group Headquarters and Telekom Deutschland. The new agreement, which took effect on February 1, 2014 and runs for 24 months, provides for the salaries of the some 55,000 employees covered by the collective agreement to be increased in two steps: by at least 2.5 percent as of April 1, 2014, and by a further 2.1 percent as of February 1, 2015.

**Collective agreement for T-Systems in Germany.** On April 30, 2014, T-Systems and the ver.di union agreed the terms for a collective agreement for the some 20,000 T-Systems employees in Germany covered by the agreement. The agreement takes effect retrospectively from April 2014 and has a term of two years. Among other provisions, it provides for the salaries of the employees to increase in two steps – by 1.5 percent as of June 1, 2014 and by a further 2.0 percent as of April 1, 2015.

**Magyar Telekom reaches agreement with trade unions.** At the end of July 2014, Magyar Telekom reached an agreement with trade unions on staff cuts and wage increases for 2015–2016. Under the terms of the agreement, our subsidiary will cut a maximum of 1,700 jobs. Total severance expenses related to the 2-year headcount reduction program will be approximately EUR 39 million.

### Severance and early retirement program for Telekom Deutschland.

In December 2014, Telekom Deutschland introduced a special severance and early retirement program for staff working in steering and centralized functions. The program aims to make socially-responsible savings in personnel costs in line with the industry trend, specifically in administrative areas.

### DIVIDEND

Following its successful premiere in the prior year, we again offered our shareholders the option of converting the dividend for financial year 2013 into shares instead of receiving it as a cash payment. The acceptance rate of some 45 percent of dividend-bearing shares exceeded expectations. The exercising of the option results in an increase

in the number of shares issued by just under 84.4 million to currently almost 4,536 million. This corresponds to a capital increase of almost 2 percent. The cash dividend paid out to our shareholders who did not choose this option totaled around EUR 1.2 billion. We are considering offering our shareholders this choice again for the 2014 financial year.

### CORPORATE TRANSACTIONS

On February 12, 2014, we completed the sale of 70 percent of the shares in **Scout24 Holding GmbH** to **Hellman & Friedman LLC (H&F)**. The responsible authorities approved the transaction in January 2014. So as to go on profiting from any future value accretion, we retain a stake of around 30 percent in the Scout24 group, which is part of our Group Headquarters & Group Services segment. By acquiring 100 percent of the shares in **Scout24 International Management AG, Ringier Digital AG** took over effective January 24, 2014 the 57.6-percent stake in **Scout24 Schweiz AG** that was held indirectly by Scout24 Holding GmbH. Scout24 International Management AG now operates under the name of **Classifieds Business Beteiligungs- und Verwaltungs AG**. The total sale price for both transactions amounted to EUR 1.6 billion. Income from divestitures including the revalued retained shares of around 30 percent stood at EUR 1.7 billion.

On February 7, 2014, we signed a purchase agreement for the acquisition of the remaining 39.23 percent of shares in **T-Mobile Czech Republic** which we did not yet own, for EUR 0.8 billion. The transaction was closed on February 25, 2014. The transaction was not subject to regulatory approval. The purchase brings us another step closer to our goal of becoming the leading integrated pan-European telecommunications provider. T-Mobile Czech Republic had already been fully consolidated in our Europe operating segment.

At the start of November 2013, we had concluded an agreement with a consortium of international private equity investors to take over the **GTS Central Europe group (GTS)**, one of the leading infrastructure-based providers of telecommunications services in Central and Eastern Europe, for a total of approx. EUR 0.5 billion. This transaction was completed on May 30, 2014. The responsible authorities had already approved the acquisition without conditions by April 15, 2014. GTS has been consolidated in our Europe operating segment since May 30, 2014. With this acquisition, we intend to strengthen and further develop the local and pan-European B2B segment.

Since December 2014, we and Orange have been conducting negotiations with BT for the sale of our respective 50 percent stakes in the **EE joint venture**. The sale agreement was signed on February 5, 2015. Upon closing of the transaction at an agreed purchase price of GBP 12.5 billion, we will become the largest shareholder in BT with a stake of approximately 12 percent. Depending on BT's share price and other factors at closing, we may receive a cash payment in addition to the 12 percent stake in BT. The transaction is yet to be approved by BT's shareholders and the responsible authorities. The transaction will allow us to benefit from the opportunities provided by BT as an integrated provider of fixed-network and mobile communications.



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## EXPANSION OF BRAND PRESENCE

Our Romanian subsidiaries **Romtelecom** and **Cosmote Romania** have been operating under the Deutsche Telekom brand since September 2014 and, as such, have been renamed Telekom Romania and Telekom Romania Mobile. Their official trademark is now the well-known T-Logo with the associated brand slogan "Life is for sharing." This is another step towards expanding our market presence in Europe and, in keeping with our strategy, to offer the best customer experience through technology leadership.

In November 2014, we opened our 1,000th **exclusive shop** in Cologne. Our exclusive shops, which only sell our own products and services, are a key marketing channel: They guarantee our outstanding service and competent advice, and bring to life our entire portfolio for customers.



Sustainability at Deutsche Telekom

## INVESTMENTS IN NETWORKS AND NEW SPECTRUM

In our **Germany** operating segment, we are making good progress in the implementation of our integrated network strategy.

- The **fiber-optic roll-out** in Germany is in full swing: As of the end of the reporting year we had achieved coverage of 44.4 percent; which is around 18.7 million households. Furthermore, since September 2014, we have been marketing VDSL lines with the new **vectoring** technology, which offers customers transmission speeds of up to 100 Mbit/s for download and up to 40 Mbit/s for upload.
- We continue to upgrade our **LTE** mobile network: For this purpose, we are further rolling out spectrum in metropolitan areas in the 1.8 GHz range as well as in the 2.6 GHz range. Combining the two LTE frequencies creates additional capacity and as such a maximum transmission rate of up to 300 Mbit/s. We already cover around 80 percent of the population with fast Internet via LTE, with speeds of up to 150 Mbit/s; that is around 65.3 million inhabitants.
- The **IP** transformation is in full swing: By the end of 2014, we had migrated more than 5.8 million **fixed network lines** (retail and wholesale) to IP technology, thereby achieving an IP rate of 25 percent. At times we were migrating up to 60,000 customers a week – and this during ongoing operations. For our customers, the IP technology brings many advantages, such as voice transmission in HD quality for calls between fixed and mobile networks.

**T-Mobile US** is picking up the pace in its network roll-out.

- The **T-Mobile US 4G/LTE network** now covers 265 million people. The company is making rapid progress in rolling out the broadband LTE network. At the same time, it is also rolling out the 700 MHz spectrum from the A-Block and 4G/LTE in the 1,900 PCS spectrum. In addition, T-Mobile US was first to launch VoLTE (voice over LTE) and first to achieve nationwide VoLTE coverage, covering more than 200 million people.

- At the end of April 2014, T-Mobile US acquired A-Block spectrum in the 0.7 GHz range from Verizon Communications. Also at the end of April, both companies exchanged certain AWS and PCS spectrum; this was done on the basis of an agreement from November 2013. The new spectrum covers more than 150 million inhabitants in 23 markets, which corresponds to approximately 50 percent of the U.S. population or 70 percent of T-Mobile US customers. T-Mobile US has entered into transactions with various other companies to acquire additional 700 MHz A-Block, AWS and PCS spectrum licenses which cover more than 40 million people, for cash and the exchange of certain AWS and PCS spectrum licenses. Upon the consummation of certain pending transactions, T-Mobile US will own 700 MHz A-Block spectrum covering over 185 million people. T-Mobile US also bid in the auction of AWS-3 spectrum, which ended on January 29, 2015.

- T-Mobile US is rapidly and continuously improving speed, capacity and coverage within the entire network. Even before the merger with MetroPCS, T-Mobile US had developed integration plans that among other things provided for the decommissioning of the MetroPCS Code Division Multiple Access (**CDMA**) network and certain redundant network cell sites; T-Mobile US began the decommissioning in July 2014. This enables T-Mobile US to realize network synergies associated with the business combination of T-Mobile USA and MetroPCS.

We continue to work resolutely on implementing our integrated network strategy in our **Europe** operating segment, too. In Poland, we have been offering LTE mobile technology since the start of June 2014. This means we are represented with LTE in all our European mobile markets, with the exception of Albania. In Greece, Hungary and Poland, we participated successfully in license auctions. In our national companies, the migration to IP-based lines gained significant momentum: in the F.Y.R.O. Macedonia and Slovakia it is already complete. As of the end of the reporting year, IP-based lines accounted for 38.6 percent of all lines overall, corresponding to some 3.5 million lines.

**T-Systems** continues to strengthen Germany's standing as a center of IT. In Biere near Magdeburg, we opened the biggest, most modern data center in the country at the start of July 2014. This will allow us to meet the steep increase in demand for secure cloud services based in Germany. T-Systems will bundle its IT production at eleven international sites by 2018. The data center in Biere will be a major hub in the global data center infrastructure.

## REGULATORY DECISIONS

On July 29, 2014, the Federal Network Agency issued its final ruling that allowed implementation of **vectoring** in Germany, after completion of the European notification. We began marketing VDSL lines with vectoring technology on September 1, 2014.



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For further information on the award of mobile frequencies, please refer to the section "The economic environment," PAGE 76 ET SEQ.

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### Regional deregulation concepts by the Federal Network Agency.

Following an initial draft text, the regulatory authorities are considering for the first time deregulation of the bitstream market in some regions. We see further potential for deregulation due to strong competitive pressure from cable operators and companies demanding ULLS in other regions. The process is expected to be completed in mid-2015.

**Federal Network Agency reduces interconnection rates.** As of December 1, 2014, the Federal Network Agency, in a preliminary approval, reduced the rates for terminating calls in Telekom Deutschland's fixed network by 20 percent and in its mobile network by around 4 percent. There will be no final ruling on the rates until the EU-wide consolidation process is completed. 

### PARTNERSHIPS

Partnerships are key to the success of our Group. In 2014, we entered into and expanded a large number of partnerships. We would like to present some of them in detail:

- At the start of July 2014, we agreed an extensive partnership with **salesforce.com**: In the future, the U.S. market leader for business cloud solutions will on the one hand use T-Systems data center services in Germany. On the other hand, we began joint sales of the Salesforce1 cloud solution with the conclusion of the agreement in July 2014. The customer relationship management software helps medium-sized companies to better analyze the behavior of their customers in the digital world.
- In October 2014, we entered into a partnership with the leading **cyber security** specialists **FireEye**: The FireEye solutions complement the Advanced Cyber Defense security portfolio developed by us, which is tailored to meet the security requirements of multinational corporations. FireEye and T-Systems will thus be offering a comprehensively managed service for the first time in order to protect companies quickly and effectively against IT espionage and cyber attacks.
- T-Systems and the IT group **Cisco Systems** want to set up a secure cloud in Europe as part of a strategic partnership. T-Systems is thus to be one of the co-founders of the world's largest cloud network Intercloud. T-Systems operates and markets the European platform. In the future, the Intercloud technology will allow us to offer cloud services for medium-sized and corporate customers from a single source and based on German security requirements.

- In partnership with the semiconductor manufacturer **Infineon**, we presented a security solution "made in Germany" for networked production (Industry 4.0) at the National IT Summit in October 2014. We showed how it is possible to transmit sensitive production data between two German locations via a completely secure communications channel. We already provide the networked industry with security solutions as a reliable partner; ultimately, data security is a prerequisite for the success of Industry 4.0.

- Participants in the "**E-Mail made in Germany**" industry initiative completed the encryption of all e-mail traffic as of April 29, 2014. This means around 50 million German consumers, customers of Deutsche Telekom, freenet, GMX and WEB.DE, automatically enjoy encrypted e-mail communication, regardless of the e-mail program they use. Under this arrangement, all data is to be processed and saved entirely in Germany.

- At the end of October 2014, we launched our European **M2M program** to enable us to offer a huge range of M2M solutions internationally. The program also helps our partners to market their M2M solutions across Europe. At the program launch, 34 solutions from a total of 15 partners, including from Poland, the Netherlands, Slovakia, Hungary and the Czech Republic were nominated to participate. The committee for the M2M program reviews and grants partnerships if the extensive requirements for international marketing are met.

- We won almost 20 new platform and sales partners for our smart home platform **QIVICON** in the reporting year: Among them are Sonos, the leading provider of wireless music systems, Netatmo, a French manufacturer of weather stations and intelligent heating control systems, Philips Lighting and OSRAM, providers of innovative lighting systems, and Huawei, a Chinese provider of information and telecommunications solutions. In addition, Telekom Deutschland is collaborating with Germany's leading insurance company, Allianz Deutschland, piloting its smart home offering. Overall, more than 30 partners from a number of economic sectors are now working together to offer consumers products that allow people to manage their homes intelligently. Furthermore, QIVICON joined one of the largest independent developer communities, the Eclipse Foundation, and as such will open up its platform for developers and start-ups.

- Due to the collaboration with **HOWOGE Wohnungsbaugesellschaft**, more than 26,000 apartments in Berlin were connected to our fiber-optic network by the end of 2014 for the provision of TeleVision, our cable TV product. Further offerings are our IPTV product **Entertain** and telephone and Internet lines.



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For more details on regulatory decisions in 2014, please refer to the section "The economic environment," **PAGE 76 ET SEQ.** Further developments in the area of regulation, which we are not currently able to assess, are discussed in the section "Risk and opportunity management," **PAGE 146 ET SEQ.**



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- Thanks to a partnership with **ProSiebenSat.1 Media AG**, which we entered into in February 2014, Entertain customers have also been able to use the broadcasting group's on-demand services since the middle of the year. The maxdome subscription package allows them to choose from Germany's biggest online video store, with more than 50,000 titles. In addition, they can view more than 1,000 items of content from the broadcasting group's media-center portfolio free of charge. Moreover, we were the first TV provider to include **Netflix** in our service: Entertain customers can now view, by subscription, all of the leading U.S. video streaming service's content in SD and HD quality.
- In November 2014, the insurance group **ERGO** extended its sourcing contract. T-Systems will now provide all telecommunications services for the exchange of voice and data to around 300 ERGO locations until 2020. Since the partnership began in 2010, we have gradually modernized the insurer's telecommunications landscape and cut its costs.
- T-Systems concluded one of the largest deals in our Company history with **ThyssenKrupp**. With our help ThyssenKrupp will move some 80,000 computer workstations and 10,000 server systems in 34 countries to the cloud. The deal comprises two components: first, we provide **dynamic workplace** services. Employees can thereby use their workstation systems flexibly and easily on various devices around the world and securely exchange data and documents. Second, we transfer IT processes and services to our data centers.
- In December 2014, the **federal government** extended by another three years the agreement with Toll Collect, our consortium with Daimler and the French company Cofiroute. The agreement which concerns the collection of truck tolls will now run until 2018. Toll Collect was also commissioned to implement the toll charge for trucks weighing 7.5 tons and over. Furthermore, the requirement for trucks to pay toll is to be extended to over another 1,100 kilometers of federal roads.
- In December 2014, the strategic partnership between T-Mobile Polska and **TVN SA**, one of Poland's leading private broadcasters, enabled the launch of the new mobile TV offering T-Mobile Zone in Poland. Customers of T-Mobile Polska can subscribe to the broadcasting group's content as video-on-demand on a monthly basis and view it whenever and wherever they like on their mobile devices.
- The **tolino** e-reader has now also been available in Belgium, since mid-July 2014. As an international partner, Standaard Boekhandel offers the toline in its branches and webshops and, in this way, plans to establish e-reading offerings in the Belgian market. We entered into another partnership in October 2014, with the book wholesaler Libri. Libri operates the shop technology for a large network of online shops. In the future, more than 1,000 online shops will offer the entire toline product family.



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## NEW CORPORATE CUSTOMER ACCOUNTS


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

- T-Systems and **SABMiller**, one of the world's largest brewery groups, concluded an agreement for IT and telecommunications services for the next five years. In the future, SABMiller's locations around the world will be connected via our global high-speed network.
- We signed a deal with automotive manufacturer **Daimler AG** which has a three-digit million order volume: T-Systems will assume long-term, sole responsibility for the maintenance, development, and integration of numerous software applications in all major business units at Daimler. In addition, the two companies will work together on promising issues, such as the networking of automobiles and the cloud-based workstation.
- Our T-Systems subsidiary **Satellitic N.V.** won the contract to set up and operate a **satellite-based toll collection system for trucks** in Belgium. Satellitic and Viapass, the responsible authority in Belgium, signed the agreement on July 25, 2014. With a term of at least 12 years, the agreement initially envisages that Satellitic will establish the new toll collection system in the next 18 months. T-Systems owns 76 percent and STRABAG AG owns 24 percent of Satellitic.



Please refer to the section "Innovation and product development," PAGE 123 ET SEQ.

## INNOVATIONS


As one of the world's leading telecommunications providers, we place particular emphasis on innovation. In addition to developing our own services and products, we also successfully integrate innovations from outside of our Group, through partnerships and equity investments. For more information, for example on our investment commitment in the areas of venture capital and technology innovation with the newly established **Deutsche Telekom Capital Partners (DTCP)**, on our joint venture with **China Mobile** for the **connected car**, or on our research partnership with **Siemens** to further develop Industry 4.0, please refer to the section "Innovation and product development." 

## NEW PRODUCTS AND RATE PLANS

We again launched new products, services and rate plans on the market in 2014, some of which are presented below:

- At the start of September, the green light was given for our first integrated consumer offering at the trade fair **Internationale Funkausstellung (IFA)** in Berlin. With **MagentaEINS**, we offer our customers in Germany attractive packages with smart combinations of mobile and fixed-network services. At the same time, MagentaEINS is the gateway to a new product world. Purely mobile products are brought together under the name **MagentaMobil** and purely fixed-network products under **MagentaZuhause**. Above and beyond this, **MagentaEntertainment**, **MagentaWohnen** and **MagentaService** will feature additional packages and products for custom combinations of the different elements.

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- At IFA, we also announced that we have become one of the worlds first providers to offer a new **hybrid router**. When customers surf the net at home, the Speedport Hybrid automatically combines fixed and mobile network bandwidths. This combination of DSL and LTE standards will enable fast Internet access even in areas where coverage is less good. We began to market hybrid rate plans in fall 2014, initially in just a few federal states; from spring 2015, we will offer them Germany-wide.
- T-Mobile US continued its Un-carrier value proposition in the 2014 financial year: **Phase 8.0** of the Un-carrier initiative was introduced in December 2014, giving customers the option to roll their unused high-speed data automatically each month into a personal Data Stash so they can use it up within a year whenever they need it.
- For CeBIT in March 2014, we launched our **“SME initiative,”** with the aim of offering a standardized, cost-effective portfolio of IT and telecommunications services tailored to the needs of small and medium-sized enterprises (SMEs). A key component of the initiative is to offer more integrated products and cloud solutions. New cloud offerings are, for example, “DeutschlandLAN PABX from the Net,” Managed Workplace, i.e., hosted desktops from the private cloud, and TeamLike, a social company network.
- We continuously extended our portfolio of security solutions in the financial year. For example, **Corporate Security Hub** protects employees’ mobile devices from attacks and malware. Additional protection is provided by encrypting communications through a secure connection. In August of this year, we became one of the first providers to launch a mobile encryption solution for smartphones on the market. The **“Mobile Encryption app”** for Android and iOS devices is globally applicable: in contrast to other solutions, it works in all phone networks, and even without a **SIM card** via Wi-Fi or a satellite link. The **app** allows encrypted communication even in countries that block Internet phone calls. 
- In May 2014, we introduced our **MyWallet** product to Germany and Slovakia. It had already been successfully launched in Poland in 2012. MyWallet turns smartphones into digital wallets, which in the future will also be able to hold travel and admission tickets as well as access and customer cards. We also introduced a service for mobile payment in Hungary in the reporting year.
- At the end of October 2014, our Croatian subsidiary Hrvatski Telekom unveiled the **Mobile Ticket Issuing Service** in collaboration with the Etranet Group: This cloud-based service can be used to sell tickets for passenger transport, parking, the cinema and theater, as well as for shows and exhibitions – including validation and billing.
- Since November 2014, we have been offering even more customer service with the new **“Telekom hilft” (Telekom helps) video app**: Our personal advice has gone mobile for the first time. The app allows our customers to contact our advisers by video chat, who then help them, for example, to install a **router** or fill out documents. We want to delight our customers with simple, fast services like this.

## AWARDS

We receive regular recognition for our excellent network and our service. In particular, our state-of-the-art networks topped the tables in all the major network tests in our home market Germany. We also scored well in the national companies of our Europe operating segment. Below is a selection of the awards we received in 2014:

- As a network operator in Germany, we once again set benchmarks and, at the start of December 2014, took first place for the fourth time in a row in the major mobile network test by **“connect”** magazine. We were the only provider to be rated “very good.” In May 2014, readers of “connect” awarded us first place in seven categories at once, including the most important categories “best mobile network operator” and “best fixed-network operator of 2014.” On top of this, our second brand “congstar” was named best mobile communications provider, and T-Mobile Austria was named best mobile network operator in Austria. We also won best in test in the **Computer Bild** trade journal’s major mobile communications test. This test compared the networks in 100 cities for the first time and, unlike conventional tests, was based on real user data. In October 2014, we also took first place again in the major mobile network test by the trade journal **CHIP**, which named us the best network for both telephony and surfing, with our high data rates proving particularly impressive. The test also looked specifically at LTE, where we also scored highly.
- Our fixed network performed well once again in the major 2014 network test carried out by trade journal **“connect.”** The testers scrutinized the fixed networks of various providers in Germany, taking some 1.6 million measurements to assess the quality and performance of DSL and broadband cable lines. Their conclusion: Thanks to a convincing performance in all tested areas, we once again led the field of providers in 2014.
- We consistently scored highly in the 2015 Hotline Test by computer magazine **CHIP**. The hotlines of 250 companies from 16 industries were put to the test over 6 weeks, with particular attention to customer service and waiting times as well as availability and transparency. Our hotline came in for particular praise for the good and friendly advice provided for fixed network and the Internet. In customer service, we scored highly for Entertain and webhosting. We achieved a very good score for availability and waiting times in mobile communications; we also received a “very good” rating for availability for the fixed network. Our free mobile hotline also did well in the **“connect”** service test, taking first place over all other mobile communications providers in Germany. In particular, the testers praised our hotline’s availability, friendliness, and e-mail service.



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For information on awards received for our HR activities, please refer to the section "Employees," PAGE 128 ET SEQ.



For more information, please refer to the section "Risk and opportunities management," PAGE 146 ET SEQ.



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- We also performed well in the international arena: Cosmote, a company of our Greek subsidiary OTE, offers the fastest mobile Internet network in Greece. This was confirmed by the independent speed test conducted by Ookla in April 2014. In fact, Cosmote's network was found to be 27 percent faster than the second-place network. Furthermore, in June 2014, P3 Communications, a leading international engineering services provider in the telecommunications sector, granted two accolades at once to the OTE subsidiary's mobile data service. The leading Austrian technology portal Futurezone named T-Mobile Austria the fastest Austrian provider in the "mobile browsing" category. T-Mobile Austria took second place overall, as a reliable challenger to the market leader in all areas.
- In September 2014, the independent IT research and consulting company Experton evaluated the big data providers in Germany for the second time, analyzing 121 IT companies. They found that T-Systems is among the top three providers in the categories Big Data Operations, Big Data Security Analytics, and Big Data Consulting & Solutions. This is thanks in part to our realignment: We want to strengthen new business models in growth areas like big data, cloud computing, or cyber security so as to be fit for the future in the fiercely competitive IT market.
- Brand Finance Global 500 named Deutsche Telekom as the most valuable German brand. Our top ranking is primarily a result of the successful redesign of our umbrella brand. We were acclaimed as the most trusted German brand by European Trusted Brands 2014, the largest consumer study in Europe. We performed especially well in the Mobile Phone Network and Internet Service Provider categories.
- Our ecological and social performance have been rewarded. Climate protection, customer focus, electronic-waste prevention, and a sustainable supply chain were the areas in which we performed particularly well in this year's "oekom Industry Report Telecommunications," taking first place in the oekom industry ranking. oekom GmbH had analyzed 108 telecommunications companies overall, including their sustainability performance and development over time. For our CR Report "We take responsibility," we won the Econ Award, issued by the publisher of the same name, in the Online Reporting category and were the only winner to achieve the highest rating of Platinum. Our CR Report won over the jury with its reporting in the areas of economy, ecology and society.
- We had engaged intensively in a research partnership with the farm machinery group CLAAS regarding connected combine harvesters. This project earned us a place among the prize winners of the Germany-wide competition "Landmarks in the Land of Ideas" 2014/15 and demonstrated how well Industry 4.0 also works in agriculture. When, for example, the combine harvester's grain tank is full, this is automatically reported. The machines are fitted with sensors that send second-by-second data via mobile communications and provide the drivers with real-time information about the status of the harvest. This not only improves workflows, it also saves time, fuel and thus also CO<sub>2</sub>.
- In the Top Marka Ranking, which determines the reach of print and electronic media, T-Mobile Polska took first place for the second time in a row in the Telecommunications category. In September in Prague, our subsidiary T-Mobile Czech Republic was named a Superbrand for its unusual marketing campaigns and successful advertising. At the end of the year, OTE was named "Company of the Year" at the 16th International InfoCom World Congress, in particular for its prominent role in the Greek telecommunications market and for its investments in innovation, infrastructure and the growth of Greece. Magyar Telekom has the best online customer service. This was the finding in November 2014 of the Excellence in Customer Service competition, the biggest and most important customer service competition in Hungary.
- We were awarded the German Investor Relations Prize 2014 for the best Investor Relations (IR) work in the category of DAX 30 companies. In the Thomson Reuters Extel Survey, 16,000 investors and analysts from more than 75 countries voted us as having the best investor relations work in Europe across all industries. Our Mergers & Acquisitions unit won the Corporate Finance Award in recognition for the successful business combination of T-Mobile USA and MetroPCS.

#### LITIGATION

We concluded the following proceedings in the reporting year: "MetroPCS – action against the business combination of MetroPCS and T-Mobile USA," "GSM frequency usage extension," "LTE frequency auction, T-Mobile Austria," and "Billing for premium SMS content" at T-Mobile US.

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## GROUP ORGANIZATION

- Business activities and organization
- Management and supervision

### BUSINESS ACTIVITIES AND ORGANIZATION


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

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

In technical terms, this means that increasingly large volumes of data need to be transported at increasingly fast speeds. We at Deutsche Telekom want to make this possible. In addition, we aim to offer our customers fixed network, mobile communications, Internet, and Internet-based TV from a single source, ensuring they have secure access to all private data – no matter where they are and what device they are using. The "gigabit society" requires increasingly high-performance networks. We are building these networks – networks that will not only cover the rapidly growing need for bandwidth, but that are also intelligent enough to open up new business areas for entire sectors, such as energy, healthcare, or the automotive industries.

But there is more to it than that. Over the next years, many areas will see agenda-setting developments for society. Our understanding of responsible corporate governance requires us to play a role in these developments. We believe that economic, social, and ecological aspects can be reconciled, and place sustainability at the heart of all we do. Just two examples: We have adopted a Group-wide binding climate protection target and were the first DAX 30 company to introduce a women's quota in management. Our responsible corporate governance and business success are based on our shared corporate values and Guiding Principles, which are as follows:

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

With this, we set ourselves apart from our competitors: Our Guiding Principles increase our credibility and the trust of our customers and shareholders in the strength and capability of our Group. At the same time, they enhance the customer's experience with our employees, products, and services. In other words: We want to be a sustainably growing company that delights its customers, creates value for its investors, and in which employees enjoy their work. 

**Business activities: leading integrated telecommunications provider.** With around 151 million mobile customers, 30 million fixed-network and over 17 million broadband lines, we are one of the leading integrated telecommunications companies worldwide. We offer our customers fixed-network/broadband, mobile communications, Internet, and Internet-based TV products and services for consumers, and ICT solutions for business customers and corporate customers. We have an international focus and are represented in more than 50 countries. In the 2014 financial year, we generated more than 60 percent of net revenue, i.e., EUR 37.7 billion outside Germany. Overall, we employ around 227,800 people (December 31, 2014).

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

The mobile communications business offers mobile voice and data services to consumers and business customers. When marketing these services, we also sell mobile handsets and other hardware. In addition, we also sell mobile services to resellers and to companies that buy network services and market them independently to third parties (mobile virtual network operator, or MVNOS).

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

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



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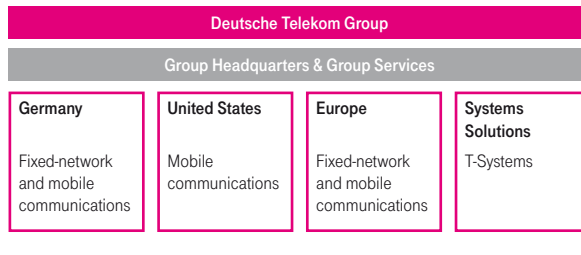


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GRAPHIC 13 provides an overview of the organizational structure of our Group, which we will explain in detail.

G 13

#### Organizational structure



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

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


Our **Europe** operating segment comprises all fixed-network and mobile operations of the national companies in Greece, Romania, Hungary, Poland, the Czech Republic, Croatia, the Netherlands, Slovakia, Austria, Albania, the F.Y.R.O. Macedonia, and Montenegro. The EE joint venture in the United Kingdom, which had previously been assigned to the Europe operating segment, was transferred to the Group Headquarters & Group Services segment as of January 1, 2014. Since then, it has been reported under the Finance board department due to the new definition of the management model of our EE joint venture. Comparative figures have been adjusted retrospectively.

In addition to consumer business, individual national companies also offer ICT solutions to business customers. On May 30, 2014, we completed the acquisition of GTS Central Europe Group (GTS). Since then, GTS has been helping us to further develop the international business customer segment. The Europe operating segment also comprises the units International Carrier Sales & Solutions (ICSS), Group Technology, and the Global Network Factory (GNF): ICSS mainly provides wholesale telecommunications services for other operating segments in our Group; Group Technology ensures efficient and customized provision of technologies, platforms, and services for mobile and fixed-network communications; and GNF designs and operates a global network for providing wholesale customers with voice and data communications. The ICSS/GNF business of the local business units (LBUs), which had been organizationally assigned to the Systems Solutions operating segment until December 31, 2013, was brought together as of January 1, 2014 and is now reported under the Europe operating segment. These are units in and outside of Europe (excluding Germany) that predominantly perform wholesale telecommunications services for ICSS as part of the Europe operating

segment and for third parties. Furthermore, as of January 1, 2014, the local business customer units of T-Systems Czech Republic, which had previously been managed under the Systems Solutions operating segment, were merged with T-Mobile Czech Republic. In addition to mobile and fixed-network business activities, the company will now also offer ICT solutions for business customers and public administrations. The activities will be disclosed under the Europe operating segment. Reporting was changed to improve the way in which these units can be managed. Comparative figures have been adjusted retrospectively.

Drawing on a global infrastructure of data centers and networks, our **Systems Solutions** operating segment operates information and communication technology (ICT) systems for multinational corporations and public sector institutions. On this basis, T-Systems provides its customers with integrated solutions for the future of a connected business world and society. But it also offers small and medium-sized enterprises ICT solutions for an increasingly complex digital world. The offering primarily includes services from the cloud, M2M and security solutions, complementary, highly standardized mobile and fixed-network products, as well as solutions for virtual collaboration and IT platforms. They form the basis for the digital business models of corporate customers.

The Systems Solutions operating segment comprises two business areas: Market Unit and Telekom IT. The Market Unit is mainly responsible for business with external customers. Telekom IT focuses on the Group's internal national IT projects.

**Group Headquarters & Group Services** comprises all Group units that cannot be allocated directly to one of the operating segments. Group Headquarters sets the course and provides impetus. It defines strategic aims for the Group, ensures they are met, and becomes directly involved in selected Group projects. Group Services provide services to the entire Group; in addition to typical services such as financial accounting, human resources services, and operational procurement, Group Services also includes Vivento. Vivento secures external employment opportunities for civil servants and employees, predominantly in the public sector. Furthermore, the service provider additionally took on a new central role at the start of 2014, with the aim of retaining expertise within the Group, so as to reduce the use of external staff. Further units are Group Real Estate Management and MobilitySolutions, full-service providers for fleet management and mobility services. The tasks and functions of the Digital Services growth business as well as the Internet service provider STRATO have been pooled within the Digital Business Unit under Group Headquarters & Group Services. In February 2014, we consummated the sale of 70 percent of the shares in Scout24 Holding GmbH to Hellman & Friedman LLC (H&F). The remaining investment in the Scout24 group accounted for using the equity method of around 30 percent continues to be part of this segment. In this way, we will go on profiting from Scout24's future value accretion. 



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For more information, please refer to Note 32 "Segment reporting" in the notes to the consolidated financial statements, PAGE 239 ET SEQ.



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**MANAGEMENT AND SUPERVISION**

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

As of December 31, 2014, Board of Management responsibilities were distributed across seven Board departments. Four of these cover cross-functional management areas:

- Chairman of the Board of Management

and the Board departments

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


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

- Germany
- Europe & Technology
- T-Systems

**Changes in the composition of the Board of Management.** Timotheus Höttges succeeded René Obermann as Chairman of the Board of Management on January 1, 2014. Thomas Dannenfeldt succeeded Timotheus Höttges as member of the Board of Management responsible for Finance effective January 1, 2014. Prof. Marion Schick's appointment as member of the Board of Management responsible for Human Resources and as Labor Director was terminated by mutual agreement effective midnight April 30, 2014. Dr. Thomas Kremer had been acting as deputy of Prof. Marion Schick since January 2014, and since her departure he has been interim Member of the Board of Management responsible for Human Resources in addition to fulfilling his own duties as Member of the Board of Management responsible for Data Privacy, Legal Affairs and Compliance.

**Changes in the composition of the Supervisory Board (shareholder representatives).** At the shareholders' meeting on May 15, 2014, Johannes Geismann, Lars Hinrichs and Karl-Heinz Streibich, who had previously been court-appointed as members of the Supervisory Board, were elected to the Supervisory Board. The shareholders' meeting on May 15, 2014 elected Dr. Ulrich Schröder to the Supervisory Board for another term of office. Dr. h. c. Walter passed away on January 11, 2015. Ines Kolmsee was appointed as shareholders' representative on the Supervisory Board by the relevant district court effective January 31, 2015 until the end of the 2015 shareholders' meeting.

**Changes in the composition of the Supervisory Board (employees' representatives).** There were no changes among the employees' representatives in the 2014 financial year.

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

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

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

T 010

**Composition of the Board of Management**


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

**GROUP STRATEGY**

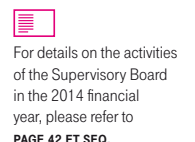
- Deutsche Telekom aims to be the leading telecommunications provider in Europe
- Initial successes in the implementation of the new Group strategy

In view of the rapid rise in data volumes, customers are choosing telecommunications providers with high-performance networks. But strong networks are also an important selection criterion for providers of online services, which need a high quality technical platform that enables them to set up their own services quickly and easily. As a result, integrated telecommunications providers are in a better competitive position than fixed-only or mobile-only providers.

**OUR CORPORATE STRATEGY: LEADING EUROPEAN TELCO**

Since 2014, we have been aligning all of our corporate activities with our Leading European Telco strategy – with the aim of becoming Europe's leading telecommunications provider. We see ourselves as a driving force for a modern and competitive digital Europe. Our leadership goal covers four dimensions: best network, best service, best products and preferred provider for business customers. Furthermore, we work towards making the information and knowledge society accessible to all, and endeavor to reconcile economic, ecological and social aims in the interests of sustainable economic activity. 

As GRAPHIC 14 shows, our Leading European Telco strategy is based on four areas of operation which are derived from our leadership goal and focus on our customers, as well as on three supporting areas of operation which provide the framework for our internal activities.





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G 14

### Leading European Telco corporate strategy



## STRATEGIC AREAS OF OPERATION

### Integrated IP networks

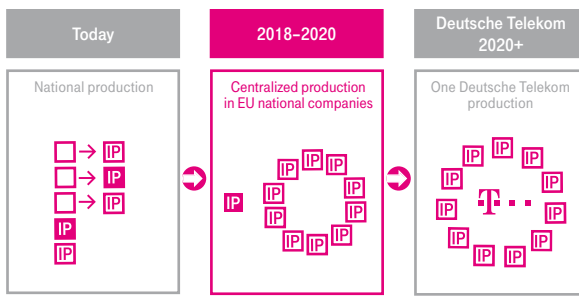
Our core business is setting up, operating and marketing networks and lines. We aim to always offer our customers the best network and fastest possible connection. Above-average **network quality** is therefore a differentiator for us, with which we can set ourselves clearly apart from the competition. We regularly have excellent results in independent network tests. This is proof that we are systematically upgrading our networks and remain quality leader, despite rising competitive pressure.

The expansion of our networks also serves our corporate and social aims: a modern network makes our products and services attractive for a larger number of potential customers and thus increases our revenue potential. Modern networks and systems also improve our energy efficiency. At the same time we give more people access to modern information and telecommunications services.

Step by step we will migrate our entire fixed network to the **Internet protocol (IP)** for all customers. In the long term, an **integrated, pan-European IP network** will allow us to react to changing customer wishes quickly, flexibly and economically. The gradual migration to modern IP networks, as illustrated in GRAPHIC 15 is already underway in all of our integrated national companies. We want to have completed this transformation to a fully IP-based network in Germany and Europe by 2018.

G 15

### Pan-European IP network



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

In mobile communications, we want to further roll out our **LTE networks**: In Germany, we plan to cover approximately 95 percent of the population with LTE by 2018, in our European national companies between 75 and 95 percent. Furthermore, we want to provide substantially more **WLAN HotSpots** in Germany and build an even denser mobile communications network using high-performance small cells. In the United States, our LTE network reached more than 265 million people at the end of 2014, exceeding our coverage target of around 225 million people.

### Best customer experience

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

In 2014, we launched our integrated **fixed network/mobile communications bundled product** MagentaEINS. By the end of the year, we won 506 thousand customers for this product. We want to increase this figure to around three million by 2018. A convergent product portfolio lets our customers see how simple and uncomplicated telecommunications can be. From a business perspective, we expect to be able to win new customers and increase loyalty and revenue among existing customers with convergent products.

We also want to substantially expand our offerings in the area of **fixed mobile convergence (FMC)**. FMC offers our customers a seamless telecommunications experience – consistent and across different technologies. In the reporting year, we introduced a **hybrid router** in Germany, which combines the strengths of fixed network – consistent high capacity – with those of mobile communications – high transmission speeds – thereby substantially increasing the available bandwidths for customers. The marketing of hybrid rate plans already kicked off at the end of 2014 in some regions of Germany. Our hybrid technology will be available across Germany in 2015.

We do not just want our customers to be satisfied, we want to delight them. Providing the best customer experience is at the heart of our actions – wherever the customers come into contact with our Group. Just how important this issue is for us can be seen from the fact that we measure **customer retention/satisfaction** – using the globally recognized **TRI\*M** method. With the help of this **TRI\*M** performance indicator, we improve our customer contact processes and our products and services. We determine the loyalty of our customers towards the Company in surveys. The results are presented as a performance indicator, the **TRI\*M** index, ranging between minus 66 and plus 134.





For more information on our network and on awards, please refer to the section "Highlights in the 2014 financial year," PAGE 61 ET SEQ.



For information on the current status of our network roll-out, please refer to the section "Highlights in the 2014 financial year," PAGE 61 ET SEQ.

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In the reporting year, the value stood at 65.9 points, compared with 64.9 points in the prior year, based on the equivalent basis for calculation. We want to increase this figure by 3.0 percent by 2018. Also by 2018, we want to improve our customer service: with a focus on customers and efficiency. We want to offer our customers an outstanding and consistent service experience on all channels – shop, hotline and online. We pay particular attention to the upgrade of our online channel and the seamless transition between the different channels. 

For our customers **data privacy and security** are very important and hence are a vital differentiator in competition. We guarantee our customers that we will handle their data securely and confidentially. The intensity of cyber threats is growing: At the end of 2014, we were recording around one million attacks a day on our networks. Added to this, the general public is gaining an increasing awareness of security issues. We therefore also see data protection and security as a growing business area, which we want to significantly expand with existing and new security solutions. We are also offering our customers solutions for greater security. Together with other companies, for example, we launched the “E-Mail made in Germany” initiative and committed ourselves to particularly high standards for data storage and transmission to make e-mail communication even more secure. 

**Win with partners**

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

We want to be the preferred telecommunications provider when it comes to innovative partners selling their products. During the reporting year, we began to establish a **technical and commercial platform** to which we connect partners and their products quickly, flexibly and at low cost. This standardized platform can be thought of, for example, as a power strip that partners can simply dock onto with their services (see GRAPHIC 16). We expect to gradually complete the technical components of our partnering platform by 2016 in our European national companies, and by 2017 in Germany.

G 16

**Deutsche Telekom partnering platform**



We are also further developing our **TV business** and want to drive growth here too. Our aim is to supply our TV services to 10 million customers across the Group, 5 million of them in Germany by 2017. We will expand our offerings of attractive content, also building on partnerships

such as those with Sky or Netflix. We make this content accessible to our customers across all screens, whether television, smartphone, or tablet. In 2014, for example, we took further steps towards “TV on all screens” with our cross-screen TV product “Entertain to go.”

**Lead in business**

We want to be the preferred provider of telecommunications and IT services for business customers. So that T-Systems can remain profitable on a sustainable basis, we are adapting the current business model of the **Market Unit**. In addition to traditional IT and telecommunications business, we will continue to focus increasingly on platform-based services and cloud services. Our target is to generate more than half of T-Systems’ revenue in such digital growth areas by 2018. In 2014, the annual average stood at 34 percent. The newly established Digital Division will be a key growth driver within T-Systems: We expect substantial double-digit growth by 2018 in the healthcare, connected car, and energy sectors as well as in our own and partner cloud products.

**GROWTH AREAS**

Achievement of the ambition levels for our five growth areas communicated at our 2012 Capital Markets Day has been varied. In the mobile Internet growth area, we generated revenue of EUR 11.5 billion in 2014, thus already surpassing our target for 2015. In the **connected home** growth area, we generated EUR 6.3 billion, which is close to our stated ambition level of EUR 7 billion for 2015. Internet services generated revenue of EUR 0.7 billion in 2014. As a result of the sale completed in February 2014 of 70 percent of the stake in the Scout24 group, we will not realize our ambition level of EUR 2 billion. In light of the realignment of the DBU and T-Systems, we will not achieve the ambition level communicated in 2012 for the growth areas of T-Systems (external revenue) and **intelligent network** solutions, as originally planned.

T 011

**Deutsche Telekom’s 2012 growth areas**  
billions of €

Revenue	2014	Ambition level for 2015 <sup>a</sup>
Mobile Internet	11.5	≈ 10
Connected home	6.3	≈ 7
Internet services	0.7	≈ 2
T-Systems (external revenue) <sup>b</sup>	5.8	≈ 7
Intelligent network solutions (energy, healthcare, connected car)	0.3	≈ 1

<sup>a</sup> Ambition level for 2015 communicated at the 2012 Capital Markets Day.  
<sup>b</sup> Excluding revenue from intelligent network solutions.

**SUPPORTING AREAS OF OPERATION**

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

**Transform portfolio.** We will continue to develop our **portfolio of shareholdings**. Our focus is on strengthening our integrated national companies. Furthermore, with the newly established Deutsche Telekom Capital Partners (DTCP), in the future we will primarily make investments outside of our core business.

  
Sustainability at Deutsche Telekom


  
Sustainability at Deutsche Telekom

  
Glossary, PAGE 277 ET SEQ.

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



Glossary, PAGE 277 ET SEQ.

**Encourage leadership & performance development.** We achieve our ambitious corporate objectives by every single one of our employees – from career starters through to top executives – delivering excellent results and performance. This is the basis for increasing our Group's productivity and innovative strength. Our managers have a particular responsibility: They bring their own area in line with the strategic focuses of our Group and pursue implementation together with their teams. That is why it is important to us to safeguard and build on the performance culture and expertise of our managers based on a long-term perspective. With a view to preparing our managers for their future tasks and the pursuit of joint goals, we introduced a new leadership model based on uniform leadership principles in 2014. In particular, they focus on collaboration, innovation and empowerment to perform. We also incorporate the following focal points in our **HR strategy**: Our aim is to strengthen international collaboration within the Group and promote the sharing of knowledge and experience across borders. We bring the diversity of our employees into play as a driver of innovation. We recognize talented employees and are committed to fostering them through a Group-wide, coordinated development process. We identify the skills and knowledge that are strategically necessary to the Group to ensure our continued success, including in future business areas. Our actions in this regard are guided by the need to shape the transformation of our Company in a way that is sustainable and forward-looking. 

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

#### The leading European telecommunications provider

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

## MANAGEMENT OF THE GROUP

- Finance strategy for 2014 consistently implemented
- Group-wide value management

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

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

## FINANCE STRATEGY

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

We presented our finance strategy for 2013 to 2015 at our Capital Markets Day in Bonn in December 2012. We consistently implemented this strategy in 2013 and 2014 and also will confirm its basic structure for subsequent years at our 2015 Capital Markets Day. This also involved achieving our financial ratios – relative debt (ratio of net debt to adjusted EBITDA) and equity ratio – along with a liquidity reserve that covers our capital market maturities for the next 24 months at least. With these clear statements we intend to maintain our **rating** in a corridor of A-/BBB and safeguard undisputed access to the capital market.

There is a reliable dividend policy for shareholders, which is subject to approval by the relevant bodies and the fulfillment of other legal requirements. We intend to pay a dividend of at least EUR 0.50 per dividend-bearing share for the financial years 2015 to 2018. Relative growth of free cash flow is also to be taken into account when measuring the amount of the dividend for the specified financial years. Thus we offer our shareholders both an attractive return and planning reliability. Following its first-time success in 2012, we again offered our shareholders the option of converting the dividend for financial year



For more information on our HR strategy, please refer to the section "Employees," PAGE 128 ET SEQ.



Sustainability at Deutsche Telekom

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2013 into Deutsche Telekom AG shares instead of receiving it as a cash payment. The latter offers investors the opportunity to leave funds in our Company, improve financial ratios further, and to benefit even more from the success of their investment in the long term. This offer was taken up on an even larger scale than in the previous year. We consider offering our shareholders this option again for the 2014 financial year.

Total capital expenditure is also to remain high in the next few years. The scope for investment is to be used to further roll out our broadband infrastructure and to drive forward the transformation of the Company to an IP-based production model. In mobile communications, the infrastructure roll-out will focus on the latest LTE standard, and in the fixed network, on optical fiber and vectoring.

The finance strategy supports our Leading European Telco corporate strategy in transforming our Group. In order to generate a sustainable increase in value, we intend to earn our cost of capital in the medium term. We aim to achieve this goal in part by optimizing the utilization of our non-current assets. In Germany, for example, marketing under the contingent model was very successful again in 2014. In Europe, the migration of fixed-network customers to IP technology was completed in

both the F.Y.R.O. Macedonia and in Slovakia. We also intend to achieve our target of earning our cost of capital through strict cost discipline. To this end, the target costing method was piloted in initial projects and will now be established Group-wide, the aim being to move away from a historical view of our costs and to follow a consistent course oriented toward our target costs based on market prices achievable in the future. We also ensure the viability of our Company through further measures to enhance the efficiency of administrative functions. Since 2013, we have also additionally focused our steering on unadjusted EBIT. Taking investment costs into account, EBIT is closer to the ROCE concept (please refer to the explanations later in this section for more detailed information about ROCE as a key performance indicator) and therefore supports our consistent focus on an efficient allocation of capital in the Deutsche Telekom Group.

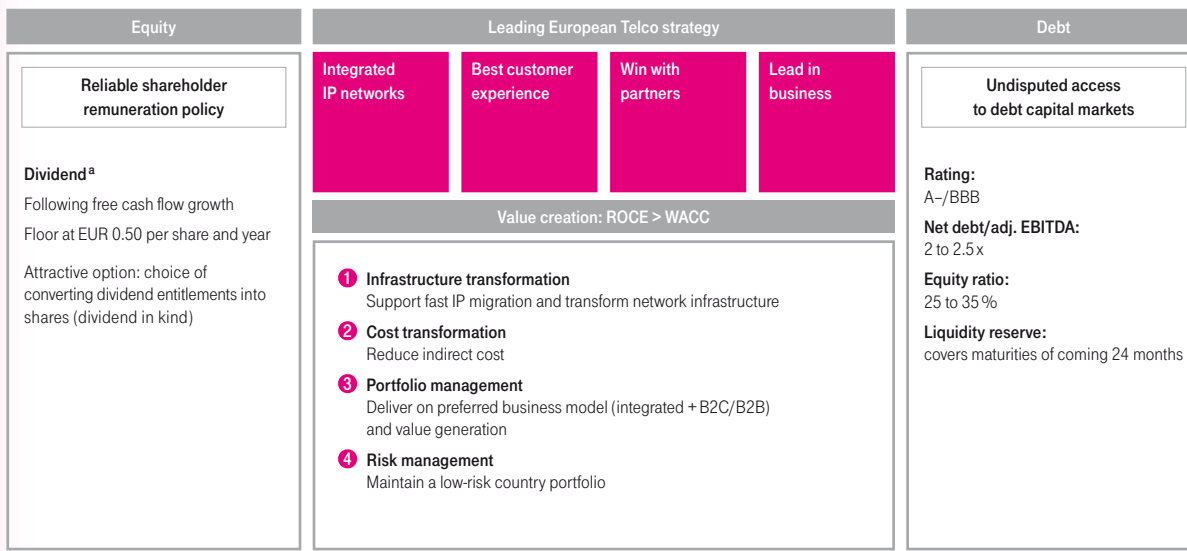
In the 2014 financial year, changes were successfully made to the portfolio, such as the sale of 70 percent of our stake in the Scout24 group. Other possibilities were considered, e.g., with regard to our joint venture EE, which we run together with Orange. Sales negotiations with the British company BT for its possible acquisition of the joint venture EE began in December 2014. The sale agreement was signed on February 5, 2015.

See section "Group strategy," PAGE 69 ET SEQ.

Glossary, PAGE 277 ET SEQ.

G 17

**Our finance strategy until 2018**



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

## VALUE MANAGEMENT AND PERFORMANCE MANAGEMENT SYSTEM

In order to set and achieve our strategic goals more effectively, we are pursuing a Group-wide value management approach. Ultimately, specific performance indicators are required to measure success. The basis for this is a reliable and understandable performance management system. The following information provides an overview of our key financial and non-financial performance indicators (see also TABLES 012 and 013).

### PROFITABILITY

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

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

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

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

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

### REVENUE AND EARNINGS

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

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



For the development of the KPIs, see TABLE 012, PAGE 74, and TABLE 013, PAGE 75, and the section "Development of business in the Group," PAGE 82 ET SEQ.

T 012

#### Financial performance indicators

		2014	2013	2012	2011	2010
ROCE	%	5.5	3.8	(2.4)	3.8	3.5
Net revenue	billions of €	62.7	60.1	58.2	58.7	62.4
Profit (loss) from operations (EBIT)	billions of €	7.2	4.9	(4.0)	5.6	5.5
EBITDA (adjusted for special factors)	billions of €	17.6	17.4	18.0	18.7	19.5
Free cash flow (before dividend payments, spectrum investment) <sup>a</sup>	billions of €	4.1	4.6	6.2	6.4	6.5
Cash capex <sup>b</sup>	billions of €	(9.5)	(8.9)	(8.0)	(8.3)	(8.5)
Rating (Standard & Poor's, Fitch)		BBB+	BBB+	BBB+	BBB+	BBB+
Rating (Moody's)		Baa1	Baa1	Baa1	Baa1	Baa1




Glossary, PAGE 277 ET SEQ.

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

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

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The adjusted values are calculated on the basis of the unadjusted performance indicators. 

## FINANCIAL FLEXIBILITY



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

Our central free cash flow management is aimed at further improving **working capital**. Free cash flow management is responsible for transparency, steering, forecasts, and performance measurement in relation to the Group's free cash flow and especially in relation to working capital. In 2010, we set up CORE (Cash Optimization for ROCE Enhancement), a project to improve working capital on a long-term basis. In 2014, the focus was on optimizing receivables management in all our operating segments throughout the Group; this also involved factoring measures. We intend to continue to work on improving working capital over the coming years. To this end, we will focus on the following areas: further improvements in the area of liabilities, e.g., through **reverse factoring** programs and improvements in the area of receivables and inventories management at T-Mobile US and in Europe.

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

A **rating** is an assessment or classification of the creditworthiness of debt securities and its issuer according to uniform criteria. Assessment of creditworthiness by rating agencies influences interest rates on debt securities and thus also our borrowing costs. As part of our finance policy, we have defined a target range for our ratings. We are convinced that with a rating between A- and BBB (Standard & Poor's, Fitch) or between A3 and Baa2 (Moody's) we essentially have the necessary entry to the capital markets to generate the required financing.

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

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



For the reconciliation of EBITDA, EBIT, and net profit/loss to the respective figures adjusted for special factors, please refer to TABLE 019, PAGE 87.



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Sustainability at Deutsche Telekom



For more information on customer satisfaction, please refer to the section "Group strategy," PAGE 69 ET SEQ.

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## Non-financial performance indicators

		2014	2013	2012	2011	2010
Customer satisfaction (TRI*M index)		65.9	64.9	-	-	-
Employee satisfaction (commitment index) <sup>a</sup>		4.0	4.0	4.0	-	-
<b>FIXED-NETWORK AND MOBILE CUSTOMERS</b>						
Mobile customers	millions	150.5	142.5	127.8	125.1	124.6
Fixed-network lines <sup>b</sup>	millions	29.8	30.8	32.1	34.7	36.0
Broadband lines <sup>b,c</sup>	millions	17.4	17.1	16.9	16.9	16.4
<b>SYSTEMS SOLUTIONS</b>						
Order entry <sup>d</sup>	millions of €	7,456	7,792	8,737	7,396	9,281

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

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

<sup>c</sup> Excluding wholesale.

<sup>d</sup> The prior-year comparative was adjusted retrospectively due to changes in the structure of the Group implemented as of January 1, 2014. 



For more information, please refer to Note 32 "Segment reporting" in the notes to the consolidated financial statements, PAGE 239 ET SEQ.



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For more information on  
employee satisfaction,  
please refer to the  
section "Employees,"  
PAGE 128 ET SEQ.

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

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

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

## THE ECONOMIC ENVIRONMENT

- Economic situation in our core markets improved
- The consolidation trend in the telecommunications market continues to increase

### MACROECONOMIC SITUATION

In 2014, the global economy showed only cautious growth: In its current forecast from January 2015, the International Monetary Fund expects the global economy to have grown by 3.3 percent in 2014 (prior year: 3.3 percent). Some contrasting developments could be observed in the world's major economies in 2014. While growth rates increased in the United States, the United Kingdom, and Central Europe in 2014, some Western European economies stagnated, and there was a slowdown in the growth rates of the emerging economies.

In most of our core markets, the economic situation improved year on year. Gross domestic product (GDP) grew by 1.5 percent in Germany – a greater increase than in other Western European countries. The U.S. economy gained significant momentum, especially in the second half of 2014; in addition to the positive trend on the real estate market, this was due in particular to the ongoing increase in private consumption. Overall, GDP in the United States rose by 2.4 percent. Almost all economies in our Europe operating segment showed an improvement in their economic development. In Greece, the decline in economic performance slowed from the middle of 2014; in the last quarters of the reporting year, growth rates were positive. In the Netherlands and Austria, GDP grew moderately in 2014; Poland, Hungary, Romania, the United Kingdom, Slovakia, and the Czech Republic recorded stronger growth. Croatia's economy shrank again, mainly due to cautious reforms and the lack of the country's competitiveness. This trend was further amplified by a subdued development of the tourism industry and weak trade revenues in the summer months.

T 014

#### Development of GDP and the unemployment rate in our core markets from 2012 to 2014

%

	GDP for 2012 compared with 2011	GDP for 2013 compared with 2012	GDP estimate for 2014 compared with 2013	Unemployment rate in 2012	Unemployment rate in 2013	Estimated unem- ployment rate for 2014
Germany	0.6	0.2	1.5	6.8	6.9	6.7
United States	2.3	2.2	2.4	8.1	7.4	6.2
Greece	(6.6)	(4.0)	1.1	24.6	27.5	26.4
Romania	0.7	3.1	3.1	5.0	5.2	5.2
Hungary	(1.5)	1.6	3.2	10.5	9.8	7.5
Poland	1.8	1.5	3.4	12.8	13.5	12.3
Czech Republic	(0.7)	(0.7)	2.3	6.8	7.7	7.7
Croatia	(2.4)	(0.6)	(0.6)	19.1	20.3	19.7
Netherlands	(1.6)	(0.7)	0.7	6.4	8.2	8.4
Slovakia	1.8	0.9	2.4	14.0	14.2	13.3
Austria	1.0	0.1	0.4	4.4	4.9	5.0
United Kingdom	0.7	1.7	2.6	4.8	4.2	3.0

Source: Oxford Economics, January 2015.



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TABLE 014 shows the GDP growth rate trends in 2014 and the unemployment rate in our most important markets.

Development in national labor markets varied in our core countries in 2014. These markets remained stable in Germany and Austria. The economic recovery in the United States and the United Kingdom also revived the labor market. The harsh recession in recent years in Greece has weakened the labor market to a great extent. In Croatia, Poland, Slovakia, and Hungary, structural unemployment, especially among the older workforce, is high: As a result, the purchasing power of those affected has declined and impacted their willingness to spend. Some customers have adapted their demand behavior. The effects of high unemployment are particularly noticeable in Greece, Croatia and Slovakia.

In addition to high unemployment, austerity measures in the public sector and the low willingness to invest also had a detrimental effect on demand for ICT services. In some countries, the intense pressure to consolidate state finance led to special taxes being maintained for telecommunications companies, as was the case in Hungary, for example. In the market environment of our Systems Solutions operating segment, restrained growth on a global economic scale in 2014 resulted in continued cost pressure, delayed investments, and increasing intensity of competition.

## TELECOMMUNICATIONS MARKET

Worldwide, the market for information and communications technologies (ICT) grew by 4.0 percent in 2014. This increase was due to strong demand for telecommunications equipment and services, especially in China and the United States. The high-tech association BITKOM (Federal Association for Information Technology, Telecommunications and New Media) and the EITO (European Information Technology Observatory) expect the telecommunications market segment to record a clear increase of 4.8 percent to EUR 1.64 trillion for 2014. Revenues from telecommunications infrastructure are forecast to grow by 7.4 percent. The increase in telecommunications services is expected to stand at 3.9 percent. According to estimates, business with mobile data services in particular will grow significantly by 15.7 percent worldwide.

By contrast, persistently intense competition impacted the development of the telecommunications markets in Europe. Revenue from traditional telecommunications services continued to decline, although this trend did slow down. On the one hand, the decrease is attributable to regulatory interventions such as the reduction in termination rates and the focus on low retail prices. On the other hand, the substitution of traditional voice and messaging services with OTT players had a negative impact on the European telecommunications markets.

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

Consolidation pressure remained high in the European telecommunications industry in 2014. This was primarily due to falling revenues while the need for investment in network roll-out remained high. Ultimately, the aim was to keep pace with the rapidly rising data volumes and speeds. After Vodafone took over Kabel Deutschland in 2013, consolidation also advanced in other EU member states: In May 2014, the European Commission approved the takeover of Telefónica Ireland by Hutchison 3G; the takeover of E-Plus by Telefónica Deutschland followed in July. The European Commission has been reviewing the planned takeover of Jazztel by Orange in Spain since December 2014, and BT is in negotiations to acquire our joint venture EE in the United Kingdom. Furthermore, the low stock market valuation of many European telecommunications companies in comparison to international competitors, ultimately again attributable to excessive network access and price regulation, has awakened the interest of strategic investors in purchasing or expanding equity interests. While América Móvil and Hutchison 3G have already gained a foothold in a number of European markets, the U.S. telecommunications group AT&T also continues to signal interest in entering the European market.

## EUROPEAN REGULATORY ENVIRONMENT

The European Union largely sets the relevant regulatory framework: through regulations, which member states must apply directly, directives, which member states must transpose into national law, and recommendations of the EU Commission, which although not directly binding, must be taken into account by the national regulatory authorities. The further development of the European legal framework offers opportunities for greater legal certainty and consistent framework conditions in the single European market, but also risks of additional regulatory restrictions. Next year, the EU Commission will introduce a complete revision of the applicable EU legal framework for telecommunications. At present, it is not possible to conclusively assess the opportunities, for instance for a return to ex-ante regulation, and the risks.




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## GERMANY

Germany's future viability depends crucially on innovation and functioning competition. The digitization of the economy is advancing rapidly in all industries and sectors, from research, production and sales to corporate communications and logistics. Companies are exploiting the opportunities of Internet technologies to make value chains more effective and energy-efficient, and to develop new business models. 

Market data on information and communications technology as well as consumer electronics is published by the European Information Technology Observatory (EITO): According to EITO, revenue from IT products and services, telecommunications and the entertainment industry increased by 1.6 percent to EUR 153 billion in Germany in the reporting year. Information technology above all performed well; the advance of digitization in SMEs played an important role in this regard. According to BITKOM's estimate, telecommunications revenue in Germany fell 0.9 percent to EUR 65 billion. The slight increase in data services was not able to compensate the substantial revenue decrease from voice services. Despite this difficult situation, network operators are once again investing more in the networks.

The German mobile communications and fixed-network markets were dominated by takeovers and business combinations, in particular the merger of Telefónica and E-Plus and the takeover of Kabel Deutschland by Vodafone. The market was also characterized by significant investments in fiber-optic networks and LTE technology. Furthermore, as part of conditions imposed by the EU competition authorities, the merged Telefónica was forced to give up network capacities to operators without their own network. At the end of 2013, we introduced our contingent model for fixed-network wholesale services, especially for VDSL and vectoring: The contingent model was well received by the market in 2014.

The German broadband market grew by more than 3 percent in 2014. There are now some 30 million broadband lines in Germany. This growth is primarily attributable to the positive trend among broadband cable operators. According to VATM (Association of Telecommunications and Value-Added Service Providers), the total data volume of broadband Internet traffic in the fixed network increased by around 30 percent compared with 2013 to 9.3 billion gigabytes. In Germany, mobile service revenues fell by around 1.6 percent year-on-year to almost EUR 19 billion, mainly due to tough price competition and increased use of social networks such as Facebook and IP services like WhatsApp. More flat rates were marketed, and the rapid spread of smartphones and tablets continued. As a result, text messages are increasingly being substituted. According to VATM's forecast, the total outgoing data volumes from mobile networks climbed 48 percent to around 395 million gigabytes in 2014. The percentage of mobile Internet users continues to accelerate: In Germany, 37 million people used the mobile Internet in the reporting year, 25 percent more than in 2013.

As in previous years, the proportion of contracts concluded in the telecommunications market that offer combined products consisting of telephone and Internet lines continued to grow. A largely new development is the increase in convergent offers combining fixed network and mobile communications. In fall 2014, we launched our first integrated offer combining fixed network and mobile communications with MagentaEINS. Integrated offers increase attractiveness compared with traditional individual offerings, on the one hand due to, for example, fast speeds and a simpler customer relationship, and on the other due to greater customer retention for the Company.

## UNITED STATES

The mobile market in the United States is still divided between four major national mobile providers – AT&T, Verizon Wireless, Sprint-Nextel, and T-Mobile US – and various regional network operators. In addition, there are a number of mobile virtual network operators, which use the networks of one or more of the four national operators to transport their mobile and data traffic. The two largest national network operators are AT&T and Verizon Wireless.

The market penetration of smartphones slowed in the United States; in addition, the mobile market is now saturated, as market penetration has reached over 100 percent. This had an impact on the mobile market, which recorded only slight growth in the reporting year. Voice revenues fell again overall in 2014. However, this was more than offset by the ongoing increase in data revenues.

Since 2013, T-Mobile US has undergone a significant operational turnaround, and has heightened the level of competition in the U.S. mobile market. This is mainly due to improvement in its network, device parity with other operators due to the launch of the iPhone, and its Un-carrier initiatives which contributed successfully to customer satisfaction. As a result, T-Mobile US recorded more than 1 million net contract adds for seven quarters in a row.

In early 2014, the British telecommunications company Vodafone sold its shares in Verizon Wireless and withdrew from the U.S. market altogether. On July 31, 2014, the French mobile provider Iliad announced in a press release that a provisional offer had been made to the T-Mobile Board of Directors to takeover 56.6 percent of the company. On October 13, 2014, Iliad issued a further press release to the effect that the takeover plans would no longer be pursued.



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## EUROPE

The macroeconomic environment of our Europe operating segment improved slightly in 2014. Traditional telecommunications markets declined less sharply in the reporting year than in prior years, mainly due to the fact that mobile termination rates were reduced in fewer markets in 2014 and the reductions were not as sharp as, for example, in 2013, when nearly all of our markets were affected by significant reductions in mobile termination rates. However, the markets in our Europe operating segment continued to be dominated by tough competition, led by network operators and MVNOS. Added to this, offerings of OTT players like WhatsApp and Apple's iMessage are increasingly replacing traditional voice and text messages. National austerity programs, e.g., in Greece and Hungary, also impacted the telecommunications industry in the reporting year, for instance through infrastructure levies or special taxes on telecommunications services.

We have around 80 competitors in total in the markets of our Europe operating segment. As a result, the race for market shares is mainly based on aggressive pricing. On the one hand, the markets settle down through network partnerships and business combinations, such as Hutchison 3G's acquisition of Orange in Austria, which could slow down the fall in prices. On the other hand, new competitors continue to enter the markets, e.g., in the course of spectrum auctions, as MVNOS, or even established fixed-network providers that are expanding their business to include mobile communications, like RCS & RDS in Romania. This means competitive pressure remains high in the telecommunications markets of our Europe operating segment.

High quality networks as well as attractive and innovative content and services that offer customers real added value are key competitive advantages. In addition, the volume and transmission speeds of data are constantly rising. As such, we are continuing to invest in high-performance broadband coverage and roll out our fiber-optic networks; we are also converting our networks to the Internet protocol (IP). Migration of fixed-network lines to IP has started in all our integrated subsidiaries, associates and joint ventures, and is already complete in the F.Y.R.O. Macedonia and in Slovakia. Building on this, we are harmonizing our network and IT architectures, so as to enable the centralized, cloud-based production of our services. The advantages of the new IP-based production model can be seen in products like "Broadband on Demand" in the F.Y.R.O. Macedonia, the new IPTV platform in Romania or TeraStream in Croatia: We are creating a completely new customer experience here in terms of immediate availability, personalization, and reliability and bandwidth of the data connection. Together with partner companies, we can also offer the most modern Internet services like Spotify or Evernote. The need for faster data transmission is also growing in mobile communications. We are therefore constantly modernizing and upgrading the mobile networks in the countries of our Europe operating segment, especially with the mobile communications standard LTE. In 2014, we were able to secure the necessary network frequencies in Greece, Hungary and Poland. 🇩🇪

There is strong demand for product packages in our markets. We meet this demand with high network quality as well as an intelligent mix of fixed-network and mobile technologies. As an established integrated telecommunications operator, we are playing a leading role in shaping the FMC (Fixed Mobile Convergence) industry trend and we are developing most of our international holdings into an integrated business model. Of particular note in this regard is the acquisition of the GTS Central Europe group, with which we want to strengthen the key business customer segment with integrated offerings, especially in Poland and the Czech Republic. FMC, the bridge between fixed network and mobile communications, can also be seen in the increasing merging of broadband lines toward hybrid lines. We are reflecting this in our integrated network strategy. In addition, all of our already integrated national companies now offer FMC products.

## SYSTEMS SOLUTIONS

The change in overall demand in our Systems Solutions operating segment progressed further in 2014: Cyber security services or ICT security, cloud services, intelligent networks, and above all, the growth and innovation areas of big data, Industry 4.0 and communications between machines (M2M), all gained in importance.

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

- The overall economic trend had a comparatively small effect on the **telecommunications** market segment. As in previous years, this market was dominated by continued price erosion in telecommunications services and intense competition.
- Growth in the **IT services** market was significantly higher in 2014 than in the prior year. Further recovery has been especially tangible in the area of computing & **desktop services**. This was due to the growing success of cloud services and platform-based solutions. The IT project business remains largely dependent on the economy. After relatively weak development in 2013 compared to the two previous years, growth gained momentum in the reporting year. The main contributing factors were the migration to cloud services, the growth areas such as big data, M2M, the standard project business, and the industry-specific systems integration business in the environment of the automotive, healthcare and energy sectors.



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## MAJOR REGULATORY DECISIONS

Our business activities are largely subject to national and European regulation, which is associated with extensive powers to intervene in our product design and pricing. We were again subject to extensive regulation in our mobile and fixed-network businesses in 2014.

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

### REGULATION OF SERVICES FOR WHOLESALE CUSTOMERS

**Federal Network Agency issues final ruling on vectoring.** The Federal Network Agency had essentially already given the green light to the use of vectoring transmission technology in August 2013, although some regulations were subject to the provision of a certain wholesale offer (bitstream access). The Federal Network Agency had to define this offer, as well as other contractual provisions, in a further administrative procedure. We were informed of an interim decision in early June 2014 that allowed us to implement vectoring in Germany. After completion of the European notification, the Federal Network Agency issued its final ruling on July 29, 2014. We began marketing VDSL lines with vectoring technology on September 1, 2014. Customers in roll-out areas can surf the Internet with download speeds of up to 100 Mbit/s and upload speeds of up to 40 Mbit/s.

**Regional deregulation concepts by the Federal Network Agency.** On November 12, 2014, the Agency submitted a new draft bitstream market analysis, which provides for a regionalized bitstream market in Germany for the first time. The Federal Network Agency only sees potential for deregulation in the following cities: Bochum, Bottrop, Bremerhaven, Cologne, Gelsenkirchen, Herne, Karlsruhe, Kiel, Leipzig, Leverkusen, Mannheim, Osnabrück, Pforzheim, Recklinghausen, and Reutlingen. This corresponds to deregulation of 5 percent of households. Thus the Federal Network Agency continues to insist on regulation in competitive regions like Hamburg and Berlin and ignores the strong competitive pressure emanating from cable operators and companies demanding ULLs. The process is expected to be completed in mid-2015.

### REGULATION OF PRICING AND SPECIAL TAXES

Pricing measures for bitstream products can be implemented. Rate measures by Telekom Deutschland GmbH for bitstream products are subject to "ex-post" price regulation by the Federal Network Agency, to whom they must be announced before they take effect. Accordingly, Telekom Deutschland GmbH announced pricing measures on the IP bitstream market in connection with planned partnerships for broadband roll-out. The Federal Network Agency reviewed the pricing measures and found no evidence of anti-competitive behavior. Following an international consolidation and comments by the European Commission on March 14, 2014, the Federal Network Agency has also formally concluded its review, paving the way for the pricing measures to take effect as of April 1, 2014.

**One-time charges for unbundled local loop lines in Germany remain stable.** The Federal Network Agency set the charges for provision and termination of unbundled local loop lines (ULLs) on June 30, 2014. The charge for the most frequently requested ULL option decreased only slightly. For certain options, charges increased. The charges will apply until September 30, 2016.

**Federal Network Agency reduces interconnection rates.** On April 28 and May 2, 2014, Telekom Deutschland GmbH submitted rate applications to the Federal Network Agency for mobile- and fixed-termination rates. On July 11, 2014, the Federal Network Agency published a draft ruling reducing fixed-network termination rates by 20 percent to 0.24 eurocents/minute as of December 1, 2014. On September 3, 2014, the Federal Network Agency also published the draft ruling to set new mobile termination rates: From December 1, 2014 to November 30, 2015, the rates are to fall to 1.72 eurocents/minute, from December 1, 2015 to November 30, 2016 to 1.66 eurocents/minute. The new rates have been charged on the market since December 1, 2014 on the basis of a preliminary approval. There will be no final ruling on the rates until the EU-wide consolidation process is complete.

**Additional special taxes affecting our international subsidiaries.** In addition to the special taxes already in place, e.g., in Greece, Hungary and Romania, the Croatian government decided to triple frequency usage charges with effect from May 23, 2014. A public consultation is also currently underway concerning a change in right-of-way fees in Croatia, which could put additional pressure on Hrvatski Telekom.



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## ALLOCATION OF MOBILE SPECTRUM

The following significant spectrum auctions or preparations took place in Germany and our international subsidiaries in 2014:

- Following the approval for the merger of Telefónica Deutschland and E-Plus in **Germany** at the start of July 2014, in fall 2014, the Federal Network Agency launched a consultation on the auction concept for the process for reassigning the 0.9 and 1.8 GHz frequency rights from the German network operators' GSM licenses and for tendering further frequencies from the 0.7 GHz (digital dividend II) and 1.5 GHz ranges. The auction is scheduled for the second quarter of 2015.
- In **Greece**, the regulatory authority EETT allocated frequencies in the 0.8 GHz (digital dividend) and 2.6 GHz ranges on October 13, 2014 in the form of a simultaneous multi-round auction. Apart from our Greek subsidiary Cosmote, only the two other mobile operators, Vodafone and WIND, took part in the auction. Cosmote was able to secure a competitive frequency allocation.
- In **Hungary**, the three-stage process to assign frequencies in the 0.8, 0.9, 1.8, and 2.6 GHz ranges was completed. Magyar Telekom successfully took part in the tender process and was able to secure the frequency resources it desired.
- The **Czech** regulatory authority CTU launched a consultation on the auction of the remaining spectrum in the 1.8 and 2.6 GHz ranges that was not sold in the 2013 auction. T-Mobile Czech Republic is analyzing the terms and conditions and preparing to take part in the process, which is planned for 2015.
- In **Albania**, AMC applied to extend its GSM license with frequencies in the 0.9 and 1.8 GHz ranges, which expired in August 2014. Due to the fact that all the requirements are met, the extension certificate is expected to be sent out soon. The Albanian regulatory authority AKEP plans to tender further mobile frequencies in the 0.9, 1.8 and 2.6 GHz ranges in 2015.
- In **Poland**, the regulator UKE began the tender process for frequencies from the 0.8 and 2.6 GHz ranges on October 14, 2014. It is based largely on the conditions of award already known from the planning for the last auction. The award in the form of a simultaneous multi-round auction is expected to start in January 2015.
- There have been further delays in preparations for the frequency auctions in **Montenegro**, where the publication of the final allocation rules and the start of the bidding phase were expected in the first half of 2014. This process has been postponed until after 2015.
- The U.S. telecommunications regulator (FCC) carried out an auction for a total of 65 MHz of spectrum in the 1.6, 1.7, and 2.1 GHz bands (AWS-3). At a final price of USD 44.9 billion, the reserve price of approximately USD 10.5 billion for the entire spectrum was surpassed several times over. T-Mobile US participated in the auction, which ended on January 29, 2015. The licenses acquired by T-Mobile US cover 97 million people and have a total value of USD 1.8 billion. Subject to approval by the relevant authorities, T-Mobile US expects to receive the AWS spectrum licenses in the second quarter of 2015.

## DEVELOPMENT OF BUSINESS IN THE GROUP

- Corporate targets achieved
- Adjusted EBITDA of EUR 17.6 billion
- Free cash flow of EUR 4.1 billion

### STATEMENT OF THE BOARD OF MANAGEMENT ON BUSINESS DEVELOPMENT IN 2014

Bonn, February 10, 2015

2014 was another successful financial year for us. We achieved our most important corporate targets. Our forecast of adjusted EBITDA of EUR 17.6 billion was right on the mark. Free cash flow (before dividend payments and before spectrum investment) of EUR 4.1 billion was within our corporate target. In addition, subject to approval by the relevant bodies and the fulfillment of other legal requirements, we continue to adhere to our shareholder remuneration strategy as planned and will propose to the shareholders' meeting a dividend of EUR 0.50 per dividend-bearing share. We are also considering offering our shareholders the choice once again of having their dividend paid out in cash or converting it into Deutsche Telekom AG shares.

Our net revenue rose by as much as 4.2 percent to EUR 62.7 billion, mainly thanks to the buoyant revenue growth in our United States operating segment of over 20 percent year-on-year, which alongside the effect of the first-time inclusion of MetroPCS as of May 1, 2013 was boosted in particular by continued strong customer additions.

We increased our profit from operations to EUR 7.2 billion in the reporting year. This also raised our net profit by a substantial EUR 2.0 billion to EUR 2.9 billion, largely as a result of income from deconsolidation in connection with the sale of 70 percent of the shares in the Scout24 group.

Our net debt increased from EUR 39.1 billion to EUR 42.5 billion. In addition to the acquisition of mobile spectrum, dividend payments, and the cash outflow for the acquisition of stakes in other companies, this was mainly attributable to currency translation effects arising from exchange rate fluctuations. The free cash flow and the cash inflow from the sale of the Scout24 group in particular had a positive effect.

The trends in the telecommunications industry remain challenging: saturated markets, rising competition, strict regulatory requirements – all resulting in further price erosion. To overcome these challenges successfully and ensure the continued viability of Deutsche Telekom,

we are investing further in our networks. In 2014, we made investments (before spectrum) of EUR 9.5 billion, EUR 0.7 billion more than in the previous year. In the fixed network, our focus was on investments in vectoring/fiber-optic roll-out in Germany, IPTV, and the continued migration to an IP-based network in the Germany operating segment and our national companies in Europe. In mobile communications, we invested in LTE, increased network coverage, and upgraded capacity to meet increasing demand for data volumes. Our sound rating will help us to manage our planned capital expenditure flexibly over the next few years and thus to contribute to future growth.

We also changed our portfolio in the 2014 financial year, enhancing its value. After selling 70 percent of the shares in the Scout24 group at the beginning of February, acquiring the remaining shares in T-Mobile Czech Republic, also in February, and purchasing the GTS Central Europe group in May, we reached an agreement with BT in February 2015 on the sale of our stakes in the EE joint venture.

Employee satisfaction at Deutsche Telekom remains at a high level, as confirmed by the results of the pulse surveys conducted in May and November 2014. The satisfaction of our customers is likewise increasing. In the reporting year, we also raised our TRI\*<sup>M</sup> customer satisfaction score once again. While T-Systems maintained its high level, the scores for Germany and Europe increased in particular.

In view of the above, we would like to reaffirm our commitment to the strategic goal we have been pursuing since 2014: to become the Leading European Telco. Along the way, we achieved initial successes in the reporting year and see ourselves as a driving force for a modern, competitive, digital Europe.

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

In the 2013 Annual Report, we outlined expectations for the 2014 financial year for our financial and non-financial key performance indicators anchored in our management system. TABLES 015 and 016 below summarize the results in 2013, the results expected for the current reporting year, and the actual results achieved in 2014. The performance indicators that we also forecast in the 2013 Annual Report and their development are presented in the individual sections.

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

		Results in 2013	Expectations for 2014	Results in 2014
ROCE	%	3.8	increase	5.5
Net revenue	billions of €	60.1	slight increase	62.7
Profit (loss) from operations (EBIT)	billions of €	4.9	strong increase	7.2
EBITDA (adjusted for special factors)	billions of €	17.4	around 17.6	17.6
Free cash flow (before dividend payments, spectrum investment) <sup>a</sup>	billions of €	4.6	around 4.2	4.1
Cash capex <sup>b</sup>	billions of €	8.9	around 9.3	9.5
Rating (Standard & Poor's, Fitch)		BBB+	A-/BBB	BBB+
Rating (Moody's)		Baa1	A3/Baa2	Baa1

T 016

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

		Results in 2013	Expectations for 2014	Results in 2014
Customer satisfaction (TRI*M index)		64.9	slight increase	65.9
Employee satisfaction (commitment index) <sup>c</sup>		4.0	stable trend	4.0
<b>FIXED-NETWORK AND MOBILE CUSTOMERS</b>				
<b>GERMANY</b>				
Mobile customers	millions	38.6	slight increase	39.0
Fixed-network lines	millions	21.4	decrease	20.7
Broadband lines	millions	12.4	slight increase	12.4
<b>UNITED STATES</b>				
Branded postpaid	millions	22.3	strong increase	27.2
Branded prepay	millions	15.1	strong increase	16.3
<b>EUROPE</b>				
Mobile customers	millions	56.7	slight decrease	56.0
Fixed-network lines <sup>d,e</sup>	millions	9.3	decrease	9.0
Retail broadband lines <sup>d,e</sup>	millions	4.7	increase	5.0
<b>SYSTEMS SOLUTIONS</b>				
Order entry <sup>d</sup>	millions of €	7,792	strong decrease	7,456


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

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

<sup>c</sup> Commitment index according to the 2012 employee survey.

<sup>d</sup> The prior-year comparative was adjusted retrospectively due to changes in the structure of the Group implemented as of January 1, 2014. 

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

In the reporting year, we achieved all financial key performance indicators forecast at the time. For net revenue of the Group, we actually significantly exceeded the slight increase projected. Our cash capex was also higher than the figure of approximately EUR 9.3 billion forecast in the guidance. 




For more information, please refer to Note 32 "Segment reporting" in the notes to the consolidated financial statements, **PAGE 239 ET SEQ.**



Details on the trends in our financial and non-financial key performance indicators can be found in this section as well as in the section "Development of business in the operating segments," **PAGE 96 ET SEQ.**

## COMPARISON OF OUR STAKEHOLDERS' EXPECTATIONS WITH ACTUAL FIGURES

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



For further explanations and details on our finance strategy, please refer to the section "Management of the Group," PAGE 72 ET SEQ.

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

Shareholders			Providers of debt capital		
	2014 guidance	2014 delivery		2014 guidance	2014 delivery
Shareholder remuneration policy <sup>a</sup>	Dividend for the 2014 financial year: € 0.50 per share  Option to have the dividend entitlement fulfilled in the form of shares	Proposed dividend for the 2014 financial year of € 0.50 per share (€ 2.3 billion); cash dividend or, as an option, dividend converted into shares	Rating	A-/BBB	BBB+
			Relative debt	2 to 2.5 x	2.4 x
			Equity ratio	25 to 35 %	26.3 %
			Liquidity reserve	covers maturities of the next 24 months	covers maturities > 24 months
<b>ROCE</b> Return on capital employed			<b>ROCE LEVEL</b> 2014: 5.5 % (2013: 3.8 %, 2012: -2.4 %)		
<b>AMBITION LEVEL FOR 2014</b> Increase compared with 2013					
Staff restructuring and staff reduction				Before spectrum	For spectrum
Expenses arising from staff restructuring in 2014	€ 0.9 billion		Cash capex	€ 9.5 billion	€ 2.3 billion
Employees			"Entrepreneurs within the enterprise"		

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

## RESULTS OF OPERATIONS OF THE GROUP


### NET REVENUE

In 2014, we generated net revenue of EUR 62.7 billion, a substantial EUR 2.5 billion increase compared with the previous year. Our United States operating segment in particular contributed to this trend with the revenue generated by MetroPCS, which was only taken into account from the second quarter of the prior year as a result of the inclusion of MetroPCS as of May 1, 2013, and continued strong customer additions. Our Germany operating segment held its own, particularly in the mobile market, in the prevailing competitive environment, but recorded a slight decline in revenue overall, mainly due to the line losses in our traditional fixed-network business. In the Europe operating segment, our revenue was again substantially adversely affected by decisions by regulatory authorities and by competition-induced price reductions.



For details on the revenue trends in our Germany, United States, Europe, and Systems Solutions operating segments as well as in the Group Headquarters & Group Services segment, please refer to the section "Development of business in the operating segments," PAGE 96 ET SEQ.

The initiated realignment of T-Systems' business model had a negative impact on revenue in our Systems Solutions operating segment, as did the general downward trend in prices for IT and communications services. The revenue of our Group Headquarters & Group Services segment decreased year-on-year, mainly on account of the sale of 70 percent of the shares in the Scout24 group consummated in early February 2014.

Adjusted for the effects of changes in the composition of the Group of EUR 0.8 billion in total, revenue was up EUR 1.7 billion or 2.9 percent against the prior-year level. Net exchange rate effects only had an insignificant effect on the development of our revenue: The translation from U.S. dollars into euros gave rise to marginally positive effects that in turn were offset by the translation from Eastern European currencies into euros. 



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Contribution of the segments to net revenue

millions of €

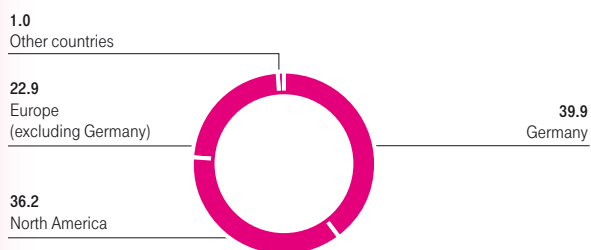
	2014	2013	Change	Change %	2012
<b>NET REVENUE</b>	<b>62,658</b>	<b>60,132</b>	<b>2,526</b>	<b>4.2 %</b>	<b>58,169</b>
Germany	22,257	22,435	(178)	(0.8) %	22,736
United States	22,408	18,556	3,852	20.8 %	15,371
Europe	12,972	13,704	(732)	(5.3) %	14,441
Systems Solutions	8,601	9,038	(437)	(4.8) %	9,551
Group Headquarters & Group Services	2,516	2,879	(363)	(12.6) %	2,835
Intersegment revenue	(6,096)	(6,480)	384	5.9 %	(6,765)

At 35.8 percent, our United States operating segment provided the largest contribution to net revenue of the Group, increasing its share in net revenue of the Group by as much as 4.9 percentage points compared with the previous year, partly due to the inclusion of MetroPCS and ongoing strong new customer growth. By contrast, the contribution by our Germany, Europe, and Systems Solutions operating segments and the Group Headquarters & Group Services segment decreased. The proportion of net revenue generated internationally continued to increase, up from 57.8 percent in the prior year to 60.1 percent in the reporting period.

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Breakdown of revenue by region

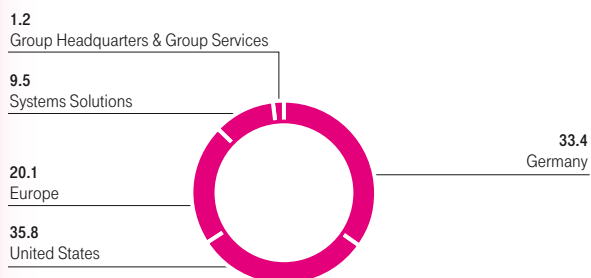
%



G 20

Contribution of the segments to net revenue

%



EBITDA, ADJUSTED EBITDA

Our EBITDA increased year-on-year by EUR 2.0 billion to EUR 17.8 billion. Positive net special factors amounting to EUR 0.3 billion were included in EBITDA in 2014. They were mainly attributable to income from the divestiture of the Scout24 group of EUR 1.7 billion. Income of some EUR 0.4 billion from a transaction consummated in April 2014 between T-Mobile US and Verizon Communications for the acquisition and exchange of A-Block spectrum also had a positive effect. Expenses of around EUR 0.3 billion arising from the decommissioning of the MetroPCS CDMA network in our United States operating segment and the fine imposed as part of the European Commission proceedings against Slovak Telekom and Deutsche Telekom, by contrast, had a decreasing effect. Expenses incurred in connection with staff-related measures and non-staff-related restructuring expenses decreased by EUR 0.4 billion compared with the prior year to EUR 1.2 billion. In the previous year, a loss of around EUR 0.1 billion had been incurred in connection with the disposal of T-Systems Italia and the sale of the SI business area of T-Systems France. Deconsolidation gains arising from the sale of our stakes in Hellas Sat of around EUR 0.1 billion and from the sale of our national companies in Bulgaria, also totaling around EUR 0.1 billion, had had an offsetting effect in 2013.

Excluding special factors, adjusted EBITDA increased slightly year-on-year to EUR 17.6 billion in the reporting year. Net exchange rate effects only had an insignificant effect on the development of our adjusted EBITDA. Here, too, the translation from U.S. dollars into euros gave rise to marginally positive effects that in turn were offset by the translation from Eastern European currencies into euros.



For further information on the decision to impose a fine, please refer to the section "Risk and opportunity management," PAGE 146 ET SEQ.



For more information on net revenue, please refer to Note 32 "Segment reporting" in the notes to the consolidated financial statements, PAGE 239 ET SEQ.



For detailed information on the development of EBITDA/adjusted EBITDA in our segments, please refer to the section "Development of business in the operating segments," PAGE 96 ET SEQ. For an overview of the development of special factors, please refer to TABLE 019, PAGE 87.

T 018

## Contribution of the segments to adjusted Group EBITDA


	2014		Proportion of adjusted Group EBITDA		Change		2012
	millions of €	%	millions of €	%	millions of €	%	
<b>EBITDA (ADJUSTED FOR SPECIAL FACTORS) IN THE GROUP</b>	<b>17,569</b>	<b>100.0</b>	<b>17,424</b>	<b>100.0</b>	<b>145</b>	<b>0.8</b>	<b>17,973</b>
Germany	8,810	50.1	8,936	51.3	(126)	(1.4)	9,166
United States	4,296	24.5	3,874	22.2	422	10.9	3,840
Europe	4,432	25.2	4,550	26.1	(118)	(2.6)	4,972
Systems Solutions	835	4.8	774	4.4	61	7.9	711
Group Headquarters & Group Services	(667)	(3.8)	(655)	(3.8)	(12)	(1.8)	(715)
Reconciliation	(137)	(0.8)	(55)	(0.2)	(82)	n. a.	(1)

## MARKETING EXPENSES

In the reporting period, marketing expenses amounted to EUR 2.5 billion, up slightly on the prior-year level of EUR 2.4 billion. This increase was mainly attributable to higher marketing costs at T-Mobile US as a result of the inclusion of MetroPCS for the first-time for a full year and stronger business with new customers. The marketing expenses comprise costs from market research, market analysis, target market studies, determining marketing strategies, designing the marketing mix, and carrying out and managing marketing initiatives. They also include costs from customer retention programs, market planning and segmentation, and product forecasts.

At Deutsche Telekom, marketing communication mainly takes the form of product and brand campaigns, such as Entertain, Mobile Internet – LTE, the Network and Security Initiative, and “MagentaEINS – everything from a single source” with the Heins family.

## EBIT

Group EBIT increased significantly by EUR 2.3 billion year-on-year to EUR 7.2 billion. Impairment losses recognized on goodwill and other non-current assets of EUR 0.1 billion in the reporting year were down by EUR 0.7 billion year-on-year. This effect was partially offset by a EUR 0.4 billion increase in depreciation and amortization compared with the prior year, attributable in particular to the inclusion of MetroPCS since May of last year as well as the roll-out of the LTE network as part of T-Mobile US’ network modernization program. 

## PROFIT/LOSS BEFORE INCOME TAXES

Profit before income taxes increased significantly by EUR 2.2 billion year-on-year to EUR 4.4 billion as a result of the aforementioned effects. Loss from financial activities increased only marginally as against the prior year in spite of the EUR 0.1 billion higher share of losses in our EE joint venture compared with the previous year, the inclusion of MetroPCS for the first-time for a full year, and the local financing conditions for T-Mobile US. Loss from financial activities was also impacted by negative effects on earnings from currency translation, including from derivatives used as hedges in hedge accounting in foreign currency, offset by positive earnings effects from other derivatives.

## NET PROFIT/LOSS

Net profit increased by EUR 2.0 billion to EUR 2.9 billion. Tax expense for the current financial year amounted to EUR 1.1 billion and was thus EUR 0.2 billion higher than the prior-year level. 

Profit attributable to non-controlling interests remained stable compared with the previous year at EUR 0.3 billion. The acquisition of the remaining shares in T-Mobile Czech Republic, which we did not yet own, had a decreasing effect. The increase in non-controlling interests in T-Mobile US had an offsetting effect. 

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



For further information, please refer to Note 25 “Income taxes” in the notes to the consolidated financial statements, PAGE 231 ET SEQ.



For further information on the development of our results of operations, please refer to the disclosures under “Notes to the consolidated income statement” in the notes to the consolidated financial statements, PAGE 228 ET SEQ.



For further details, please refer to Note 30 “Depreciation, amortization and impairment losses” in the notes to the consolidated financial statements, PAGE 237.

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

millions of €

	EBITDA 2014	EBIT 2014	EBITDA 2013	EBIT 2013	EBITDA 2012	EBIT 2012
<b>EBITDA/EBIT</b>	<b>17,821</b>	<b>7,247</b>	<b>15,834</b>	<b>4,930</b>	<b>17,995</b>	<b>(3,962)</b>
<b>GERMANY</b>	<b>(254)</b>	<b>(254)</b>	<b>(535)</b>	<b>(540)</b>	<b>(560)</b>	<b>(560)</b>
Staff-related measures	(223)	(223)	(506)	(506)	(492)	(492)
Non-staff-related restructuring	(9)	(9)	(16)	(16)	0	0
Effects on earnings from business combinations and other transactions	0	0	(23)	(23)	(8)	(8)
Other	(22)	(22)	10	5	(60)	(60)
<b>UNITED STATES</b>	<b>(52)</b>	<b>(52)</b>	<b>(232)</b>	<b>(329)</b>	<b>1,479</b>	<b>(9,110)</b>
Staff-related measures	(133)	(133)	(179)	(179)	(69)	(69)
Non-staff-related restructuring	0	0	(1)	(1)	(28)	(28)
Effects on earnings from business combinations and other transactions	78	78	(52)	(52)	1,558	1,558
Impairment losses	-	0	-	(97)	-	(10,589)
Other	3	3	0	0	18	18
<b>EUROPE</b>	<b>(131)</b>	<b>(153)</b>	<b>(179)</b>	<b>(793)</b>	<b>(210)</b>	<b>(573)</b>
Staff-related measures	(91)	(91)	(327)	(327)	(184)	(184)
Non-staff-related restructuring	(9)	(9)	3	3	(16)	(19)
Effects on earnings from business combinations and other transactions	(5)	(5)	183	183	0	0
Impairment losses	-	(22)	-	(614)	-	(360)
Other	(26)	(26)	(38)	(38)	(10)	(10)
<b>SYSTEMS SOLUTIONS</b>	<b>(540)</b>	<b>(549)</b>	<b>(416)</b>	<b>(431)</b>	<b>(403)</b>	<b>(415)</b>
Staff-related measures	(286)	(286)	(212)	(212)	(237)	(237)
Non-staff-related restructuring	(205)	(212)	(128)	(130)	(165)	(177)
Effects on earnings from business combinations and other transactions	(23)	(23)	(71)	(84)	0	0
Other	(26)	(28)	(5)	(5)	(1)	(1)
<b>GROUP HEADQUARTERS &amp; GROUP SERVICES</b>	<b>1,229</b>	<b>1,200</b>	<b>(228)</b>	<b>(228)</b>	<b>(282)</b>	<b>(282)</b>
Staff-related measures	(174)	(174)	(226)	(226)	(243)	(243)
Non-staff-related restructuring	(54)	(54)	(34)	(34)	(13)	(13)
Effects on earnings from business combinations and other transactions	1,631	1,631	40	40	(46)	(46)
Impairment losses	-	(29)	-	0	-	0
Other	(174)	(174)	(8)	(8)	20	20
<b>GROUP RECONCILIATION</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>(2)</b>	<b>(1)</b>
Staff-related measures	0	0	(1)	(1)	(1)	(1)
Non-staff-related restructuring	0	0	0	0	0	0
Effects on earnings from business combinations and other transactions	0	0	1	1	0	0
Other	0	0	0	0	(1)	0
<b>TOTAL SPECIAL FACTORS</b>	<b>252</b>	<b>192</b>	<b>(1,590)</b>	<b>(2,321)</b>	<b>22</b>	<b>(10,941)</b>
<b>EBITDA/EBIT (ADJUSTED FOR SPECIAL FACTORS)</b>	<b>17,569</b>	<b>7,055</b>	<b>17,424</b>	<b>7,251</b>	<b>17,973</b>	<b>6,979</b>
Profit (loss) from financial activities (adjusted for special factors)		(2,784)		(2,772)		(2,546)
<b>PROFIT (LOSS) BEFORE INCOME TAXES (ADJUSTED FOR SPECIAL FACTORS)</b>		<b>4,271</b>		<b>4,479</b>		<b>4,433</b>
Income taxes (adjusted for special factors)		(1,474)		(1,364)		(1,451)
<b>PROFIT (LOSS) (ADJUSTED FOR SPECIAL FACTORS)</b>		<b>2,797</b>		<b>3,115</b>		<b>2,982</b>
<b>PROFIT (LOSS) (ADJUSTED FOR SPECIAL FACTORS) ATTRIBUTABLE TO</b>						
Owners of the parent (net profit (loss)) (adjusted for special factors)		2,422		2,755		2,537
Non-controlling interests (adjusted for special factors)		375		360		445

## FINANCIAL POSITION OF THE GROUP

T 020

### Condensed consolidated statement of financial position

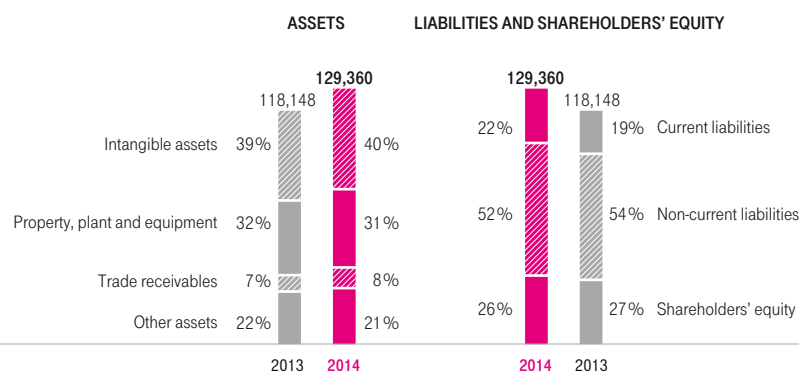
millions of €

	Dec. 31, 2014	Change	Dec. 31, 2013	Dec. 31, 2012	Dec. 31, 2011	Dec. 31, 2010
<b>ASSETS</b>						
<b>CURRENT ASSETS</b>	<b>29,798</b>	<b>7,835</b>	<b>21,963</b>	<b>15,019</b>	<b>15,865</b>	<b>15,243</b>
Cash and cash equivalents	7,523	(447)	7,970	4,026	3,749	2,808
Trade and other receivables	10,454	2,742	7,712	6,417	6,557	6,889
Non-current assets and disposal groups held for sale	5,878	4,845	1,033	90	436	51
Other current assets	5,943	695	5,248	4,486	5,123	5,495
<b>NON-CURRENT ASSETS</b>	<b>99,562</b>	<b>3,377</b>	<b>96,185</b>	<b>92,923</b>	<b>106,631</b>	<b>112,569</b>
Intangible assets	51,565	5,598	45,967	41,847	50,227	53,807
Property, plant and equipment	39,616	2,189	37,427	37,407	41,797	44,298
Investments accounted for using the equity method	617	(5,550)	6,167	6,726	6,873	7,242
Other non-current assets	7,764	1,140	6,624	6,943	7,734	7,222
<b>TOTAL ASSETS</b>	<b>129,360</b>	<b>11,212</b>	<b>118,148</b>	<b>107,942</b>	<b>122,496</b>	<b>127,812</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>						
<b>CURRENT LIABILITIES</b>	<b>28,198</b>	<b>5,702</b>	<b>22,496</b>	<b>22,995</b>	<b>24,215</b>	<b>26,452</b>
Financial liabilities	10,558	2,667	7,891	9,260	10,219	11,689
Trade and other payables	9,681	2,422	7,259	6,445	6,436	6,750
Current provisions	3,517	397	3,120	2,885	3,095	3,193
Liabilities directly associated with non-current assets and disposal groups held for sale	6	(107)	113	9	-	-
Other current liabilities	4,436	323	4,113	4,396	4,465	4,820
<b>NON-CURRENT LIABILITIES</b>	<b>67,096</b>	<b>3,507</b>	<b>63,589</b>	<b>54,416</b>	<b>58,249</b>	<b>58,332</b>
Financial liabilities	44,669	961	43,708	35,354	38,099	38,857
Non-current provisions	10,838	1,761	9,077	9,169	7,771	8,001
Other non-current liabilities	11,589	785	10,804	9,893	12,379	11,474
<b>SHAREHOLDERS' EQUITY</b>	<b>34,066</b>	<b>2,003</b>	<b>32,063</b>	<b>30,531</b>	<b>40,032</b>	<b>43,028</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>129,360</b>	<b>11,212</b>	<b>118,148</b>	<b>107,942</b>	<b>122,496</b>	<b>127,812</b>

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### Structure of the consolidated statement of financial position

millions of €



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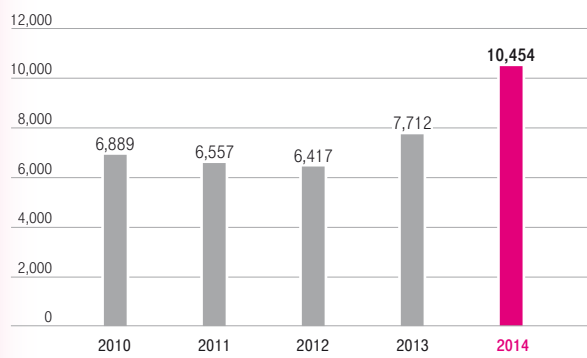
**Total assets** increased by EUR 11.2 billion compared with December 31, 2013, largely due to higher intangible assets and property, plant and equipment. EUR 4.0 billion of this figure alone was attributable to exchange rate effects, mainly from the translation from U.S. dollars into euros. The level of trade and other receivables was also up significantly against the previous year. Total liabilities and shareholders' equity increased in particular on account of higher current liabilities.

**Cash and cash equivalents** decreased by EUR 0.4 billion year-on-year. 

G 22

**Trade and other receivables**

millions of €



**Trade and other receivables** increased by EUR 2.7 billion to EUR 10.5 billion, due in particular to customer growth and an increased percentage of terminal equipment sold under installment plans in our United States operating segment. This results from the strategy pursued by T-Mobile US to introduce new rate plans under which terminal equipment is no longer sold at a subsidized price, but on the basis of an installment plan, for example.

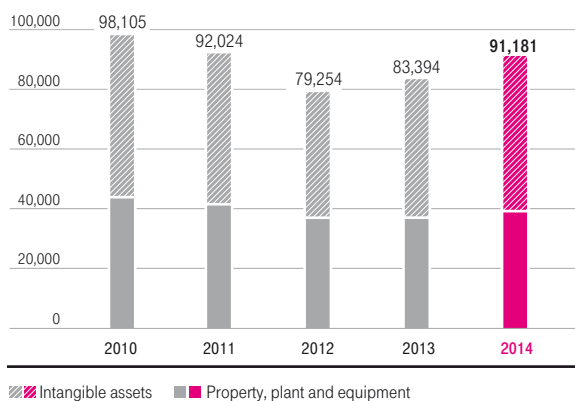
The net carrying amounts of the **non-current assets and disposal groups held for sale** increased by EUR 4.8 billion, primarily due to the reclassification of our EE joint venture in connection with the sales negotiations with BT. The following effects, which had an impact in the previous year, were no longer included: In the United States operating segment, the exchange of mobile licenses with Verizon Communications for EUR 0.6 billion was completed. In the Group Headquarters & Group Services segment, the sale of the shares in the Scout24 group totaling EUR 0.3 billion was consummated.

**Intangible assets** increased by EUR 5.6 billion, mainly as a result of capital expenditure in the amount of EUR 7.2 billion. This figure includes EUR 3.6 billion for the acquisition of mobile licenses by T-Mobile US, in particular in connection with the two transactions consummated in April 2014 for the acquisition and the exchange of mobile licenses

G 23

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

millions of €



 Intangible assets  Property, plant and equipment

with Verizon Communications. Effects of changes in the composition of the Group totaling EUR 0.2 billion resulting from the inclusion of the GTS Central Europe group and goodwill of EUR 0.1 billion recognized in this connection likewise contributed to this increase. Exchange rate effects of EUR 2.8 billion, primarily from the translation from U.S. dollars into euros, also increased the carrying amount of intangible assets. The recognition of amortization of EUR 3.8 billion and disposals of EUR 0.8 billion mainly in connection with the exchange of mobile spectrum with Verizon Communications had an offsetting effect on the carrying amount of intangible assets.

**Property, plant and equipment** increased by EUR 2.2 billion compared to December 31, 2013 to EUR 39.6 billion. In particular capital expenditure of EUR 7.9 billion in the Germany and United States operating segments increased the carrying amount. Of the additions, 70 percent related to investments intended to increase operating capacities. Apart from investments in new products and technologies, these were primarily measures to increase capacities and improve quality in existing products and technologies. Exchange rate effects, predominantly from the translation from U.S. dollars into euros, raised the carrying amount by EUR 1.0 billion. The increase was also attributable to effects of changes in the composition of the Group of EUR 0.4 billion, mainly from the inclusion of the GTS Central Europe group (EUR 0.2 billion) and the first-time consolidation of four structured leasing SPEs for the operation of data centers in Germany (EUR 0.2 billion). Depreciation of EUR 6.6 billion and disposals of EUR 0.3 billion reduced property, plant and equipment.

The carrying amount of investments accounted for using the equity method decreased by EUR 5.6 billion in the reporting year. This decrease was mainly due to the reclassification of our stake in the EE joint venture as **non-current assets and disposal groups held for sale**.

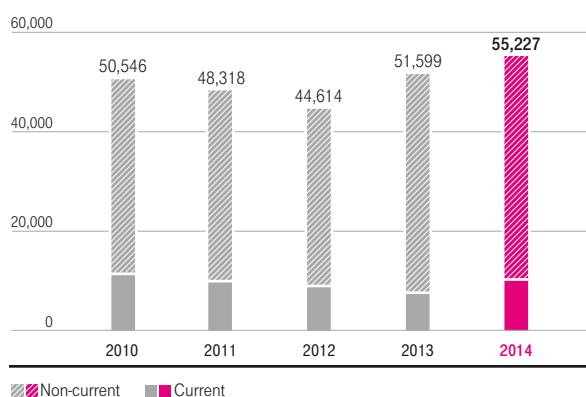


For detailed information on this change, please refer to the consolidated statement of cash flows, **PAGES 180 and 181**, and Note 31 "Notes to the consolidated statement of cash flows" in the notes to the consolidated financial statements, **PAGES 238 and 239**.

G 24

**Financial liabilities**

millions of €



Our current and non-current **financial liabilities** increased by EUR 3.6 billion compared with the prior year to EUR 55.2 billion in total. Significant effects on financial liabilities are set out in the following tables and the accompanying explanations.

**Trade and other payables** increased by EUR 2.4 billion compared with the previous year, due in part to the stockpiling of terminal equipment (in particular smartphones) and the network build-out in the United States operating segment. Exchange rate effects from the translation from U.S. dollars into euros accounted for EUR 1.4 billion of the increase.

**Provisions** (current and non-current) increased by EUR 2.2 billion overall, of which EUR 1.5 billion related to provisions for pensions and other employee benefits. This was mainly attributable to the recognition of actuarial losses of EUR 1.6 billion (before taxes) directly in equity as a consequence of continued drop in interest rates. Current service cost increased provisions for pensions by EUR 0.2 billion. The increase in plan assets of EUR 0.3 billion (allocation under contractual trust agreement) had an offsetting effect.

**Shareholders' equity** increased by EUR 2.0 billion compared with December 31, 2013 to EUR 34.1 billion, due to profit of EUR 3.2 billion and currency translation effects recognized directly in equity of EUR 1.8 billion. In addition, in connection with the option granted to our shareholders to have their dividend entitlements converted into shares, a capital increase of EUR 1.0 billion was carried out involving the contribution of the dividend entitlements. Dividend payments for the 2013 financial year to Deutsche Telekom AG shareholders of EUR 2.2 billion and to non-controlling interests of EUR 0.1 billion had an offsetting effect. Furthermore, shareholders' equity was also reduced by the acquisition of the remaining shares in T-Mobile Czech Republic of EUR 0.8 billion and the recognition of actuarial losses (after taxes) of EUR 1.1 billion.

T 021

**Financial liabilities**

millions of €

	Dec. 31, 2014			
	Total	Due within 1 year	Due >1 year ≤ 5 years	Due > 5 years
Bonds and other securitized liabilities				
Bonds	32,751	3,250	9,333	20,168
Commercial paper, medium-term notes, and similar liabilities	11,468	2,175	4,557	4,736
Liabilities to banks	3,676	1,369	1,934	373
	<b>47,895</b>	<b>6,794</b>	<b>15,824</b>	<b>25,277</b>
Finance lease liabilities	1,461	180	570	711
Liabilities to non-banks from promissory notes	946	40	647	259
Other interest-bearing liabilities	1,775	1,196	392	187
Other non-interest-bearing liabilities	2,055	1,942	110	3
Derivative financial liabilities	1,095	406	442	247
	<b>7,332</b>	<b>3,764</b>	<b>2,161</b>	<b>1,407</b>
<b>FINANCIAL LIABILITIES</b>	<b>55,227</b>	<b>10,558</b>	<b>17,985</b>	<b>26,684</b>

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**Cost of debt.** At the end of the financial year, the average interest rate for financial liabilities was 5.8 percent (2013: 5.6 percent). The average interest rate was higher than in the previous year, mainly due to the significant increase in T-Mobile US' self-financing in 2014.

T 022

**Net debt**

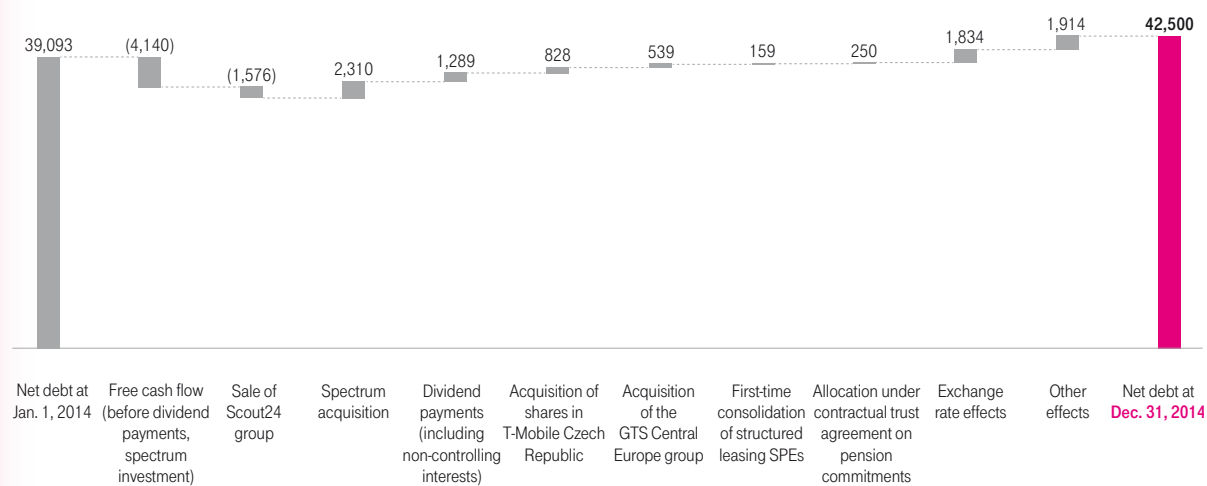
millions of €

	Dec. 31, 2014	Change	Dec. 31, 2013	Dec. 31, 2012	Dec. 31, 2011	Dec. 31, 2010
Financial liabilities (current)	10,558	2,667	7,891	9,260	10,219	11,689
Financial liabilities (non-current)	44,669	961	43,708	35,354	38,099	38,857
<b>FINANCIAL LIABILITIES</b>	<b>55,227</b>	<b>3,628</b>	<b>51,599</b>	<b>44,614</b>	<b>48,318</b>	<b>50,546</b>
Accrued interest	(1,097)	(6)	(1,091)	(903)	(966)	(1,195)
Liabilities from corporate transactions	-	-	-	-	-	(1,566)
Other	(1,038)	(157)	(881)	(754)	(615)	(467)
<b>GROSS DEBT</b>	<b>53,092</b>	<b>3,465</b>	<b>49,627</b>	<b>42,957</b>	<b>46,737</b>	<b>47,318</b>
Cash and cash equivalents	7,523	(447)	7,970	4,026	3,749	2,808
Available-for-sale financial assets/ Financial assets held for trading	289	(21)	310	27	402	75
Derivative financial assets	1,343	572	771	1,287	1,533	835
Other financial assets	1,437	(46)	1,483	757	932	1,331
<b>NET DEBT</b>	<b>42,500</b>	<b>3,407</b>	<b>39,093</b>	<b>36,860</b>	<b>40,121</b>	<b>42,269</b>

G 25

**Changes in net debt**

millions of €



Our net debt increased by EUR 3.4 billion year-on-year to EUR 42.5 billion. The factors responsible for this are shown in GRAPHIC 25. Other effects of EUR 1.9 billion include financing options under which the payments

for trade payables from investing and operating activities become due at a later point in time by involving banks in the process. Other effects also include a payment as part of a wholesale transaction.



For more information, please refer to the explanations in Note 34 "Leases," PAGE 245 ET SEQ., and Note 35 "Other financial obligations," PAGE 247, in the notes to the consolidated financial statements.

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

Off-balance-sheet financial instruments mainly relate to the sale of receivables by means of factoring. Total receivables sold as of December 31, 2014 amounted to EUR 1.4 billion (December 31, 2013: EUR 1.5 billion).

Furthermore, in the 2014 financial year, we chose financing options totaling EUR 0.6 billion (2013: EUR 0.4 billion) which extended the period of payment for trade payables from operating and investing activities by involving banks in the process. These payables are now shown under financial liabilities in the statement of financial position.

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



Glossary, PAGE 277 ET SEQ.

T 023

#### The rating of Deutsche Telekom AG

	Standard & Poor's	Moody's	Fitch
<b>LONG-TERM RATING</b>			
Dec. 31, 2010	BBB+	Baa1	BBB+
Dec. 31, 2011	BBB+	Baa1	BBB+
Dec. 31, 2012	BBB+	Baa1	BBB+
Dec. 31, 2013	BBB+	Baa1	BBB+
<b>Dec. 31, 2014</b>	<b>BBB+</b>	<b>Baa1</b>	<b>BBB+</b>
<b>SHORT-TERM RATING</b>			
	<b>A-2</b>	<b>P-2</b>	<b>F2</b>
<b>OUTLOOK</b>			
	<b>Stable</b>	<b>Stable</b>	<b>Stable</b>

T 024

#### Financial flexibility

	2014	2013	2012	2011	2010
<b>RELATIVE DEBT</b>					
Net debt EBITDA (adjusted for special factors)	2.4 x	2.2 x	2.1 x	2.1 x	2.2 x
<b>EQUITY RATIO</b> %	<b>26.3</b>	<b>27.1</b>	<b>28.3</b>	<b>32.7</b>	<b>33.7</b>

To ensure financial flexibility, we essentially used the key performance indicator "relative debt" in 2014. One component of this KPI is net debt, which the Group uses as an important indicator for investors, analysts, and rating agencies.

T 025

#### Condensed consolidated statement of cash flows

millions of €

	2014	2013	2012
<b>NET CASH FROM OPERATING ACTIVITIES</b>	<b>13,393</b>	<b>13,017</b>	<b>13,577</b>
Effects from the AT&T transaction	-	137	470
Compensation payments for MetroPCS employees	-	60	-
<b>NET CASH FROM OPERATING ACTIVITIES<sup>a</sup></b>	<b>13,393</b>	<b>13,214</b>	<b>14,047</b>
Cash outflow for investments in intangible assets (excluding goodwill and before spectrum investment) and property, plant and equipment ( <b>CASH CAPEX</b> )	(9,534)	(8,861)	(8,021)
Proceeds from disposal of intangible assets (excluding goodwill) and property, plant and equipment	281	253	213
<b>FREE CASH FLOW (BEFORE DIVIDEND PAYMENTS AND SPECTRUM INVESTMENT)<sup>a</sup></b>	<b>4,140</b>	<b>4,606</b>	<b>6,239</b>
<b>NET CASH USED IN INVESTING ACTIVITIES</b>	<b>(10,761)</b>	<b>(9,896)</b>	<b>(6,671)</b>
<b>NET CASH (USED IN) FROM FINANCING ACTIVITIES</b>	<b>(3,434)</b>	<b>1,022</b>	<b>(6,601)</b>
Effect of exchange rate changes on cash and cash equivalents	323	(167)	(28)
Changes in cash and cash equivalents associated with non-current assets and disposal groups held for sale	32	(32)	-
Net increase (decrease) in cash and cash equivalents	(447)	3,944	277
<b>CASH AND CASH EQUIVALENTS</b>	<b>7,523</b>	<b>7,970</b>	<b>4,026</b>

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

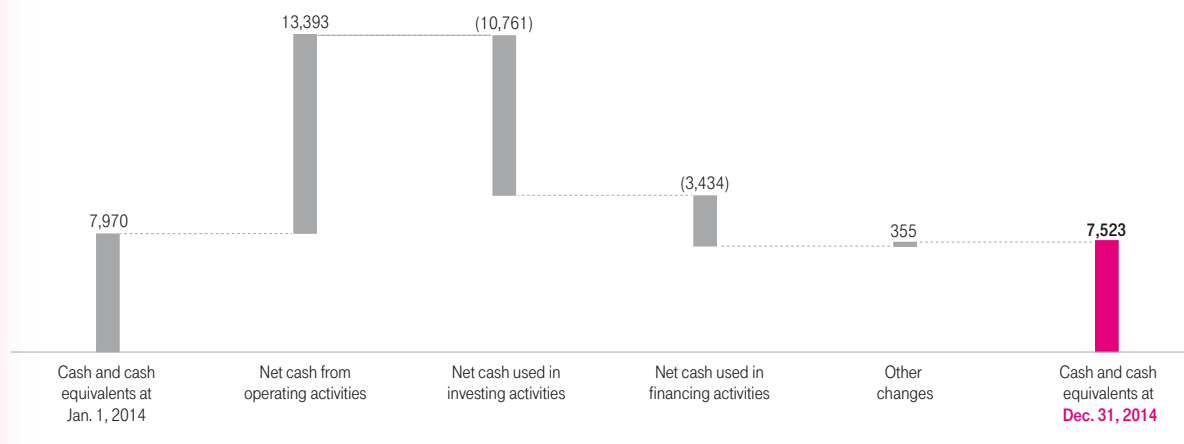


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**Changes in cash and cash equivalents**

millions of €



**Free cash flow.** Free cash flow of the Group before dividend payments and spectrum investment decreased by EUR 0.5 billion year-on-year. This was due to the year-on-year increase of EUR 0.7 billion in cash outflows for investments in intangible assets (excluding goodwill and before spectrum investment) and property, plant and equipment, which mainly related to further rolling out broadband and expanding capacities in existing networks. In mobile communications, we invested in LTE, increased network coverage, and upgraded capacity to meet increasing demand for data volumes. In the fixed-network area, priority was given to expanding the fiber-optic infrastructure, to IPTV, and to the continued migration of the existing telephone network to an IP-based network.

**Net cash from operating activities** increased by EUR 0.4 billion year-on-year to EUR 13.4 billion.

Dividend payments received from the EE joint venture, which were EUR 0.1 billion higher than in the prior year, had a positive effect on net cash from operating activities. In the reporting period, financing options were chosen which extended the period of payment for trade payables by involving banks in the process and, when payment is made, are shown in net cash used in/from financing activities. This resulted in a positive total effect on net cash from operating activities of EUR 0.4 billion. Net cash from operating activities in the previous year had included total cash outflows of EUR 0.2 billion in connection with the AT&T and MetroPCS transactions, and EUR 0.3 billion higher cash outflows for severance and early retirement payments. By contrast, net cash from operating activities was reduced by a EUR 0.4 billion increase in net interest payments. In the previous year, this item had included EUR 0.2 billion higher cash inflows from entering into, canceling or changing the terms and conditions of interest rate derivatives. ☐



For information on net cash used in investing activities and net cash from/used in financing activities, please refer to Note 31 "Notes to the consolidated statement of cash flows" in the notes to the consolidated financial statements, **PAGES 238 and 239**.

T 026

**Reconciliation for the change in disclosure of key figures in 2014**

millions of €

	Total revenue		Profit (loss) from operations (EBIT)	
	2013	2012	2013	2012
<b>PRESENTATION AS REPORTED (BEFORE ADJUSTMENTS)</b>				
Germany	22,435	22,736	4,435	4,213
United States	18,556	15,371	1,404	(7,547)
Europe	13,659	14,406	958	1,437
Systems Solutions	9,491	10,016	(279)	(307)
Group Headquarters & Group Services	2,879	2,835	(1,582)	(1,750)
<b>TOTAL</b>	<b>67,020</b>	<b>65,364</b>	<b>4,936</b>	<b>(3,954)</b>
Reconciliation	(6,888)	(7,195)	(6)	(8)
<b>GROUP</b>	<b>60,132</b>	<b>58,169</b>	<b>4,930</b>	<b>(3,962)</b>
<b>+/- CHANGE IN DISCLOSURE OF LOCAL BUSINESS UNITS AS OF JANUARY 1, 2014</b>				
Germany	-	-	-	-
United States	-	-	-	-
Europe	45	35	14	16
Systems Solutions	(453)	(465)	(15)	(16)
Group Headquarters & Group Services	-	-	-	-
<b>TOTAL</b>	<b>(408)</b>	<b>(430)</b>	<b>(1)</b>	<b>-</b>
Reconciliation	408	430	1	-
<b>GROUP</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>+/- CHANGE IN DISCLOSURE OF THE EE JOINT VENTURE AS OF JANUARY 1, 2014</b>				
Germany	-	-	-	-
United States	-	-	-	-
Europe	-	-	-	-
Systems Solutions	-	-	-	-
Group Headquarters & Group Services	-	-	-	-
<b>TOTAL</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Reconciliation	-	-	-	-
<b>GROUP</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>= PRESENTATION AS OF DECEMBER 31, 2014</b>				
Germany	22,435	22,736	4,435	4,213
United States	18,556	15,371	1,404	(7,547)
Europe	13,704	14,441	972	1,453
Systems Solutions	9,038	9,551	(294)	(323)
Group Headquarters & Group Services	2,879	2,835	(1,582)	(1,750)
<b>TOTAL</b>	<b>66,612</b>	<b>64,934</b>	<b>4,935</b>	<b>(3,954)</b>
Reconciliation	(6,480)	(6,765)	(5)	(8)
<b>GROUP</b>	<b>60,132</b>	<b>58,169</b>	<b>4,930</b>	<b>(3,962)</b>

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EBITDA		Adjusted EBITDA		Depreciation and amortization		Impairment losses		Segment assets	
2013	2012	2013	2012	2013	2012	2013	2012	2013	2012
8,401	8,606	8,936	9,166	(3,959)	(4,389)	(7)	(4)	30,738	31,224
3,642	5,319	3,874	3,840	(2,133)	(2,265)	(105)	(10,601)	38,830	27,436
4,340	4,728	4,518	4,936	(2,738)	(2,903)	(644)	(388)	35,552	36,579
390	342	806	747	(656)	(632)	(13)	(17)	8,705	9,045
(883)	(997)	(655)	(715)	(627)	(654)	(72)	(99)	91,594	95,182
<b>15,890</b>	<b>17,998</b>	<b>17,479</b>	<b>17,974</b>	<b>(10,113)</b>	<b>(10,843)</b>	<b>(841)</b>	<b>(11,109)</b>	<b>205,419</b>	<b>199,466</b>
(56)	(3)	(55)	(1)	47	(5)	3	-	(87,271)	(91,524)
<b>15,834</b>	<b>17,995</b>	<b>17,424</b>	<b>17,973</b>	<b>(10,066)</b>	<b>(10,848)</b>	<b>(838)</b>	<b>(11,109)</b>	<b>118,148</b>	<b>107,942</b>
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
31	34	32	36	(17)	(18)	-	-	268	230
(32)	(34)	(32)	(36)	17	18	-	-	(277)	(279)
-	-	-	-	-	-	-	-	-	-
(1)	-	-	-	-	-	-	-	(9)	(49)
1	-	-	-	-	-	-	-	9	49
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	(5,844)	(6,352)
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	(7,998)	(7,492)
-	-	-	-	-	-	-	-	<b>(13,842)</b>	<b>(13,844)</b>
-	-	-	-	-	-	-	-	13,842	13,844
-	-	-	-	-	-	-	-	-	-
8,401	8,606	8,936	9,166	(3,959)	(4,389)	(7)	(4)	30,738	31,224
3,642	5,319	3,874	3,840	(2,133)	(2,265)	(105)	(10,601)	38,830	27,436
4,371	4,762	4,550	4,972	(2,755)	(2,921)	(644)	(388)	29,976	30,457
358	308	774	711	(639)	(614)	(13)	(17)	8,428	8,766
(883)	(997)	(655)	(715)	(627)	(654)	(72)	(99)	83,596	87,690
<b>15,889</b>	<b>17,998</b>	<b>17,479</b>	<b>17,974</b>	<b>(10,113)</b>	<b>(10,843)</b>	<b>(841)</b>	<b>(11,109)</b>	<b>191,568</b>	<b>185,573</b>
(55)	(3)	(55)	(1)	47	(5)	3	-	(73,420)	(77,631)
<b>15,834</b>	<b>17,995</b>	<b>17,424</b>	<b>17,973</b>	<b>(10,066)</b>	<b>(10,848)</b>	<b>(838)</b>	<b>(11,109)</b>	<b>118,148</b>	<b>107,942</b>

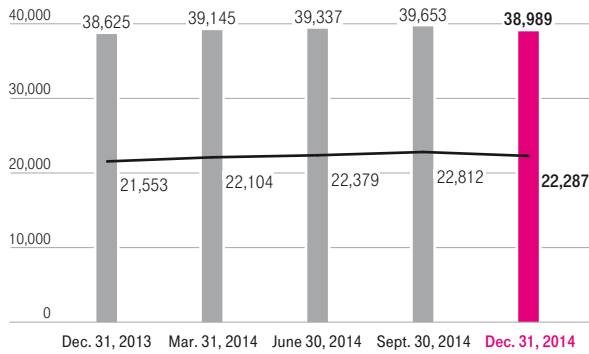
## DEVELOPMENT OF BUSINESS IN THE OPERATING SEGMENTS

### GERMANY

#### CUSTOMER DEVELOPMENT

G 27

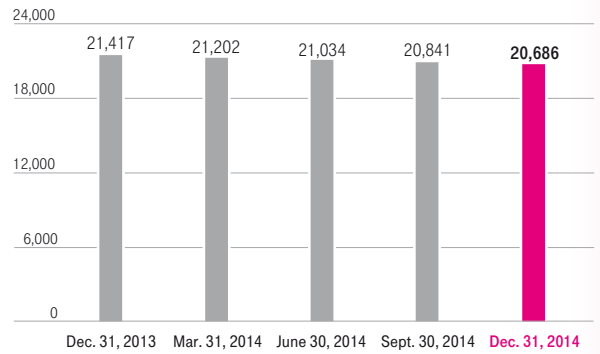
##### Mobile customers thousands



— Contract customers

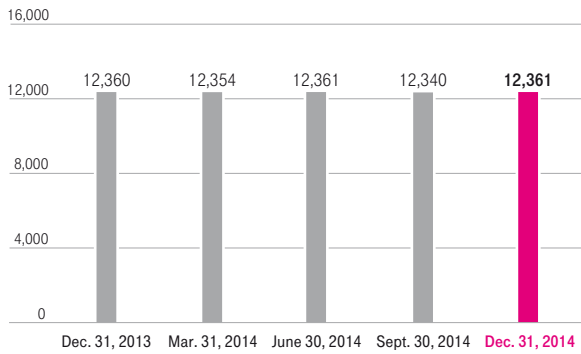
G 29

##### Fixed-network lines thousands



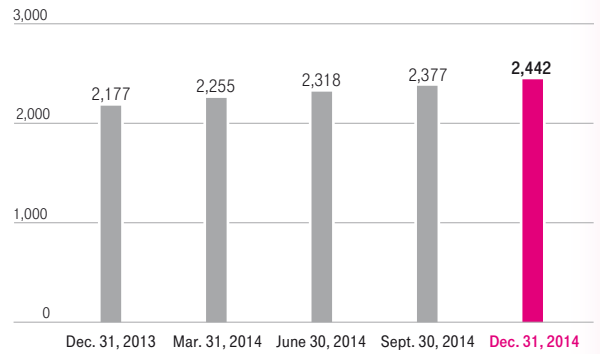
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##### Broadband lines thousands



G 30

##### Television (IPTV, satellite)<sup>a</sup> thousands



<sup>a</sup> Customers connected.

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thousands

	Dec. 31, 2014	Dec. 31, 2013	Change	Change %	Dec. 31, 2012
<b>TOTAL</b>					
Mobile customers	38,989	38,625	364	0.9 %	36,568
Contract customers	22,287	21,553	734	3.4 %	19,570
Prepay customers	16,701	17,072	(371)	(2.2)%	16,997
Fixed-network lines	20,686	21,417	(731)	(3.4)%	22,384
Of which: retail IP-based	4,383	2,141	2,242	n.a.	937
Broadband lines	12,361	12,360	1	-	12,427
Of which: optical fiber	1,799	1,246	553	44.4 %	904
Television (IPTV, satellite)	2,442	2,177	265	12.2 %	1,966
Unbundled local loop lines (ULLs)	8,801	9,257	(456)	(4.9)%	9,436
Wholesale unbundled lines	2,153	1,564	589	37.7 %	1,303
Of which: optical fiber	718	274	444	n.a.	81
Wholesale bundled lines	305	390	(85)	(21.8)%	518
<b>OF WHICH: CONSUMERS</b>					
Mobile customers	29,068	29,943	(875)	(2.9)%	28,811
Contract customers	16,040	15,669	371	2.4 %	13,990
Prepay customers	13,027	14,275	(1,248)	(8.7)%	14,821
Fixed-network lines	16,260	16,923	(663)	(3.9)%	17,789
Of which: retail IP-based	3,974	1,960	2,014	n.a.	856
Broadband lines	9,938	9,963	(25)	(0.3)%	10,039
Of which: optical fiber	1,547	1,064	483	45.4 %	776
Television (IPTV, satellite)	2,254	2,001	253	12.6 %	1,804
<b>OF WHICH: BUSINESS CUSTOMERS</b>					
Mobile customers	9,921	8,682	1,239	14.3 %	7,757
Contract customers	6,247	5,885	362	6.2 %	5,581
Prepay customers (M2M)	3,674	2,797	877	31.4 %	2,176
Fixed-network lines	3,402	3,445	(43)	(1.2)%	3,510
Of which: retail IP-based	387	164	223	n.a.	55
Broadband lines	2,096	2,072	24	1.2 %	2,062
Of which: optical fiber	248	180	68	37.8 %	127
Television (IPTV, satellite)	186	174	12	6.9 %	161



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## Total

In Germany, we defended our position as market leader in the fixed network and, in mobile communications, we even extended our market lead in service revenues. This success is attributable to our outstanding network. We once again won all major network tests in both fixed-network and mobile communications, for example, the network test by trade journal "connect" and for the first time also the "connect" service test of mobile hotlines.

In September 2014, we launched MagentaEINS – our first integrated product comprising fixed-network and mobile components, with which we have won 506 thousand customers so far.

With our "network of the future," we provide state-of-the-art connection technology. By 2018, we want to convert our entire network to IP technology. To date, we have migrated 5.8 million retail and wholesale customers to IP, which corresponds to a migration rate of 25 percent.

Also, in the second half of the year, we began to market vectoring and LTE 300 as part of our integrated network strategy.

Overall, we won another 734 thousand contract customers, in particular high-value mobile customers under our Deutsche Telekom brand and our second brand "congstar." There was also a positive development in the contract customer base in the business customer segment, thanks to high demand for integrated mobile rate plans with data volumes.

We continued to record strong demand for our fiber-optic products. For example, the number of these lines rose by almost 1 million in the reporting year to a total of 2.5 million. With the progress in fiber-optic roll-out and innovative vectoring technology, we will drive forward the marketing of substantially higher bandwidths. In the vectoring regions approved by the Federal Network Agency, customers have been able to surf the Internet with download speeds of up to 100 Mbit/s and with upload speeds of up to 40 Mbit/s since September 2014.



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With our contingent model and its future refinement, we are creating incentives for the migration from traditional wholesale products – such as bundled wholesale lines or unbundled local loop lines – to higher-quality VDSL wholesale lines.

Our partnerships in the housing sector were also successful: By the end of 2014, we had connected around 119 thousand apartments to our network.

### Mobile communications

**Mobile telephony and data services.** Our excellent network quality and the new product portfolio for high-value contract customers and new customers provide fresh impetus. By the end of 2014, we won a total of 734 thousand new contract customers. We recorded growth in branded contract customer business under the Deutsche Telekom and “congstar” brands of 913 thousand. The trend towards integrated flat rates with increased data speeds continues. However, the reseller business (service providers) declined by 179 thousand; this was due to deactivations in the second half of 2014 based on adjustments in the business model. The number of prepaid customers decreased by 371 thousand, primarily as a result of customers switching to low-cost contract offers.

Overall, we were able to add 364 thousand new mobile customers in the reporting year, with the contract customer additions more than offsetting the decline in prepaid customers. A total of 283 thousand customers used a mobile broadband connection.

Smartphones accounted for 71.6 percent of mobile devices. They were primarily Android and iOS devices (iPhones) – with high-priced devices in particular demand.

### Fixed network

**Telephony, Internet, and television.** Due to the persistently challenging development in the fixed-network market, primarily owing to aggressive pricing offers of competitors – we are pursuing new paths in marketing with regional offers and a focus on television and VDSL lines. The number of broadband lines remained stable in 2014 at 12.4 million, and as such fell short of our forecast expectations. However, we recorded a slight improvement in new customer acquisition compared with 2013. In total, 19.8 percent of our broadband customers are television customers, an increase of 2.2 percentage points against the prior year. In the traditional fixed network, the number of lines decreased by 731 thousand. In terms of line losses per quarter, we fell below the 200 thousand mark for the first time in ten years in the last three quarters of 2014.

We have been marketing the MagentaZuhause rate plans, our new product portfolio for the fixed network based on IP technology and bandwidths, since October 2014.

### Consumers

**Connected life across all screens.** In 2014, we were able to win 371 thousand new mobile contract customers. We recorded 551 thousand branded customer additions compared with 2013 under the

Deutsche Telekom and “congstar” brands. This was thanks to the high acceptance of the AllnetFlat rate plans for “congstar” and the new MagentaMobil rate plans introduced in September 2014. Reseller business (service providers) declined by 179 thousand due to the intensified deactivation of inactive contract cards in the second half of 2014. Overall, the number of mobile customers decreased by 2.9 percent year-on-year. The number of prepaid customers decreased by 1.2 million, in particular in the reseller segment and due to the switching to attractive contract rate plans.

We migrated 2.0 million customers to IP-based retail lines in the reporting year. We won 253 thousand new television customers compared with the end of 2013. Of the 9.9 million broadband lines, around 1.5 million customers use a fiber-optic line – 483 thousand of which were added in 2014. The line losses in the fixed network totaled 663 thousand in 2014, i.e., significantly less than the 866 thousand recorded in 2013, with customers switching primarily to cable network operators and regional providers.

### Business Customers

**Connected work with innovative solutions.** We were particularly successful in mobile communications in the reporting year – with 1.2 million new customers in total, 362 thousand of which were high-value contract customers. We won 877 thousand new cards in a very aggressively priced market in the area of M2M. This growth was due to the increased use of SIM cards, especially in the automotive and logistics industries. In mobile Internet, customers are increasingly opting for plans with higher bandwidths, in conjunction with higher-quality terminal equipment. The number of fixed-network lines remained more or less stable compared with 2013 at 3.4 million. Broadband lines remained at the prior-year level at 2.1 million, with the number of fiber-optic customers increasing by 37.8 percent.

Products in the area of connected work developed positively: For example, we recorded further growth in our rate plans “DeutschlandLAN – Complete Solution for your Office.” In data communications, we significantly increased the number of networks and connections, especially with Internet-based data networks (IP VPNs) and high-bandwidth location networking. Demand for cloud products grew in particular.

### Wholesale

The number of lines in the wholesale sector remained stable overall compared with 2013 at 11.3 million. At the end of 2014, fiber-optic lines accounted for 6.4 percent of all lines. The increased growth in our wholesale unbundled lines by 589 thousand or 37.7 percent was primarily attributable to the strong demand in connection with the contingent model. However, the number of bundled wholesale lines declined by 85 thousand. This trend is likely to continue for the next few years due to the fact that our competitors are switching from bundled to unbundled wholesale products with more bandwidth or to their own infrastructure. The number of unbundled local loop lines (ULLs) decreased by 456 thousand or 4.9 percent compared with 2013. This is due first to the move to higher-quality VDSL wholesale lines, and second to customers switching to cable operators and competitors migrating some of their retail customers to mobile-based lines.

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## DEVELOPMENT OF OPERATIONS

T 028

millions of €

	2014	2013	Change	Change %	2012
<b>TOTAL REVENUE</b>	22,257	22,435	(178)	(0.8)%	22,736
Consumers	11,970	12,122	(152)	(1.3)%	12,197
Business Customers	5,726	5,676	50	0.9%	5,680
Wholesale	3,775	3,811	(36)	(0.9)%	4,035
Value-Added Services	242	288	(46)	(16.0)%	367
Other	544	538	6	1.1%	457
Profit from operations (EBIT)	4,663	4,435	228	5.1%	4,213
EBIT margin	% 21.0	19.8			18.5
Depreciation, amortization and impairment losses	(3,893)	(3,966)	73	1.8%	(4,393)
EBITDA	8,556	8,401	155	1.8%	8,606
Special factors affecting EBITDA	(254)	(535)	281	52.5%	(560)
<b>EBITDA (ADJUSTED FOR SPECIAL FACTORS)</b>	8,810	8,936	(126)	(1.4)%	9,166
EBITDA margin (adjusted for special factors)	% 39.6	39.7			40.3
<b>CASH CAPEX</b>	(3,807)	(3,411)	(396)	(11.6)%	(3,418)

### Total revenue

The revenue decline of 0.8 percent in 2014 was a slight improvement against the prior year. This was attributable to traditional fixed-network business, which declined by just 2.5 percent due to lower line losses. Terminal equipment, IT, and television revenues had a positive impact on fixed-network revenue development. However, it could not completely offset the revenue decline in traditional fixed-network telephony and broadband business. Mobile revenue grew by 1.6 percent, due in particular to high demand for smartphones. The encouraging development in mobile service revenues in the business customer segment and our second brand "congstar" offset the decline in revenue from our prepay business and from resellers.

Revenue from **Consumers** decreased by 1.3 percent, mainly due to a volume- and price-related downturn in the fixed network. In mobile communications, revenue increased by 1.1 percent, primarily due to increased terminal equipment revenue from the marketing of smartphones. While mobile service revenues decreased by 0.9 percent owing to a decline in voice telephony and lower revenues from text messages, especially in the prepay segment, we recorded a substantial 23.2-percent increase in data revenues.

Revenue from **Business Customers** increased by 0.9 percent. This positive trend primarily resulted from growth in mobile service revenues, especially due to the data revenue growth of 9.2 percent. The decline in revenue from traditional voice telephony had an offsetting effect.

**Wholesale** revenue stabilized at EUR 3.8 billion, as a result of special factors in the second and fourth quarters of the prior year, due to retroactive price reductions for unbundled local loop lines. Excluding these effects, Wholesale revenue declined slightly by 2.5 percent. This decrease is primarily due to volume reductions regarding interconnection calls and lines, which were partially offset by the positive trend in unbundled lines, mainly as a result of the contingent model.

Revenue from **Value-Added Services** declined by 16.0 percent, mainly as a result of weaker use of premium rate call numbers and the decline in revenue attributable to the exit from the digital out-of-home advertising business at the end of 2013.

### EBITDA, adjusted EBITDA

EBITDA adjusted for special factors decreased slightly by 1.4 percent year-on-year in 2014 to EUR 8.8 billion, primarily as a result of higher personnel costs due to collectively agreed pay increases and staff increases for our integrated network build-out. Higher market investments in mobile communications, driven among other things by the intensified marketing of smartphones, also had an adverse effect on adjusted EBITDA. With an adjusted EBITDA margin of 39.6 percent, we are at our expected target level of 40 percent. EBITDA in the reporting year amounted to EUR 8.6 billion, an increase of 1.8 percent on 2013, due in particular to higher special factors for our staff restructuring in the previous year.

### EBIT

Profit from operations for our Germany operating segment increased by 5.1 percent to EUR 4.7 billion year-on-year. This was primarily attributable to lower special factors and slightly lower depreciation and amortization.

### Cash capex

Cash capex increased by EUR 396 million or 11.6 percent year-on-year in the reporting year. During 2014, we again increased our investments in the vectoring/fiber-optic cable roll-out, our IP transformation, and our LTE infrastructure as part of our integrated network strategy.

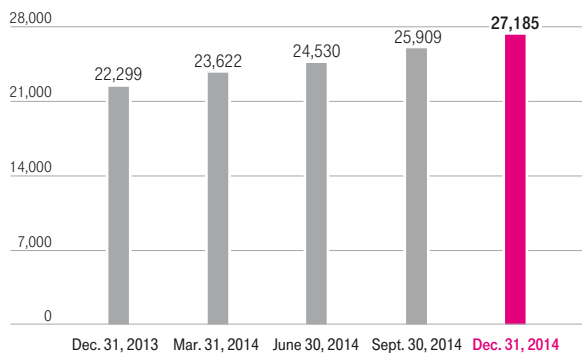
## UNITED STATES CUSTOMER DEVELOPMENT



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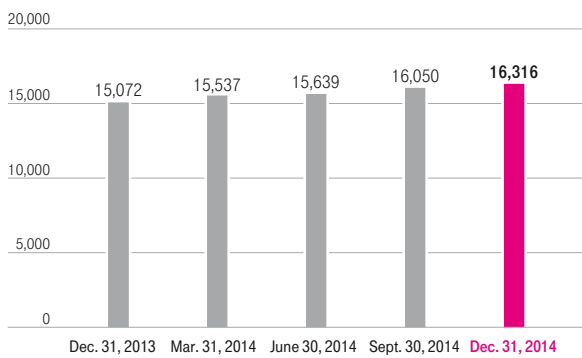
G 31

### Branded postpaid customers thousands



G 32

### Branded prepay customers thousands



T 029

thousands

	Dec. 31, 2014	Dec. 31, 2013	Change	Change %	Dec. 31, 2012
<b>UNITED STATES</b>					
Mobile customers	55,018	46,684	8,334	17.9%	33,389
Branded customers	43,501	37,371	6,130	16.4%	26,119
Branded postpaid	27,185	22,299	4,886	21.9%	20,293
Branded prepay	16,316	15,072	1,244	8.3%	5,826
Wholesale customers	11,517	9,313	2,204	23.7%	7,270
M2M	4,421	3,602	819	22.7%	3,090
MVNOs	7,096	5,711	1,385	24.3%	4,180

At December 31, 2014, the United States operating segment (T-Mobile us) had 55.0 million customers compared to 46.7 million customers at December 31, 2013. This increase in net customers of 8.3 million in 2014 was an improvement compared to a net increase of 4.4 million in 2013, not including 8.9 million customers acquired in connection with the closing of the business combination with MetroPCS. In 2014, the significant increase in net customers was the result of growth in all customer categories, as described below.

**Branded customers.** Branded postpaid net customer additions were 4,886 thousand for the year ended December 31, 2014, compared to 2,006 thousand for the year ended December 31, 2013. The significant improvement in customer development was attributable to increased new customer activations and improved branded postpaid churn driven by the continued success of the company's Un-carrier initiatives, strong customer response to promotions and the launch of new popular devices. Additionally, strong customer response to promotions for mobile broadband services and devices contributed to the increase in branded postpaid net customer additions. Branded postpaid net customer additions of 4,886 thousand for the year ended December 31, 2014 exceeded the high end of the company's expectations for 2014.

Branded prepay net customer additions were 1,244 thousand for the year ended December 31, 2014, compared to 328 thousand for the year ended December 31, 2013. The improvement in customer development was attributable to higher branded prepay gross customer additions due to the growth and expansion of the MetroPCS brand, including the launch into additional markets following the MetroPCS business combination in 2013. This increase was offset in part by higher deactivations from the competitive environment in the United States prepay market.

**Wholesale customers.** Wholesale net customer additions were 2,204 thousand for the year ended December 31, 2014, compared to 2,043 thousand for the year ended December 31, 2013. The increase was primarily attributable to higher M2M gross customer additions resulting from strong activation volume, partially offset by a year-over-year decrease in MVNO net customer additions driven by higher churn.



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## DEVELOPMENT OF OPERATIONS

T 030

millions of €

	2014	2013	Change	Change %	2012
<b>TOTAL REVENUE</b>	22,408	18,556	3,852	20.8 %	15,371
Profit (loss) from operations (EBIT)	1,405	1,404	1	0.1 %	(7,547)
EBIT margin	6.3	7.6			(49.1)
Depreciation, amortization and impairment losses	(2,839)	(2,238)	(601)	(26.9)%	(12,866)
EBITDA	4,244	3,642	602	16.5 %	5,319
Special factors affecting EBITDA	(52)	(232)	180	77.6 %	1,479
<b>EBITDA (ADJUSTED FOR SPECIAL FACTORS)</b>	4,296	3,874	422	10.9 %	3,840
EBITDA margin (adjusted for special factors)	19.2	20.9			25.0
<b>CASH CAPEX</b>	(5,072)	(3,279)	(1,793)	(54.7)%	(2,560)

### Total revenue

Total revenue for our United States operating segment of EUR 22.4 billion in 2014 increased by 20.8 percent compared to EUR 18.6 billion in 2013. In U.S. dollars, T-Mobile US total revenues increased by 20.3 percent year-on-year due primarily to an increase in branded prepaid revenues from the inclusion of MetroPCS results since May 2013, growth of the MetroPCS brand, and expansion into additional markets. Excluding MetroPCS operating results, service revenues increased due primarily to an increase in the average number of branded postpaid customers driven by the continued success of the company's Un-carrier initiatives and strong customer response to promotions for services and devices. This was partially offset by decreased average revenue per branded postpaid customer as a result of growth in Simple Choice plans, which have lower priced rate plans than other branded postpaid rate plans. In addition, equipment sales increased, including those sold on installment plans, driven by significant growth in the number of devices sold due to higher customer additions and higher device upgrade volumes.

### EBITDA, adjusted EBITDA, adjusted EBITDA margin

Adjusted EBITDA increased by 10.9 percent to EUR 4.3 billion compared to 3.9 billion in 2013. In U.S. dollars, adjusted EBITDA increased by 10.3 percent, including the positive impact from inclusion of MetroPCS activity since May 2013. Adjusted EBITDA was positively impacted by increased branded postpaid service revenues resulting from growth in the branded postpaid customer base due to strong response to the company's Un-carrier initiatives and promotional activities. These

increases were partially offset by an increase in loss on equipment sales due to higher volumes of smartphone sales, higher promotional costs and increased commission expense on higher gross customer additions. Adjusted EBITDA in the year of 2014 excludes EUR 0.1 billion associated with EUR 0.4 billion in gains on spectrum license transactions, primarily with Verizon Communications, partially offset by EUR 0.1 billion of stock-based compensation costs and EUR 0.3 billion relating to the decommissioning of the MetroPCS CDMA network. The adjusted EBITDA margin decreased year-on-year due to the factors described above, as increases in revenues outpaced adjusted EBITDA growth for the year of 2014.

### EBIT

EBIT was slightly above the prior year level of EUR 1.4 billion. The slight increase was driven by higher adjusted EBITDA and recognition of gains on spectrum license transactions partially offset by higher depreciation expense and the recognition of costs associated with the decommissioning of the MetroPCS CDMA network. Higher depreciation expense was due to the inclusion of MetroPCS operating results since May 2013 and the deployment of LTE network assets, related to the network modernization program.

### Cash capex

Cash capex increased 54.7 percent year-on-year to EUR 5.1 billion in 2014 compared to EUR 3.3 billion in 2013 due primarily to the purchase of 700 MHz A-Block spectrum licenses totaling EUR 1.8 billion.



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## EUROPE

The ICSS/GNF business of the local business units (LBUs), which had been organizationally assigned to the Systems Solutions operating segment until December 31, 2013, was brought together as of January 1, 2014 and is now reported under the Europe operating segment. Furthermore, as of January 1, 2014, the local business customer units of T-Systems Czech Republic, which had previously been managed under the Systems Solutions operating segment, were merged with T-Mobile Czech Republic; they are reported in the Europe operating segment. Comparative figures have been adjusted retrospectively. 

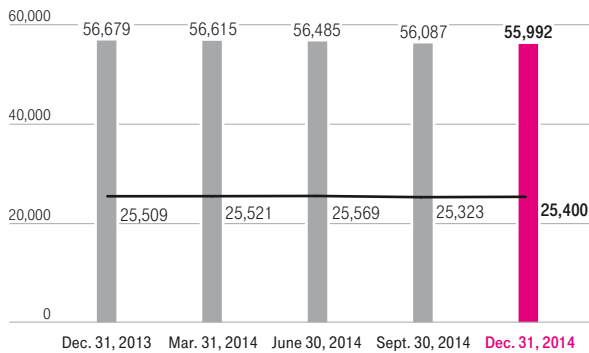


For more information on our Europe operating segment, please refer to the section "Group organization," PAGE 67 ET SEQ., and to Note 32 "Segment reporting" in the notes to the consolidated financial statements, PAGE 239 ET SEQ.

### CUSTOMER DEVELOPMENT

G 33

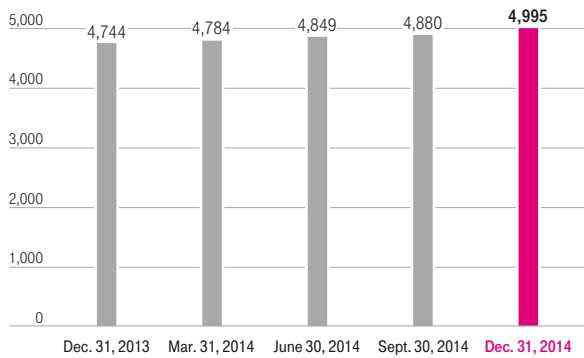
#### Mobile customers thousands



— Contract customers

G 34

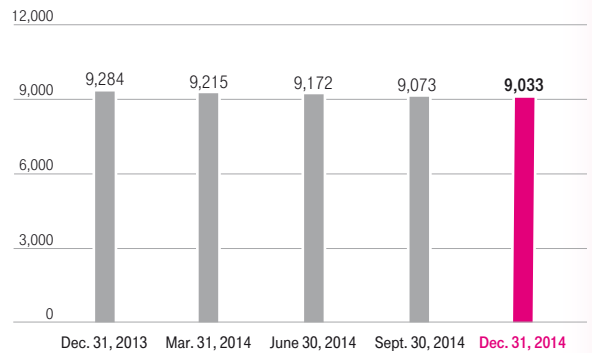
#### Retail broadband lines<sup>a</sup> thousands



<sup>a</sup> The lines of our subsidiary Euronet Communications in the Netherlands have no longer been included in the Europe operating segment since January 2, 2014 following the sale of the shares held in the company. They have been eliminated from all historical customer figures to improve comparability.

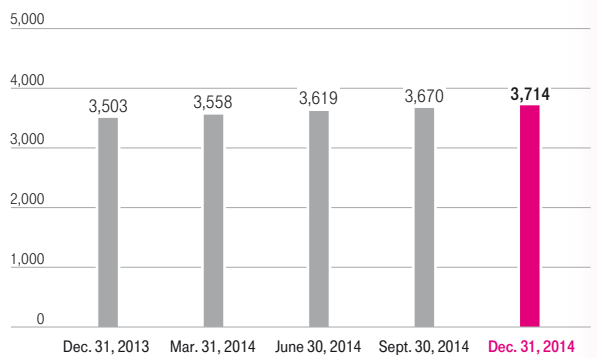
G 35

#### Fixed-network lines<sup>a</sup> thousands



G 36

#### Television (IPTV, satellite, cable)<sup>a</sup> thousands



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T 031

thousands

		Dec. 31, 2014	Dec. 31, 2013	Change	Change %	Dec. 31, 2012
<b>EUROPE, TOTAL<sup>a</sup></b>	Mobile customers	55,992	56,679	(687)	(1.2)%	57,357
	Fixed-network lines	9,033	9,284	(251)	(2.7)%	9,699
	Of which: IP-based	3,486	2,472	1,014	41.0 %	1,586
	Retail broadband lines	4,995	4,744	251	5.3 %	4,500
	Television (IPTV, satellite, cable)	3,714	3,503	211	6.0 %	2,901
	Unbundled local loop lines (ULLs)/wholesale PSTN	2,325	2,230	95	4.3 %	2,157
	Wholesale bundled lines	140	150	(10)	(6.7)%	153
	Wholesale unbundled lines	144	101	43	42.6 %	74
<b>GREECE</b>	Mobile customers	7,280	7,477	(197)	(2.6)%	7,697
	Fixed-network lines	2,624	2,746	(122)	(4.4)%	2,952
	Broadband lines	1,388	1,286	102	7.9 %	1,203
<b>ROMANIA</b>	Mobile customers	6,047	6,153	(106)	(1.7)%	6,368
	Fixed-network lines	2,239	2,369	(130)	(5.5)%	2,422
	Broadband lines	1,199	1,193	6	0.5 %	1,134
<b>HUNGARY</b>	Mobile customers	4,964	4,887	77	1.6 %	4,837
	Fixed-network lines	1,645	1,596	49	3.1 %	1,611
	Broadband lines	969	922	47	5.1 %	875
<b>POLAND</b>	Mobile customers	15,702	15,563	139	0.9 %	16,040
<b>CZECH REPUBLIC</b>	Mobile customers	6,000	5,831	169	2.9 %	5,498
	Fixed-network lines	131	129	2	1.6 %	120
	Broadband lines	131	129	2	1.6 %	120
<b>CROATIA</b>	Mobile customers	2,252	2,303	(51)	(2.2)%	2,326
	Fixed-network lines	1,076	1,133	(57)	(5.0)%	1,208
	Broadband lines	725	670	55	8.2 %	658
<b>NETHERLANDS</b>	Mobile customers	3,900	4,441	(541)	(12.2)%	4,720
<b>SLOVAKIA</b>	Mobile customers	2,220	2,262	(42)	(1.9)%	2,311
	Fixed-network lines	894	922	(28)	(3.0)%	960
	Broadband lines	559	521	38	7.3 %	480
<b>AUSTRIA</b>	Mobile customers	4,020	4,091	(71)	(1.7)%	4,104
<b>OTHER<sup>b</sup></b>	Mobile customers	3,607	3,671	(64)	(1.7)%	3,457
	Fixed-network lines	423	390	33	8.5 %	427
	Broadband lines	307	274	33	12.0 %	258

<sup>a</sup> The lines of our subsidiary Euronet Communications in the Netherlands have no longer been included in the Europe operating segment since January 2, 2014 following the sale of the shares held in the company. They have been eliminated from all historical customer figures to improve comparability.

<sup>b</sup> Other: national companies of Albania, the F.Y.R.O. Macedonia, and Montenegro, as well as the lines of the GTS Central Europe group (since May 30, 2014).

## Total

There was a varied picture in the development of customer numbers in the markets of our Europe operating segment in 2014. Our telecommunications markets continued to come under pressure from ongoing intense competition; slight economic improvements in some countries of our operating segment had a positive impact. The number of mobile customers declined slightly compared with the prior-year level. This is mainly due to the disposal of the Simpel brand and the customer relationships managed thereunder by our subsidiary in the Netherlands. Our strategy of continuously driving forward broadband technology is bringing good returns: In the broadband sector, for example, the positive trends of the last few quarters continued. The number of retail broadband lines increased by 5.3 percent compared with the end of 2013. Products based on fiber-optic technology in particular are becoming increasingly popular with our customers. Our TV business also profited from this trend, growing 6.0 percent compared with December 31, 2013. We increased the number of IP lines substantially by 41.0 percent, primarily due to the successful migration of traditional PSTN lines to IP technology in many countries of our Europe operating segment and due to the inclusion of the GTS Central Europe group since May 30, 2014. Thus customer figures and lines developed in line with our forecast expectations for 2014.

## Mobile communications

**Mobile telephony and data services.** As of the end of the reporting year, we had some 56.0 million mobile customers, a slight year-on-year decline of 1.2 percent. Excluding the effect of the disposal of the Simpel brand by our subsidiary in the Netherlands, the contract customer base increased slightly at segment level compared with the prior year. Although the number of competitors we face on the European markets is constantly growing, we can set ourselves apart from the competition as a quality provider and, in many countries, also as the provider with the best mobile network. Part of our network strategy is to provide our customers with an even faster broadband connection via mobile communications and systematically upgrade our networks with the 4G/LTE technology. Our success is already apparent. Our LTE footprint now includes every mobile market in the countries of our operating segment except for Albania. The speed of our networks combined with innovative bundled product offerings further increased sales of mobile terminal equipment, especially smartphones and tablets. In the Business Customer area, our mobile networks constitute a clear competitive advantage. This becomes particularly clear in contract customer business: With some 25.4 million customers in total as of the end of the reporting year, business customers accounted for 32 percent of the total contract customer base. The increase in the number of business customers as a proportion of the contract customer base compared with 2013 more than offset the slight decline – excluding customers managed under the Simpel brand – in consumer numbers. Almost all countries of our operating segment made a positive contribution to this growth.

At the end of the reporting year, the number of prepay customers decreased compared with 2013. This was due in part to intense competition on the mobile markets of our European countries, and in part to our strategy of focusing on high-value contract customers.

## Fixed network

**Telephony, Internet, and television.** Over the last few quarters, TV business has established itself in our Europe operating segment as a constant growth driver: The total customer base, for example, increased by 6.0 percent as of December 31, 2014 to 3.7 million. The majority of the 211 thousand net additions in total were satellite TV customers, especially in Greece, IPTV customers, especially in Hungary, and cable TV customers in Romania.

There was also a consistent trend in the number of IP-based lines, which grew significantly by 41.0 percent compared with the prior year to around 3.5 million. There was particularly strong growth in the number of IP lines in the fourth quarter of 2014, the majority of which related to Slovakia which, following the F.Y.R.O. Macedonia, successfully completed migration to the IP technology in December 2014. Also in our other integrated countries where we are represented with mobile communications and fixed network, the migration of PSTN lines to IP-based lines is gaining considerable momentum; in Hungary and Montenegro we have already reached a migration rate of more than 50 percent, in Croatia even by more than 70 percent. At the end of 2014, IP-based lines accounted for 38.6 percent of all lines. The inclusion of the GTS Central Europe group made a positive contribution to this trend. Around 9.0 million customers in our Europe operating segment used a fixed-network line as of the end of 2014. The decline of 2.7 percent against the end of 2013 was primarily attributable to line losses in traditional telephony (PSTN).

The number of retail broadband lines increased by 5.3 percent to some 5.0 million. In the fourth quarter of 2014 alone, we recorded an increase of 2.4 percent, primarily driven by innovative rate plans that bundle television with Internet services and also diverse and attractive television content. The majority of the increase in retail broadband lines was attributable to DSL business, especially in Greece. The forward-looking VDSL technology enjoyed particularly dynamic growth here. But other access technologies, such as broadband cable lines in Hungary or FTTH lines in Romania, also recorded strong growth rates. The inclusion of the GTS Central Europe group also contributed slightly to this growth.



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## DEVELOPMENT OF OPERATIONS

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millions of €

	2014	2013	Change	Change %	2012
<b>TOTAL REVENUE</b>	12,972	13,704	(732)	(5.3)%	14,441
Greece	2,869	2,988	(119)	(4.0)%	3,253
Romania	1,002	1,017	(15)	(1.5)%	1,037
Hungary	1,492	1,563	(71)	(4.5)%	1,429
Poland	1,492	1,584	(92)	(5.8)%	1,678
Czech Republic	862	973	(111)	(11.4)%	1,103
Croatia	905	929	(24)	(2.6)%	992
Netherlands	1,551	1,666	(115)	(6.9)%	1,664
Slovakia	768	828	(60)	(7.2)%	837
Austria	815	828	(13)	(1.6)%	878
Other <sup>a</sup>	1,442	1,548	(106)	(6.8)%	1,838
Profit from operations (EBIT)	1,704	972	732	75.3 %	1,453
EBIT margin %	13.1	7.1			10.1
Depreciation, amortization and impairment losses	(2,597)	(3,399)	802	23.6 %	(3,309)
EBITDA	4,301	4,371	(70)	(1.6)%	4,762
Special factors affecting EBITDA	(131)	(179)	48	26.8 %	(210)
<b>EBITDA (ADJUSTED FOR SPECIAL FACTORS)</b>	4,432	4,550	(118)	(2.6)%	4,972
Greece	1,138	1,165	(27)	(2.3)%	1,205
Romania	266	283	(17)	(6.0)%	289
Hungary	445	438	7	1.6 %	474
Poland	579	599	(20)	(3.3)%	586
Czech Republic	362	425	(63)	(14.8)%	511
Croatia	365	404	(39)	(9.7)%	468
Netherlands	630	495	135	27.3 %	525
Slovakia	310	337	(27)	(8.0)%	354
Austria	211	192	19	9.9 %	234
Other <sup>a</sup>	125	216	(91)	(42.1)%	330
EBITDA margin (adjusted for special factors) %	34.2	33.2			34.4
<b>CASH CAPEX</b>	(2,101)	(3,661)	1,560	42.6 %	(1,739)

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

<sup>a</sup> Other: national companies of Bulgaria (up to and including July 31, 2013), Albania, the F.Y.R.O. Macedonia, and Montenegro, as well as ICSS (International Carrier Sales & Solutions), the ICSS/GNF business of the LBUs, GNF (Global Network Factory), GTS Central Europe group (since May 30, 2014), Europe Headquarters, and Group Technology.

### Total revenue

Our Europe operating segment generated total revenue of EUR 13.0 billion in 2014, a year-on-year decrease of 5.3 percent. Thus total revenue was in line with our forecast expectations for 2014. In organic terms, i.e., without taking into account effects of changes in the composition of the Group and exchange rate effects, segment revenue decreased by 4.0 percent. In addition to disposals in 2013, for example, of Hellas Sat or our subsidiaries in Bulgaria, and the resulting lost contributions to revenue, we sold our shares in Euronet Communications in the Netherlands on January 2, 2014. Furthermore, revenue was impacted by negative exchange rate effects compared with the euro, especially the Hungarian forint and the Czech koruna. The inclusion of DIGI Slovakia from September 1, 2013 and the GTS Central Europe group from May 30, 2014 had a positive effect.

Decisions by regulatory authorities continue to have a substantial impact on our segment revenue. Reduced mobile termination rates and roaming regulations in almost all countries of our operating segment accounted for more than half of our organic revenue decline. In addition, competition-induced price reductions in mobile and fixed-network communications continued to have a negative effect on our revenue in the reporting year, although a few markets began to show initial signs of recovery.

As far as organic segment revenue by country is concerned, business in Greece was hit hardest by revenue declines in absolute terms in 2014, followed by Poland, Slovakia, and the Czech Republic. These countries sustained regulation- as well as market-induced revenue losses. At segment level, revenue from consumer business decreased substantially more than business with business customers. Wholesale business overall also recorded a decline.

Due to the consistent focus on the growth areas in the countries of our Europe operating segment, we partially offset the negative revenue effects from voice telephony at segment level. Growth areas already accounted for a quarter of segment revenue in the reporting year. Mobile data business was the biggest driver, with revenue increasing by 13 percent or EUR 177 million year-on-year (excluding effects of changes in the composition of the Group and exchange rate effects), with all countries of our operating segment contributing, in particular the Netherlands, the Czech Republic, Austria, and Hungary. The majority of revenue from mobile data business was attributable to consumers. Attractive rate plans combined with our broad portfolio of terminal equipment, such as smartphones and tablets, resulted in a substantial increase in usage of data services. In TV business, the positive trend of the past few quarters continued: TV revenue increased in 2014 by 27 percent, especially in Croatia and Greece; excluding the acquisition of DIGI Slovakia, the increase stood at 23 percent. In addi-

tion to the acquisition of the GTS Central Europe group, our expanded product and service portfolio also resulted in higher revenue in B2B/ICT business with business customers compared with the prior year. The national companies contributing to this above all were Greece, Romania, and Croatia. In addition to the growth areas, revenues from sales of terminal equipment also increased slightly. This revenue increase is due in part to the fact that some countries of our Europe operating segment have introduced an alternative model to the conventional bundled rate plans. In contrast to these bundled rate plans, which include a discounted terminal device but higher service charges, the alternative model is distinctive in that the customer concludes separate contracts for the service and the device. The customer pays a regular monthly service charge and in addition, a monthly charge for the chosen device. This means the device remains affordable for the customer even without subsidies.

### EBITDA, adjusted EBITDA

Our Europe operating segment generated adjusted EBITDA of EUR 4.4 billion in the reporting year, a year-on-year decrease of 2.6 percent. Excluding effects of changes in the composition of the Group and negative exchange rate effects against the euro, adjusted EBITDA decreased by just 0.9 percent compared with the prior-year level. This decline was mainly due to lower EBITDA contributions from mobile business in Greece and from business in the Czech Republic, Croatia, and Slovakia. It was almost offset by positive adjusted EBITDA contributions, including from the Netherlands and the fixed-network business in Greece, Hungary and Austria. Revenues also decreased in the ICSS business.

The overall organic decrease in revenue at segment level had a negative impact on the development of adjusted EBITDA compared with the prior year. Changes in legislation, taxes and duties, and national austerity programs put additional pressure on our earnings. With efficiency enhancement measures, we were able to reduce indirect costs in a targeted way and thereby counteract the negative effect of the revenue decline. Lower personnel costs in the fixed-network business in Greece in particular made a positive contribution. Earnings also benefited from the revenue contribution from the alternative model for terminal equipment. In addition, our direct costs decreased overall thanks to targeted measures for customer retention and acquisition on the one hand, and as a result of regulation-induced reductions in interconnection costs on the other. Apart from the aforementioned reasons, the slight decline in EBITDA is also attributable to the deconsolidation gains recorded in the prior year from the sale of our Bulgarian mobile companies as well as Hellas Sat, which were recognized as special factors. The fine imposed as part of the European Commission proceedings against Slovak Telekom and Deutsche Telekom also had an adverse effect on EBITDA.



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## Development of operations in selected countries

The Europe operating segment pursues the vision of developing our entities into integrated, pan-European all-IP players. As part of this strategic focus, our entities are divided into four clusters according to their market position:

“Senior leaders” are entities that have leading positions in both mobile and fixed-network operations, such as those in Greece, Hungary, Croatia, and the F.Y.R.O. Macedonia. The entities in this cluster aim to maintain their market leadership in both the fixed-network and mobile markets. The cluster of “junior leaders” comprises entities which have a strong position in the fixed network, but are not mobile market leaders. These entities are Romania, Slovakia and Montenegro, and they want to use their strong position in the fixed network to drive forward their mobile business. Companies that concentrate primarily on mobile business include what we call “mobile runners-up,” specifically, our national companies in Poland, the Czech Republic and Albania, which are systematically working to become integrated companies. For Poland and the Czech Republic, we have taken a huge step toward becoming an integrated player specifically in the business customer market by incorporating the GTS Central Europe group. Our subsidiaries in the Netherlands and Austria are “smart attackers,” with a significant gap between them and the market players. These two national companies continue to focus on mobile business and set themselves apart from providers with aggressive pricing strategies and from the market leader. They position themselves as the provider with the greatest focus on customer needs and in this way occupy a niche as mobile-only providers.

Below, we present one national company for each of the four clusters by way of example.

**Greece (senior leader).** Revenue in Greece totaled EUR 2.9 billion in 2014, a year-on-year decline of 4.0 percent. Adjusted for the revenue lost since April 1, 2013 in connection with the sale of Hellas Sat, revenue decreased by 3.8 percent. The remaining organic revenue decline was primarily the result of the development in mobile business. Mobile voice revenues, for example, continued to come under pressure from factors such as the increasing attractiveness of flat rates and the associated low price structures, especially among contract customers. Text messaging revenues decreased year-on-year, due to the growing trend of booking text messaging add-on options. Revenues from sales of terminal equipment also declined. This was compensated by higher revenue from mobile data services, in part because of substantially higher demand for data services. Increased voice usage in mobile termination compared with the prior year also offset the trend in mobile voice revenues to a certain extent.

The fixed-network area was also affected by revenue reductions, mainly driven by decreases in voice services, which were adversely affected by line losses in traditional telephony of around 5 percent. However, revenue losses in voice services in 2014 were lower than in the prior year. The majority of these declines were offset by the enormous growth in TV business, which increased by 76 percent. Customer growth rose rapidly, thanks in particular to the expanded TV offering. The downward trend was also slightly offset by broadband business, mainly as a result of an increased number of lines, also due to the higher percentage of VDSL lines. The B2B/ICT business with business customers also made a positive revenue contribution.

In Greece, adjusted EBITDA decreased to EUR 1.1 billion in the reporting year, a year-on-year decline of 2.3 percent. Excluding the effects of the deconsolidation of Hellas Sat, adjusted EBITDA decreased 1.9 percent, mainly as a result of the negative revenue effects in mobile business. We partially compensated these negative effects with our programs to enhance efficiency in fixed-network and mobile business. The success of these programs can be seen in particular in the fixed network with lower personnel costs.

**Slovakia (junior leader).** Our Slovakian subsidiary generated revenue of EUR 768 million in 2014, down 7.2 percent on the prior year. Excluding the effects from the inclusion of DIGI Slovakia as of September 1, 2013, revenue decreased by 9.4 percent. This decline relates mainly to mobile business. Regulation-induced reductions in termination rates and the lower price level in mobile voice revenues continued to put significant pressure on our revenues. This decrease was only partially offset by increased use of voice services. Mobile data services proved to be a constant revenue driver again in the reporting year, increasing by 10 percent, mainly due to the continuing high usage of data services. Revenue in the fixed network declined as a result of lower revenues from voice services: on the one hand due to line losses in traditional voice telephony, on the other due to the lower price level. Revenue generated in the B2B/ICT business with business customers also decreased. The successful TV business largely offset these declines, with growth of around 50 percent compared with 2013. The acquisition of DIGI Slovakia in 2013 also contributed to this.

Adjusted EBITDA amounted to EUR 310 million in the reporting year, down 8.0 percent year-on-year. Without the contribution of DIGI Slovakia, adjusted EBITDA decreased by 9.7 percent, largely due to revenue losses. Compared with 2013, direct costs declined in part due to regulation-induced reductions in interconnection costs and lower spending for customer acquisition. Savings in indirect costs, especially in costs for goods and services purchased and personnel costs, also made a positive contribution and partially offset the revenue decline.



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**Poland (mobile runner-up).** In the reporting year, revenue in Poland decreased by 5.8 percent compared with 2013 to EUR 1.5 billion. Excluding the slightly positive exchange rate effects compared with the euro, revenue decreased by 6.1 percent, mainly due to lower voice revenues. On the one hand, this was the result of increased market penetration of flat rates, with the effect of reduced retail prices, and on the other hand of regulation-induced reductions in termination rates. Revenue from text messaging also declined year-on-year as a result of lower average prices, paired with lower use of the text messaging service. This was partly compensated by increased revenues from sales of terminal equipment. Higher roaming revenues also had a positive effect on revenue.

Adjusted EBITDA amounted to EUR 579 million in 2014, down 3.3 percent year-on-year. Excluding the slightly positive exchange rate effects compared with the euro, adjusted EBITDA decreased by 3.7 percent. The revenue decline was partially offset by a more personalized dialog with customers for the purpose of customer retention and acquisition. Strict cost management in terms of indirect costs also had a positive effect on adjusted EBITDA.

**Netherlands (smart attacker).** In the Netherlands, we generated revenue of EUR 1.6 billion, a decrease of 6.9 percent. Excluding the effects arising from the disposal of Euronet Communications as of January 2, 2014, revenue decreased by 2.2 percent, mainly due to the regulatory-induced decline in voice revenues and a smaller customer base. This decline was largely offset by year-on-year growth in mobile data business of 22 percent. The new rate plans introduced in September 2013 and the continuing high demand for smartphones resulted in substantially higher usage of data services. Revenue from sales of terminal equipment also increased. The MVNO business likewise made a positive contribution to revenue.

Adjusted EBITDA increased by 27.3 percent in the reporting year to EUR 630 million. Excluding the effects from the sale of shares in Euronet Communications, adjusted EBITDA increased by 30.7 percent. This was attributable to lower direct costs, due in particular to targeted measures for customer retention and acquisition, as well as a regulation-induced reduction in interconnection costs. Savings in indirect costs, especially costs for goods and services purchased and personnel costs, likewise made a positive contribution to adjusted EBITDA.

#### **EBIT**

EBIT in our Europe operating segment totaled EUR 1.7 billion in the reporting year, up 75.3 percent year-on-year, mainly due to impairment losses on goodwill recognized in 2013, in particular in Austria. This was contrasted by a lower impairment loss recognized on goodwill in Romania in 2014. Depreciation on property, plant and equipment decreased year-on-year, in particular in Greece, Poland and Hungary. This offset the negative effects from the slight decline in EBITDA.


#### **Cash capex**

In the reporting year, our Europe operating segment reported cash capex of EUR 2.1 billion, i.e., down by 42.6 percent, primarily due to the acquisition of mobile licenses in the Netherlands, Austria and Romania in the prior year. In 2014, we acquired spectrum, in particular in Hungary, the Czech Republic, Poland and Slovakia. Excluding the effects from the acquisition of spectrum and the sale of the national companies in Bulgaria, cash capex decreased slightly year-on-year at segment level. The decrease is due to contrasting effects: Firstly, our national companies continued to act very prudently in their capital spending. The reasons for this included the difficult market situation, decisions by regulatory authorities, and additional financial burdens, such as taxes. Activities as part of our integrated network strategy, especially in the mobile business in Greece and the fixed-network business in Romania, had a contrasting effect. Here, cash capex increased slightly, also due to the inclusion of the GTS Central Europe group.



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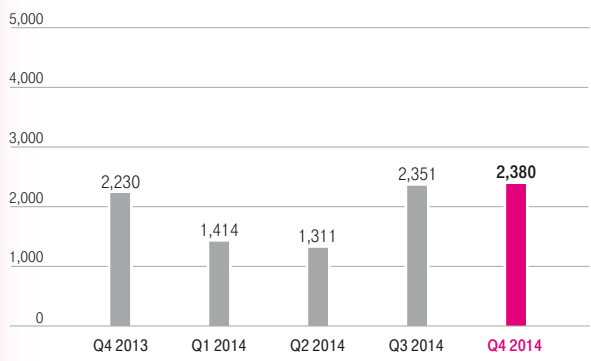
**SYSTEMS SOLUTIONS**

The ICSS/GNF business of the local business units (LBUs), which had been organizationally assigned to the Systems Solutions operating segment until December 31, 2013, was brought together as of January 1, 2014 and is now reported under the Europe operating segment. Furthermore, as of January 1, 2014, the local business customer units of T-Systems Czech Republic, which had previously been managed under the Systems Solutions operating segment, were merged with T-Mobile Czech Republic; they are reported in the Europe operating segment. Comparative figures have been adjusted retrospectively. 

**SELECTED KPIs**

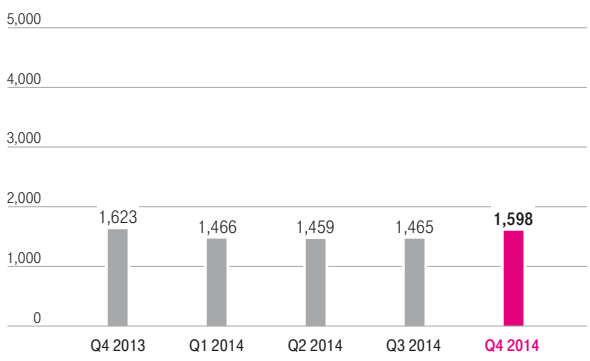
G 37

**Order entry**  
millions of €



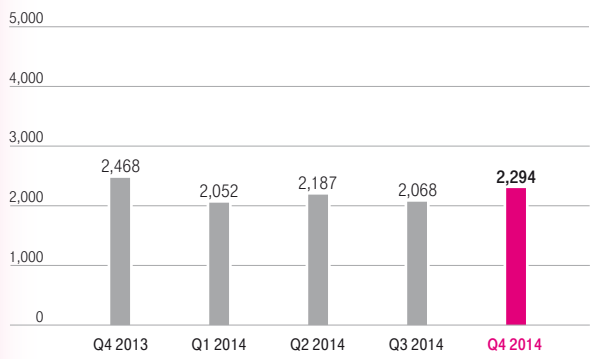
G 39

**External revenue**  
millions of €



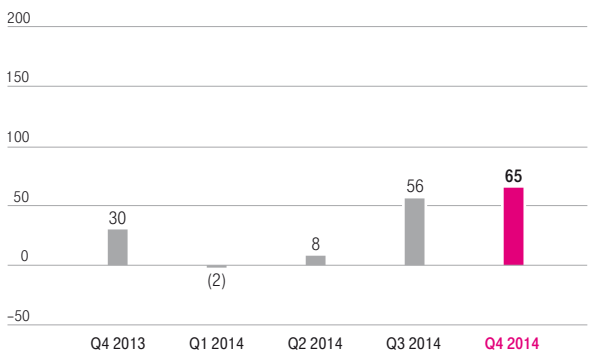
G 38

**Revenue**  
millions of €



G 40

**Adjusted EBIT**  
millions of €



For more information on our Systems Solutions operating segment, please refer to the section "Group organization," PAGE 67 ET SEQ., and to Note 32 "Segment reporting" in the notes to the consolidated financial statements, PAGE 239 ET SEQ.

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		Dec. 31, 2014	Dec. 31, 2013	Change	Change %	Dec. 31, 2012 <sup>a</sup>
<b>ORDER ENTRY</b>	millions of €	7,456	7,792	(336)	(4.3)%	8,737
<b>COMPUTING &amp; DESKTOP SERVICES</b>						
Number of servers managed and serviced	units	61,654	62,308	(654)	(1.0)%	57,121
Number of workstations managed and serviced	millions	1.58	1.31	0.27	20.6 %	1.93
<b>SYSTEMS INTEGRATION</b>						
Hours billed	millions	6.1	6.6	(0.5)	(7.6)%	6.3
Utilization rate	%	83.8	82.5		1.3 % p	85.1



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<sup>a</sup> The comparative figures for 2012 were not adjusted retroactively for the bringing together of the local business units and T-Systems Czech Republic under the Europe operating segment.

### Development of business

In 2014, T-Systems concluded new agreements in Germany and abroad: We concluded major deals, for example, with ThyssenKrupp and Daimler. We were also awarded the contract to set up and operate a satellite-based toll system for trucks in Belgium. Nevertheless, order entry decreased by 4.3 percent year-on-year in 2014, which was in line with our expectations. This is attributable to the start of the realignment of the business model, aimed at ensuring sustained profitable growth. In this connection, we tightened up the profitability criteria for the acceptance of new orders: In the future, we will offer services with a persistently low level of profitability via specialized partners or discontinue them completely if demand is not lucrative enough. Strengthened by the realignment, our standard solutions from our growth area of cloud computing in particular won out over strong competition. For our customers, this means that they can access an ever greater range of services from the cloud and at the same time profit from our expertise in transformation services for bringing our customers to the cloud securely. This includes a comprehensive consultation, the constant further development of successful cloud solutions like *Dynamic Services for Collaboration (DSC)*, *Dynamic Workplace*, or also our SAP offering such as SAP Hana, and the introduction and expansion of integration solutions in the cloud, such as *Cloud Broker* or *Cloud Integration Center*.

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

To meet the requirements from the new deals, we are continuously modernizing and consolidating our ICT resources. Thanks to high-performance servers and improved capacity utilization, we reduced the number of servers managed by 1.0 percent compared with the prior

year. There was a similar picture with data centers: Technical advances made it possible to set up ever larger and higher-performance units. At the start of July 2014, for example, we opened the largest data center in Germany in Biere near Magdeburg. The high-performance units also allowed us to reduce our number of data centers, which has a positive impact on our cost efficiency. The number of workstations managed and serviced increased by 20.6 percent to 1.58 million compared with the prior year.

### DEVELOPMENT OF OPERATIONS

#### Total revenue

Total revenue in our Systems Solutions operating segment in the reporting year amounted to EUR 8.6 billion, a year-on-year decrease of 4.8 percent. This is primarily due to the expected decline in revenue in connection with the initiated realignment.

Revenues of the Market Unit, i.e., essentially business with external customers, was down 5.1 percent compared with 2013 to EUR 6.9 billion; with declines in both national and international revenue. Revenue was adversely affected by the revenue decline resulting from the realignment, and the general downward trend in prices in the ICT business. In addition to exchange rate effects, the sales of T-Systems Italia and the SI business unit of T-Systems France in the first half of 2013 resulted in revenue losses.

In the Telekom IT business unit, which mainly pools the Group's domestic internal IT projects, revenue was slightly down against the prior year, primarily reflecting the Group's planned savings in IT costs.

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T 034

millions of €

	2014	2013	Change	Change %	2012
<b>TOTAL REVENUE</b>	8,601	9,038	(437)	(4.8)%	9,551
Loss from operations (EBIT)	(422)	(294)	(128)	(43.5)%	(323)
Special factors affecting EBIT	(549)	(431)	(118)	(27.4)%	(415)
EBIT (adjusted for special factors)	127	137	(10)	(7.3)%	92
EBIT margin (adjusted for special factors) %	1.5	1.5			1.0
Depreciation, amortization and impairment losses	(717)	(652)	(65)	(10.0)%	(631)
EBITDA	295	358	(63)	(17.6)%	308
Special factors affecting EBITDA	(540)	(416)	(124)	(29.8)%	(403)
<b>EBITDA (ADJUSTED FOR SPECIAL FACTORS)</b>	835	774	61	7.9 %	711
EBITDA margin (adjusted for special factors) %	9.7	8.6			7.4
<b>CASH CAPEX</b>	(1,171)	(1,066)	(105)	(9.8)%	(1,171)

### EBITDA, adjusted EBITDA

Adjusted EBITDA in our Systems Solutions operating segment increased by EUR 61 million or 7.9 percent in the reporting year due to a substantially higher contribution from Telekom IT. Adjusted EBITDA from the Market Unit decreased significantly, due among other factors to necessary expenses for realigning the business model with the goal of ensuring sustained profitable growth. The adjusted EBITDA margin improved from 8.6 percent in the prior year to 9.7 percent. EBITDA decreased 17.6 percent to EUR 295 million. Special factors were higher than in the prior year, mainly due to restructuring programs.

### EBIT, adjusted EBIT

In 2014, adjusted EBIT was down EUR 10 million compared with 2013, due in part to higher depreciation and amortization, especially in connection with the advanced implementation of the Group-wide ERP system. The adjusted EBIT margin of 1.5 percent is at the prior-year level.

### Cash capex

In the reporting year, cash capex stood at EUR 1.2 billion, i.e., EUR 105 million more than in the prior year. This increase is related to the realignment of the business model, which we are developing further in line with the increasing digitization of enterprises. For this reason, we are investing in intelligent network solutions such as the connected car, healthcare, and energy, as well as in cutting-edge digital innovation areas like cloud computing and cyber security. Enhanced efficiency, for example as a result of the standardization of the ICT platforms, had an offsetting effect.

### GROUP HEADQUARTERS & GROUP SERVICES

#### Total revenue

Total revenue in our Group Headquarters & Group Services segment in 2014 decreased by 12.6 percent year-on-year, mainly due to the revenue lost in connection with the sale of 70 percent of the shares in the Scout24 group which was consummated in early February 2014. Intragroup service revenues, primarily from call center services and rent, decreased slightly year-on-year.

#### EBITDA, adjusted EBITDA

Adjusted EBITDA at Group Headquarters & Group Services decreased by EUR 12 million year-on-year in 2014, due to the loss of the Scout24 group's contribution to operations. Since the closing of the transaction, the earnings from the remaining stake of around 30 percent are reported under profit/loss from financial activities as share of profit/loss of associates and joint ventures accounted for using the equity method. Furthermore, the intragroup income of the Digital Business Unit (DBU) declined due to efficiency measures. Income from trademark licenses also decreased. This was partially compensated by positive effects from increased income from real estate sales, lower IT and consulting expenses, and the implementation of efficiencies from the realignment of Viento.

Overall, positive special factors of around EUR 1.2 billion affected EBITDA in 2014, primarily resulting from income in connection with the deconsolidation of the Scout24 group. Expenses – primarily for staff-related measures as well as for the recognition of other provisions – had a negative effect on EBITDA.



For more information on our Group Headquarters & Group Services segment, please refer to the section "Group organization," PAGE 67 ET SEQ., and to Note 32 "Segment reporting" in the notes to the consolidated financial statements, PAGE 239 ET SEQ.



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**EBIT**

The year-on-year decrease in loss from operations by around EUR 1.5 billion is mainly due to the income from the deconsolidation of the Scout24 group.

**Cash capex**

Cash capex decreased year-on-year by EUR 30 million, largely due to the purchase of fewer software licenses and the non-recurrence of the contribution from the Scout24 group.

T 035

millions of €

	2014	2013	Change	Change%	2012
<b>TOTAL REVENUE</b>	2,516	2,879	(363)	(12.6)%	2,835
Of which: Digital Business Unit	635	970	(335)	(34.5)%	868
Loss from operations ( <b>EBIT</b> )	(109)	(1,582)	1,473	93.1 %	(1,750)
Depreciation, amortization and impairment losses	(671)	(699)	28	4.0 %	(753)
EBITDA	562	(883)	1,445	n. a.	(997)
Special factors affecting EBITDA	1,229	(228)	1,457	n. a.	(282)
<b>EBITDA (ADJUSTED FOR SPECIAL FACTORS)</b>	(667)	(655)	(12)	(1.8)%	(715)
Of which: Digital Business Unit	(31)	121	(152)	n. a.	137
<b>CASH CAPEX</b>	(381)	(411)	30	7.3 %	(379)

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## DEVELOPMENT OF BUSINESS AT DEUTSCHE TELEKOM AG

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

As the Headquarters of the Deutsche Telekom Group, we perform strategic and cross-segment management functions and provide services for other Group companies. The profits and losses of our subsidiaries and Group financing measures have a material effect on our financial position and results of operations. In the 2014 financial year, our subsidiaries in Germany, for example, performed well in the highly competitive environment, especially in the field of mobile communications. However, factors such as the realignment of the T-Systems business model that was initiated, and the general downward trend in prices in the IT and communications business had a negative impact on results. Earnings in the Europe operating segment were impacted in particular by decisions by the regulatory authorities as well as competition-induced price reductions. Changes in legislation, taxes and duties, and national austerity programs put additional pressure on our earnings in the Europe operating segment.

Deutsche Telekom AG reported income after taxes for the 2014 financial year of EUR 4.0 billion. In addition to the operating business, the development of business in the reporting year was influenced by a number of very different effects (e.g., a reversal of a write-down at T-Mobile Global Zwischenholding GmbH, Bonn, and at T-Mobile Global Holding GmbH, Bonn, the sale of 70 percent of the shares in the Scout24 group, and the extension of the early retirement arrangements for the 2014 financial year), arising from both the Company's own business and from income related to subsidiaries, associated and related companies.

## RESULTS OF OPERATIONS OF DEUTSCHE TELEKOM AG

The negative operating results improved by approximately EUR 1.1 billion compared with the previous year, while net revenue was down slightly year-on-year at EUR 3.7 billion.

The improvement in operating results is due to a year-on-year increase of EUR 0.4 billion in other operating income together with a decrease of EUR 0.5 billion in other operating expenses and EUR 0.2 billion lower personnel costs.

Other operating income in the reporting year was positively influenced by EUR 1.0 billion in connection with the sale of 70 percent of the shares in the Scout24 group as well as the contribution of the remaining 30 percent of the shares in the Scout24 group to a new holding company at fair values. The decrease in currency translation gains of EUR 0.3 billion compared with the previous year in particular had an offsetting effect.

The year-on-year decrease in other operating expenses of EUR 0.5 billion resulted especially from the reduction of currency translation losses by EUR 0.3 billion.

The EUR 0.2 billion decline in personnel costs is mainly attributable to the decrease in the use of the early retirement program by civil servants at Deutsche Telekom compared with the previous year.

Net financial income rose by EUR 0.2 billion to EUR 5.3 billion. This was largely attributable to the increase of EUR 0.4 billion in income related to subsidiaries, associated and related companies.

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

millions of €

	2014	2013	Change	Change %	2012
<b>NET REVENUE</b>	<b>3,677</b>	<b>3,765</b>	<b>(88)</b>	<b>(2.3)%</b>	<b>3,817</b>
Other own capitalized costs	18	12	6	50.0 %	2
<b>TOTAL OPERATING PERFORMANCE</b>	<b>3,695</b>	<b>3,777</b>	<b>(82)</b>	<b>(2.2)%</b>	<b>3,819</b>
Other operating income	3,639	3,254	385	11.8 %	5,296
Goods and services purchased	(1,372)	(1,405)	33	2.3 %	(1,456)
Personnel costs	(2,836)	(3,062)	226	7.4 %	(3,327)
Depreciation, amortization and write-downs	(434)	(459)	25	5.4 %	(496)
Other operating expenses	(3,688)	(4,184)	496	11.9 %	(4,489)
<b>OPERATING RESULTS</b>	<b>(996)</b>	<b>(2,079)</b>	<b>1,083</b>	<b>52.1 %</b>	<b>(653)</b>
Financial income (expense), net	5,281	5,046	235	4.7 %	(3,710)
<b>RESULTS FROM ORDINARY BUSINESS ACTIVITIES</b>	<b>4,285</b>	<b>2,967</b>	<b>1,318</b>	<b>44.4 %</b>	<b>(4,363)</b>
Extraordinary income (expense)	(17)	(17)	0	-	(17)
Taxes	(263)	(113)	(150)	n.a.	(165)
<b>INCOME (LOSS) AFTER TAXES</b>	<b>4,005</b>	<b>2,837</b>	<b>1,168</b>	<b>41.2 %</b>	<b>(4,545)</b>

In the reporting year, income related to subsidiaries, associated and related companies was positively influenced in particular by the higher profit transfer from T-Mobile Global Zwischenholding GmbH, Bonn. This was mainly due to the write-ups in the financial year to T-Mobile Global Holding GmbH and the financial assets indirectly held there, EE Limited, Hatfield, and T-Mobile USA, Inc., Bellevue.

The decline of EUR 0.3 billion in profit transferred by Telekom Deutschland GmbH, Bonn, to EUR 4.4 billion, which was attributable to a write-up of intangible assets in the 2013 financial year, had an offsetting effect.

The increase in net interest expense by EUR 0.3 billion is due in particular to the fact that a higher number of interest rate derivatives had been canceled prematurely in 2013 than in 2014 with the associated positive effects in the prior year, and to the lower interest on the internal cash management clearing accounts in the reporting year.

Results from ordinary business activities were particularly impacted by the aforementioned effects and increased by a total of EUR 1.3 billion year-on-year in 2014.

Extraordinary expenses of EUR 17 million and a tax expense of EUR 263 million combined with the aforementioned factors resulted in income after taxes of EUR 4,005 million in the 2014 financial year. Taking into account EUR 662 million in unappropriated net income carried forward, unappropriated net income totaled EUR 4,667 million.

#### FINANCIAL POSITION OF DEUTSCHE TELEKOM AG

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

The balance sheet total decreased slightly by EUR 0.3 billion year-on-year to EUR 104.4 billion.

The development of total assets was mainly influenced by the increase of EUR 1.8 billion in receivables, more than offset by the decrease of EUR 0.8 billion in noncurrent assets, of EUR 0.7 billion in cash and cash equivalents, and of EUR 0.5 billion in other assets.

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

	Dec. 31, 2014	Dec. 31, 2014 %	Dec. 31, 2013	Change	Dec. 31, 2012
<b>ASSETS</b>					
Intangible assets	310	0.3 %	285	25	197
Property, plant and equipment	3,594	3.4 %	3,921	(327)	4,266
Financial assets	85,705	82.1 %	86,215	(510)	81,632
<b>NONCURRENT ASSETS</b>	<b>89,609</b>	<b>85.8 %</b>	<b>90,421</b>	<b>(812)</b>	<b>86,095</b>
Inventories, materials and supplies	5	0.0 %	3	2	2
Receivables	12,655	12.1 %	10,888	1,767	8,302
Other assets	1,135	1.1 %	1,654	(519)	942
Cash and cash equivalents	387	0.4 %	1,122	(735)	997
<b>CURRENT ASSETS</b>	<b>14,182</b>	<b>13.6 %</b>	<b>13,667</b>	<b>515</b>	<b>10,243</b>
Prepaid expenses and deferred charges	581	0.6 %	603	(22)	470
Difference between plan assets and partial retirement liabilities	6	0.0 %	7	(1)	9
<b>TOTAL ASSETS</b>	<b>104,378</b>	<b>100.0 %</b>	<b>104,698</b>	<b>(320)</b>	<b>96,817</b>
<b>SHAREHOLDERS' EQUITY AND LIABILITIES</b>					
Capital stock and reserves	49,497	47.4 %	48,491	1,006	47,357
Unappropriated net income	4,667	4.5 %	2,877	1,790	3,050
<b>SHAREHOLDERS' EQUITY</b>	<b>54,164</b>	<b>51.9 %</b>	<b>51,368</b>	<b>2,796</b>	<b>50,407</b>
Pensions and similar obligations	1,682	1.6 %	1,879	(197)	1,986
Tax accruals	194	0.2 %	257	(63)	352
Other accruals	3,110	3.0 %	2,894	216	3,127
<b>ACCRUALS</b>	<b>4,986</b>	<b>4.8 %</b>	<b>5,030</b>	<b>(44)</b>	<b>5,465</b>
Debt	5,977	5.7 %	5,307	670	5,540
Other liabilities	39,037	37.4 %	42,764	(3,727)	35,157
<b>LIABILITIES</b>	<b>45,014</b>	<b>43.1 %</b>	<b>48,071</b>	<b>(3,057)</b>	<b>40,697</b>
Deferred income	214	0.2 %	229	(15)	248
<b>TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES</b>	<b>104,378</b>	<b>100.0 %</b>	<b>104,698</b>	<b>(320)</b>	<b>96,817</b>

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The increase of EUR 1.7 billion in receivables from subsidiaries results from higher receivables from cash management, mostly from Telekom Deutschland GmbH, Bonn.

The year-on-year decrease of EUR 0.5 billion in financial assets was attributable in particular to repayment of loans by Telekom Deutschland GmbH, Bonn, in the amount of EUR 1.7 billion. New loans included, among others, those issued to T-Mobile Netherlands, The Hague, in the amount of EUR 0.9 billion and to Magyar Telekom Telecommunications Public Limited Company, Budapest, in the amount of EUR 0.3 billion.

The decrease in property, plant and equipment was primarily due to the depreciation of real estate in the amount of EUR 0.3 billion.

The EUR 0.5 billion decline in other assets was attributable in particular to lower receivables from collateral of EUR 0.4 billion.

The development of total liabilities was mainly comprised of the increase of EUR 2.8 billion in shareholders' equity and of EUR 0.7 billion in financial liabilities reduced by the decrease of EUR 3.7 billion in other liabilities.

The increase in shareholders' equity was due in particular to income after taxes for the financial year of EUR 4.0 billion and its effect on unappropriated net income as well as to the deposits of EUR 1.0 billion reported in capital stock and reserves by shareholders who chose in the 2014 financial year to exchange their dividend entitlement for shares as part of the fulfillment of dividend entitlements. The EUR 2.2 billion dividend payment for the previous year had an offsetting effect.

The increase in financial liabilities was mainly due to the issue of new commercial paper in the amount of EUR 1.6 billion. The repayment of liabilities to banks of EUR 0.8 billion in particular had an offsetting effect.

Other liabilities decreased mainly on account of net loan repayments to subsidiaries of EUR 2.9 billion. These related in particular to repayments of loans from Deutsche Telekom International Finance B.V., Amsterdam, in the amount of EUR 3.0 billion.

The reduction in liabilities from cash management in the amount of EUR 0.8 billion also had an effect.

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**Statement of cash flows**

millions of €

	2014	2013	Change
<b>INCOME AFTER TAXES</b>	<b>4,005</b>	<b>2,837</b>	<b>1,168</b>
Net cash provided by (used for) operating activities	129	(980)	1,109
Net cash provided by investing activities	2,232	2,848	(616)
Net cash used for financing activities	(3,096)	(1,743)	(1,353)
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>	<b>(735)</b>	<b>125</b>	<b>(860)</b>
Cash and cash equivalents, at the beginning of the year	1,122	997	125
<b>CASH AND CASH EQUIVALENTS, AT THE END OF THE YEAR</b>	<b>387</b>	<b>1,122</b>	<b>(735)</b>

Net cash provided by/used for operating activities increased year-on-year by EUR 1.1 billion to EUR 0.1 billion. After elimination of the divestment share in the Scout24 group in the amount of EUR 1.0 billion in income after taxes for the reporting year, this trend results in particular from the net increase of EUR 2.9 billion in receivables from cash management, which was largely attributable to higher profit transfers by subsidiaries as well as the issue of short-term loans in connection with cash management at the Group. The change in net cash provided by/used for operating activities is mostly due to the year-on-year improvement in working capital, primarily as a result of the reduction in liabilities from cash management compared with the previous year.

Net cash provided by investing activities in the reporting year was mainly influenced by repayments in connection with medium- and long-term investments at subsidiaries in the amount of EUR 2.0 billion, the sale of 70 percent of the shares in the Scout24 group for EUR 1.6 billion, and deposits of EUR 0.4 billion for cash collateral furnished to hedge derivatives. Medium- and long-term investments of EUR 1.8 billion at subsidiaries had an offsetting effect. In the previous year, net cash provided by investing activities had been impacted in particular by the sale of some of the bonds issued by T-Mobile USA in connection with the refinancing (EUR 4.3 billion).

The year-on-year increase of EUR 1.4 billion in net cash used for financing activities is primarily attributable to the EUR 3.1 billion lower net issuance of medium- and long-term financial liabilities to Deutsche Telekom International Finance B.V., Amsterdam. The EUR 1.1 billion decrease in the net repayment of current liabilities and a EUR 0.7 billion lower cash payment for the dividend in 2014 had an offsetting effect. Net cash used for financing activities in the reporting year mainly relates to the net repayment of current liabilities of EUR 2.0 billion as well as the payment of the cash dividend of EUR 1.2 billion for the 2013 financial year.

Combined, this resulted in a decrease in cash and cash equivalents of approximately EUR 0.7 billion in the reporting year.

**RISK MANAGEMENT IN HEDGE ACCOUNTING**

We use derivatives to hedge interest rate and currency exposures; i.e., exclusively for hedging purposes, not for speculative gains. In the process, we continuously monitor the effectiveness of the hedge.


**CORPORATE RESPONSIBILITY**

- Tap potential
- Hold dialogs
- Measure progress

We are one of the world's leading providers of telecommunications and information technology. The ICT sector has a vital role to play in sustainable development through all phases of the value chain. We want to live up to this corporate responsibility. In our CR strategy, which is derived from our Group strategy, we have created a binding orientation framework for doing so. We accept social, ecological and economic responsibility and thereby reduce our business and reputation risks, lower our cost of capital and strengthen the trust of our investors and customers.

 Sustainability at Deutsche Telekom

 You can find out how we approach the other issues from this list elsewhere in this report or in Deutsche Telekom's CR Report.

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

**TOP ISSUES FOR SUSTAINABILITY MANAGEMENT**

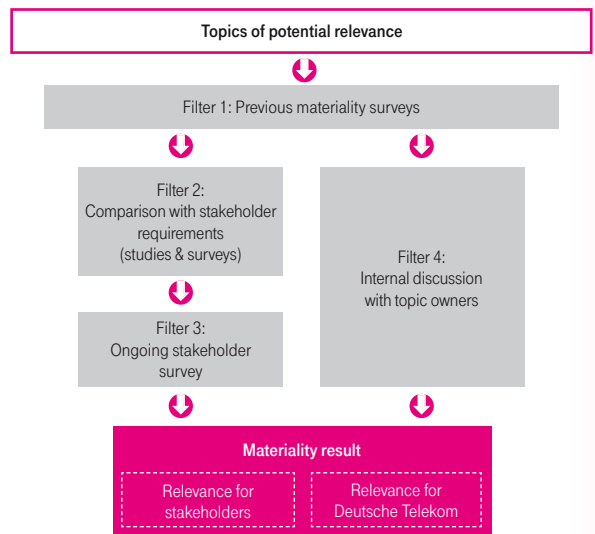
We make a point of involving important stakeholder groups in our processes. As the basis for our sustainability management strategy, we therefore systematically collect the topics that are of material interest to our stakeholders and to us. Results from additional sources, such as internal workshops, studies and surveys, are all incorporated in this analysis. The following areas have been defined as being of great relevance:

- Group-wide climate protection
- Customer enablement
- Sustainability in the supply chain
- Digital inclusion
- Compliance with human rights
- Data privacy and data security
- Responsible network expansion
- Customer satisfaction
- Diversity, health and other HR issues
- Waste and recycling

The first six topics will be dealt with in this section.

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**Process for the selection of material topics**



**MEASURABLE PROGRESS IN SUSTAINABLE DEVELOPMENT**

We have used key performance indicators to measure the success of our sustainability commitment since the year 2010. To clarify their relevance for analysts and investors, we have renamed our CR KPIs and now refer to them as ESG KPIs (environment, social and governance (ESG); key performance indicator (KPI)). Our performance indicators help our external stakeholder groups rate our CR commitment and make it easier for us to subject our performance to systematic, transparent and continual improvement. The most important KPIs have been a component of our Annual Report since 2011.



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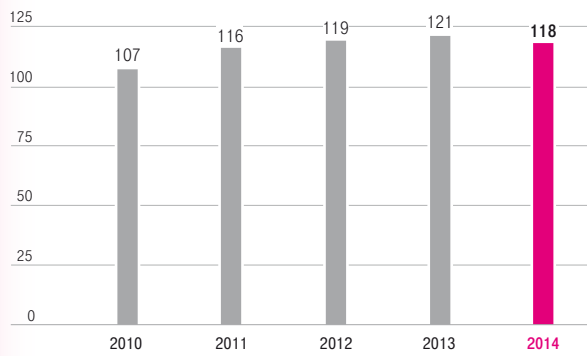
We want to make sure that our ESG KPIs go on contributing to successful corporate governance and hence fulfill the expectations of our stakeholder groups. We therefore subjected them to a detailed review in the reporting year and updated them where necessary. For example, we extended the scope for the Energy Consumption and CO<sub>2</sub> Emissions ESG KPIs to all Group units which are collaborating to achieve our climate protection targets. These generate around 99 percent of total Group revenues, compared with 96 percent in the previous year. The extended scope affects the current volume of CO<sub>2</sub> emissions as well as the figure recorded in 2008, on which our climate protection target is based.

We follow with great interest the discussions on national and international KPI standards, in particular the SD KPIs (Sustainable Development key performance indicators), which Germany's Federal Ministry for the Environment developed in conjunction with auditors, investors and analysts. However, our own ESG KPIs make it possible for us to tailor KPI management to our corporate group. For this reason, we will continue to use them and further develop them on an ongoing basis.

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

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



Revenue billions of €	58.4	55.4	55.7	57.8	61.9
Energy consumption (thousand MWh)	6,262.6	6,409.4	6,624.7	6,992.9	7,333.0

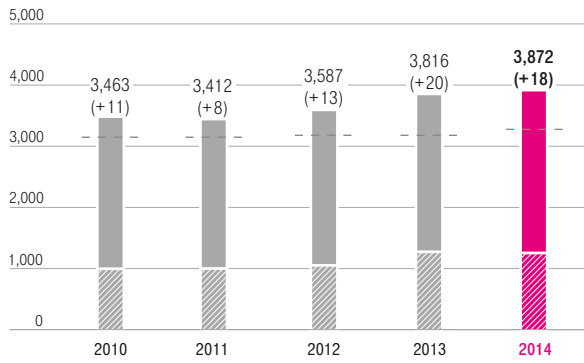
■ Energy Consumption ESG KPI: Ratio of energy consumption to relevant revenue, calculated as Monetary Power Efficiency Indicator.

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

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**CO<sub>2</sub> Emissions ESG KPI<sup>a</sup>**

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



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

▨ T-Mobile US share

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

<sup>a</sup> Changes applied retrospectively since 2010 to account for the extension of the KPI scope to include all Group units contributing to the climate protection target. Furthermore, minor adjustments for 2013 to include natural gas and fuel consumption in three national companies.

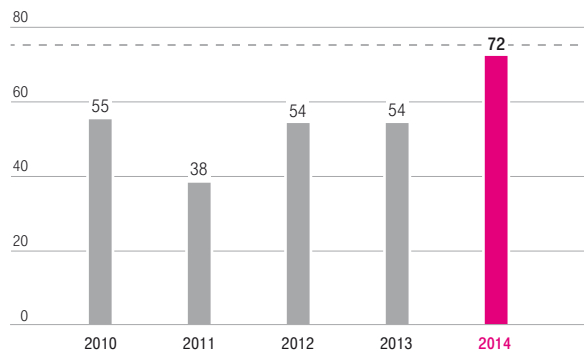


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**Sustainable Procurement ESG KPI**

%



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

--- Target value

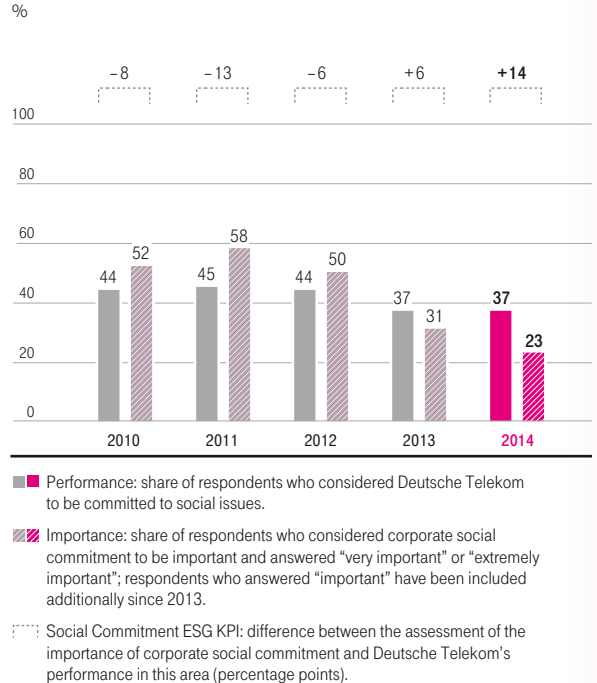
In our 2013 Annual Report, we forecast trends for three of our ESG KPIs – Energy Consumption, CO<sub>2</sub> Emissions and Sustainable Procurement. In the case of all three ESG KPIs, actual developments in the 2014 financial year exceeded our forecast. Both the Energy Consumption and CO<sub>2</sub> Emissions ESG KPIs improved slightly in place of a stable trend. This is accounted for by the fact that revenue grew more strongly and energy consumption less strongly than anticipated. The ratio between actual emissions and our climate target base year 2008 also improved as a result of extending the scope for the CO<sub>2</sub> Emissions ESG KPI. The Sustainable Procurement ESG KPI increased more than planned as a result of further suppliers being audited for compliance with our social and environmental standards. In future, we expect these ESG KPIs to develop as follows:

- Over the next two years we expect our Energy Consumption ESG KPI to fall or fall slightly, i.e., a positive development. Network migration to IP technology and consolidation of the T-Systems data centers will be the main factors helping us to achieve major energy savings. These savings will be partly counterbalanced by the expansion of T-Mobile US and the accompanying rise in energy consumption.
- Since our CO<sub>2</sub> emissions are largely driven by our power consumption, the resulting positive trend is similar to the development described for the Energy Consumption ESG KPI. We will also strive to achieve a slight reduction in our CO<sub>2</sub> Emissions ESG KPI in the years 2015 and 2016. Our expectation for the Group units participating in the climate protection target is that, in 2020, CO<sub>2</sub> emissions will lie 20 percent below the rate of the base year 2008 (excluding T-Mobile US). The CO<sub>2</sub> Emissions ESG KPI figure will, however, also include emission figures for T-Mobile US. Since strong business growth will continue to drive power demand in the foreseeable future, the KPI will only improve slightly in the period up to the year 2016.
- In 2015 we expect to reach the forecast target of 75 percent for the Sustainable Procurement ESG KPI. In subsequent years we assume that the ESG KPI will continue to rise slightly and reach the final target of 80 percent in the year 2020, since audits focus on strategic suppliers and those with an increased CR risk.

Our Social Commitment ESG KPI shows that in 2014 our performance was again rated significantly higher than the level of importance attached by the public to the subject.

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### Social Commitment ESG KPI



Source: TNS Infratest. Until 2012: excluding telephone surveys carried out among the residential population of Germany (CR market research). From 2013: similar questions incorporated into the Group CRQI survey (Corporate Reputation Quality Indicator).

### BROAD DISCLOSURE OF CO<sub>2</sub> EMISSIONS

We are paving the way to a climate-friendly society by supporting our customers in their efforts to produce lower emissions through the use of innovative technologies. Alongside Scope 1 and Scope 2 emissions, we also gave a full report of the Scope 3 emissions resulting from our Company's business activities in Germany for the first time in the CDP (Carbon Disclosure Project) in June 2014. These emissions occur primarily during use of our products and services as well as in our supply chain. In the coming years we plan to report on Scope 3 emissions for the entire Group.

For 2014 we determined the Scope 3 emissions for a total of almost 4 million metric tons of CO<sub>2</sub> equivalents, a figure that is around 6 percent higher than in 2013. The main reasons for this rise are the growing number of Entertain customers, an increase in devices leased to customers and a higher procurement volume for the new technology needed in network build-out in Germany. At the same time, however, the new technology is far more efficient, so that its use will help reduce the CO<sub>2</sub> emissions generated by our electricity consumption in the mid-term. We have been able to report a significant reduction in our emissions in the transport logistics sector since the year 2012. Emissions generated during journeys to the workplace and business travel also decreased slightly.

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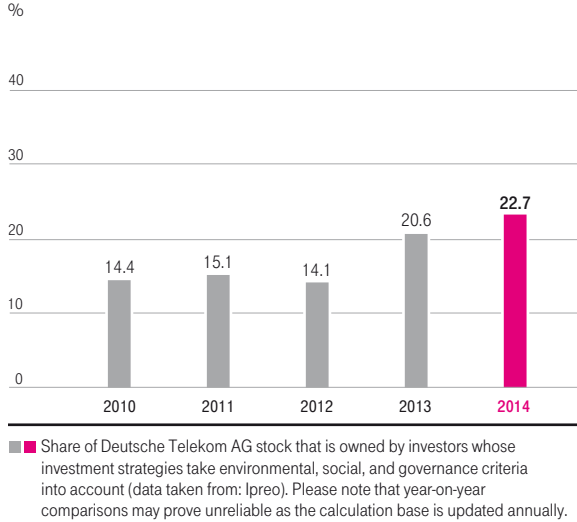
In order to enable us to report more efficiently on the Scope 3 emissions within our supply chain, we invited around 100 suppliers to participate in our CDP Supply Chain Program. 75 percent of the suppliers we approached responded, an excellent rate for our first survey in this field. The program gives businesses and their suppliers a standardized platform for recording and managing emissions.

**INVESTORS OPT FOR RESPONSIBILITY**

Our Socially Responsible Investment ESG KPI gages perception of our CR activities by the finance markets. It reflects the proportion of T-Shares held by investors whose investment strategies take into account not only the economic but also – at least to some degree – the ecological and social aspects of corporate governance. To provide relevant investors with details of our CR commitment, we held a webinar in October 2014, which was attended by several major financial institutions. In addition, we again held annual presentations and individual talks as part of our Socially Responsible Investment (SRI) roadshows and responded to numerous direct requests for information on our sustainability performance from rating agencies, analysts and investors. At the end of 2014, around 21 percent of T-Shares were owned by investors who considered SRI criteria in their investment decisions at least to some extent. 2 percent of T-Shares are held by investors who give priority to SRI aspects when managing their funds. Increasingly, our efforts toward more sustainability and social commitment therefore pay off in terms of reputation.

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**Socially Responsible Investment (SRI) ESG KPI**



More and more investors also take CR ratings into account when deciding to invest. These ratings assess the sustainability performance of business enterprises. In line with our CR rating strategy, we confine ourselves to CR rating requests that serve as a basis for the sustainability indexes shown below (see TABLE 039). We based this choice of indexes on a set of criteria that we have been using for some time and which we updated in 2014. In doing so, we gave priority to aspects such as reputation, relevance for investors, rating independence, and the effort and the actual findings that participation in a rating involved for us.

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

Rating agency	Indexes/ratings/ranking	Successfully listed in index				
		2014	2013	2012	2011	2010
RobecoSAM	DJSI World	✗	✗	✓	✓	✓
	DJSI Europe	✗	✗	✓	✓	✓
CDP	Carbon Disclosure Leadership <sup>a</sup>	✓	✓	✗	✗	✗
	Carbon Performance Leadership	✗	✗	✗	✗	✓
oekom research AG	"Prime" (sector leader <sup>b</sup> )	✓	✓	✓	✓	✓
Sustainalytics	STOXX Global ESG Leaders	✓	✓	✓	✓	n. a.
	iSTOXX 50 SD KPI	✓	✓	n. a.	n. a.	n. a.
	UN Global Compact	✓	✓	n. a.	n. a.	n. a.
FTSE Financial Times Stock Exchange	FTSE4Good	✓	✓	✓	✓	✓
Sarasin	Global Sarasin <sup>c</sup>	✓	✓	✓	✓	✓
MSCI	MSCI Global Climate	✗	✗	✗	✓	✓

✓ Successfully listed    ✗ Not listed

<sup>a</sup> DACH (Germany, Austria, Switzerland) is sector leader.  
<sup>b</sup> Based on "oekom Industry Report" (2014). Deutsche Telekom was in third place in the previous report (2008).  
<sup>c</sup> Last Deutsche Telekom rating carried out in 2012.

As in previous years, our share is listed on most of our preferred sustainability indexes. Rating agency "oekom" singled us out as the world's best telecommunications company in terms of ecological and social performance. For the fourth year in succession, we were again included on the STOXX Global ESG Leaders Index, for the second year running on the UN Global Compact 100 Index, which was first published in 2013. The FTSE4Good Index was another of those that listed our share in the reporting year. We also achieved a listing for the second year running on the Climate Disclosure Leadership Index, which evaluates the transparency of emissions reporting by business enterprises. In this case, we improved from 90 to 98 points, making us the best telecommunications company on the CDP DACH Index. In the SAM rating for the Dow Jones Sustainability Indexes (DJSI), we gained top points in our industry for climate change, supply chain, compliance and privacy. Although we are still one of the ten best companies listed, our total of points was not sufficient for inclusion in the relevant DJSI World and Europe indexes, due to their enhanced requirements.

#### SUSTAINABILITY FOR OUR CUSTOMERS

For us, sustainable products and services are the ICT business of the future. We offer our customers green solutions that help them make their professional and private lives simpler and more sustainable. In 2014 we again used many innovations for sustainable ICT solutions from a wide range of fields:

- **Smart home.** The QIVICON smart home platform helps our customers make easy and safe savings on resources. QIVICON is an alliance of leading industrial enterprises in Germany initiated by us and won the European Visionary Innovation Leadership Award in 2014 for outstanding innovation in its open platform strategy. More than 30 partners have now connected to the platform and some of them, such as Deutsche Telekom, EnBW, Vattenfall and Rheinenergie, already offer their products and services for end customers via the QIVICON platform. Customers can compile their own individual solutions from the areas of energy, security and convenience. The user-friendly handling was acknowledged with a "good" rating in the readers' test published in CHIP computer magazine. We attach great importance not only to convenience but also to the areas of security and protection of our customers' data. According to AV-Test GmbH's IT security test, the QIVICON platform is reliably protected from unauthorized access. We have plans to offer the services of our open, multi-vendor platform at international level in future. We joined the Eclipse Foundation, one of the largest independent developer communities, in 2014. In taking this step, we are opening up our platform to developers and start-ups to enable users to benefit from even greater product diversity in future.
- **Sustainable wine-growing in F.Y.R.O. Macedonia.** Agriculture is responsible for 21 percent of global greenhouse gas emissions. The annual savings potential here lies at 1.6 billion metric tons of CO<sub>2</sub>. With its Smart Wine project, our national company in F.Y.R.O. Macedonia took a vital step toward sustainable viticulture in 2014. The technical basis for the project is a sensor-supported system

that monitors grape development and controls all of the production processes. It helps vintners lower their consumption of energy, water and chemicals. Besides this, the system provides information on plant disease, weather problems and optimal harvesting dates.

- **Efficient vehicle fleet solution.** In collaboration with DB Schenker logistics, we implemented a solution for efficient fleet management in the reporting year. It won us second place in the Big Data Project category for the Big Data Awards published in Computerwoche magazine in September 2014. The system uses mobile communications and GPS to track all vehicle movements and analyzes their fuel and resources consumption. It provides drivers with real-time information on how to improve their driving styles. The application also calculates CO<sub>2</sub> emissions for each delivery, thereby supporting customers' green management processes.
- **Sustainable cell phones.** In 2014 we collaborated with the Fraunhofer Institute for Reliability and Microintegration to conduct a study on harmful substances in cell phones. Certain substances were identified which are ecologically harmful but not currently prohibited. We defined our own list of prohibited materials over and above those covered by legal standards in order to send out a clear signal for a reduction in the industrial usage of substances that are problematic for the environment. Manufacturers are urged to implement this list of prohibited materials in the course of the coming year.

In order to systematically exploit the business potential offered by sustainable products, we identified 64 potentially sustainable products and solutions in our portfolio during a pilot project conducted in 2014. We then chose Dynamic Workplace, Connected Car and Smart Metering as pilot products, with the objective of analyzing them to establish their contribution to sustainability and deriving their business potential from this. In doing so, we identified benefits in all three pillars of sustainability: environmental, social and economic. We calculated, for example, that the Dynamic Workplace – a cloud-based service in the B2B segment – enables a potential customer with a 35,000-strong workforce to save over 16,000 metric tons of CO<sub>2</sub>, relieve its staff of around 2 million hours of commuting for a more productive or pleasant occupation, and save over EUR 15 million. We will be highlighting these benefits in our product marketing, which will enable us to improve our competitive standing. The next step will be to review other products on the same basis.

#### SUSTAINABLE VALUE CHAIN FOR A COMPETITIVE EDGE

As an international player, our Group assigns high priority to human rights compliance, especially since the ICT sector is frequently criticized for deficiencies in its supply chain. We have therefore established broad social standards to guarantee that human rights are observed within the Group, for instance with regard to diversity and equal opportunities. We are committed to their implementation and also include our suppliers in this responsibility.



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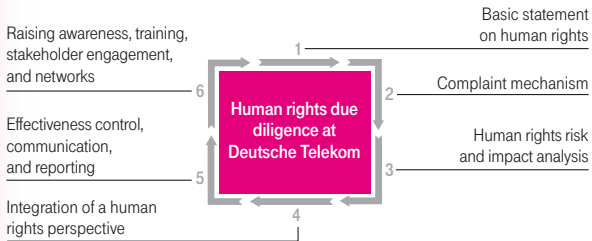
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**HUMAN RIGHTS COMPLIANCE THROUGHOUT THE DEUTSCHE TELEKOM GROUP**

We have developed a comprehensive program in order to implement the UN’s guiding principles on business and human rights in our Company. These principles require businesses to systematically identify the impact their operations have on human rights, and to prevent, neutralize or compensate these where necessary. As GRAPHIC 47 shows, to do this we introduced several interconnecting tools, which are enhanced on an ongoing basis. In 2014, the focus lay on raising awareness and training, both within our Group and among our suppliers. For example, we added a Human Rights module to the e-learning tool for our suppliers in Germany. At internal level, we held discussions with managers in various areas of the Group, for example with the Data Privacy department, to raise awareness and analyze existing risks. This heightened awareness for the problems involved in key units and helped publicize the existence of a central point of contact for human rights at Deutsche Telekom. We also identified current processes and structures that have a positive impact on corporate responsibility and those which still need improvement.

G 47

**Overview of the implementation of human rights due diligence**



**OUR ACTIONS ARE BASED ON THE SOCIAL CHARTER**

In order to comply with the UN’s guiding principles on business and human rights, we revised our Social Charter – our commitment to observing human rights – in 2013 and implemented it throughout the Group in 2014. One essential aspect was setting up a central point of contact for human rights issues in our Company. Our website lists all contact points which accept inquiries relating to human rights or tip-offs for cases of human rights infringements. Since mid-2014 we have issued regular figures and information on the status quo of these requests.

Our Social Performance Report verifies our compliance with the Social Charter. All the 111 fully consolidated companies in our Group which employ staff are obliged to submit binding declarations to this effect. We published our latest Social Performance Report on our website in November 2014. No violations of human rights were reported by management in our Group companies between October 2013 and September 2014. In the reporting year, we performed our first independent Human Rights Impact Assessment. This focuses solely on the impact that our business activities in a specific country have on human rights inside and outside our Group. We expect to have results in the first quarter of 2015.

Human rights also play a key role in the dialog with our stakeholders. On the sixth Sustainable Procurement Stakeholder Dialog Day held in Bonn on March 26, 2014, one of three workgroups addressed this issue. It was ultimately agreed that this requires transparency and awareness-raising as well as collaboration among all relevant stakeholders and rightsholders who could potentially be involved.

**PARTNERSHIP IN SUPPLY CHAIN MANAGEMENT**

Our Code of Conduct and our Social Charter also apply explicitly to our suppliers. We commit suppliers to observance of our sustainability requirements in a CR clause which we include in all agreements with them. We also require them to provide self-assessments and conduct audits of their business practices. In our efforts to ensure sustainable conduct on the part of our suppliers, we rely on trust and dialog as well as on controls and training/development offers. We take sustainability criteria into account in all our procurement decisions. Moreover, we support outstanding ecological and social commitment with commendations such as the DELFIN Award from our Hungarian subsidiary Magyar Telekom. Our own supply chain management process has also received commendation at international level. We achieved top position in the latest Sustainable Supply Chain Review study published by Italy’s non-governmental organization (NGO) Acquisti & Sostenibilit .

**RAISING VALUE THROUGH SUPPLIER DEVELOPMENT**

We launched a collaboration with three leading suppliers from the devices and networks segments in June 2014. The object of joining forces is to find solutions for topics including working hours regulations and occupational health and safety, and in doing so to gain competitive advantages. Better working conditions have a positive influence on employee loyalty and motivation, raise productivity and improve the quality of products; a win-win situation for our suppliers as well as for our Company. The first measurable successes were reported only a few months after the project was launched. Overtime, for example, was reduced by 30 percent, while salaries increased 15 percent and employee satisfaction improved by 6 percent. Plans envisage including more suppliers in the project in the course of 2015.

**COMPETITIVE BENEFITS THROUGH SUSTAINABILITY**

Sustainability pays off. This was the message communicated by our CR Stakeholder Dialog Day held in Shenzhen, China, on November 26, 2014. 120 participants including direct and sub-suppliers, independent auditors, members of the Chinese Government, NGOs and sustainability experts discussed the positive economic impact of sustainability on business enterprises under the motto “Competitive benefits through sustainability.” The event revealed the importance of long-term partnerships and strategies in obtaining better prices for sustainable products and ultimately competitive advantages. The success of the conference is in part attributable to the excellent collaboration between Group Procurement and the CR area.

## DATA PRIVACY AND DATA SECURITY

Great hopes are attached to the digitization of business and society. ICT is expected to provide help and support in many areas, including climate protection, inclusion, science, transparency, healthcare and care of the elderly. Acceptance of ICT depends on whether people can rely on their personal data being protected from unauthorized access and that it will not be used without their consent. Data privacy and data security are two of our top priorities. We set up a separate Board department as long ago as 2008 and defined compulsory privacy standards for the Group in our Binding Corporate Rules on Privacy (previously Privacy Code of Conduct). In addition to this, we are committed to promoting research and education in the field of cyber security and data privacy. One step we took was to establish a professorship at the HTL University of Applied Sciences in Leipzig. We also need a good network of task forces in the Company so that information on new hazards can be communicated without delay. We have therefore greatly extended the Cyber Defense Center team and promote the training of specialists. To this end, we collaborated with the Chamber of Industry and Commerce (IHK) in Cologne to launch the Cyber Security Professional training program. 

## MEDIA SKILLS SUPPORT EQUAL OPPORTUNITIES

Our aim for our core business – building, operating and marketing communication networks and lines – is to connect people and make it easier for them to access the information and knowledge society. We work actively to ensure that everyone, regardless of age, background or education, can participate in the modern information society. Being confident at using digital media is a key skill for this. We consider that we have a key responsibility as an ICT provider, and therefore include the promotion of media skills, secure handling of modern communications technology and data security among our main focuses. With our diverse educational involvement, our goal is to improve people's skills, promote equal opportunities and spark interest in technology and natural sciences.

- In our strategic commitment to equal opportunities, we teach young people key skills to help them act autonomously and self-confidently as part of the “Yes, I can” initiative. This initiative, which celebrated its 5th anniversary in 2014, has supported over 700 projects since its launch with funding totaling more than EUR 4 million. In Germany it has reached over 60,000 children and young people from difficult social backgrounds.
- We also have a number of offers to help them acquire media skills. One example is our **Teachtoday** initiative. The online portal helps teachers and parents to exploit the potential of digitization and to tackle the associated challenges skillfully. Under the heading of “Reinventing learning,” the portal presents practical ideas as well as material for teaching and learning with digital media. Since its relaunch in 2014, Teachtoday offers new formats and services, with the addition of a competition on how to use media safely enhancing the online portal's offers. Here, schools and youth work facilities have been able to submit their projects focusing on secure media usage. Five of these projects have won awards.

- Security was also the central theme at the third **Cyber Security Summit**, which we staged in collaboration with the Munich Security Conference. The Cyber Security Summit for Kids was also held here for the first time and focused exclusively on the protection of young people in the media. In Austria, T-Mobile Austria continued its Connected Kids project, with school classes being given tablets and Internet access. Under the watchful eye of specially trained instructors, students learned awareness and responsibility in handling digital media.
- Since the year 2010, we have supported the “**Lebenshilfe für Menschen mit geistiger Behinderung e. V.**” association, which acts as a sponsor for people with intellectual disabilities. Staff in our Company participate in the development of communication offers in “plain language.” Plain language is a mode of expression that is designed to be extremely easy to understand. In this way we want to make it easier for people with mental health disorders to use the media. Training courses are held on a regular basis.
- The international Global System for Mobile Communications Association (GSMA) and Deutsche Telekom joined forces with the child protection organization **Child Helpline International (CHI)** in 2014. Our objective is to help improve the protection of young people on the Internet and to ensure they can exercise their right to speak. In a joint agreement, GSMA and CHI laid the foundation stone for the funding of children's advice hotlines all over the world.
- The **Telekom Foundation** made a substantial contribution to improving Germany's educational system. It focuses on promoting better education in the STEM subjects (science, technology, engineering and mathematics), supporting projects throughout the education chain, from child daycare centers to universities. One example of the Telekom Foundation's social commitment is the **MathZe – Mathematics Center**. Its objective is to inspire primary school students and their teachers for mathematical questions and show them that mathematics is very useful and omnipresent in their day-to-day lives.



For more information on data privacy and security, please refer to the section “Risk and opportunity management.”

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## INNOVATION AND PRODUCT DEVELOPMENT

- Develop innovative products that inspire
- Win with partners

### ARCHITECT OF THE DIGITAL AGE

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

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

Activities in **Germany** will center around building out the LTE network in mobile communications and on fiber-optic and vectoring technology in the fixed network. In addition, we will develop hybrid products that combine the strengths of fixed-network and mobile communications, in other words, capacity and speed. In Germany we have already brought our Speedport Hybrid router to market, thereby once again demonstrating our innovation capacity. IP transformation is the prerequisite for our integrated network strategy and thus represents the basis for all our future products and services.

### INNOVATION CULTURE AND INNOVATION PROCESS

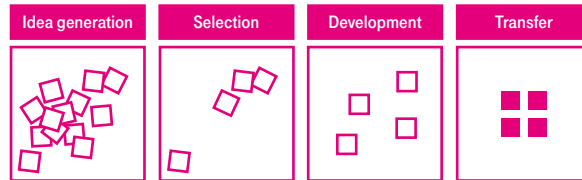
Innovation cannot be prescribed. Innovation is a culture that has to be nurtured and brought to life from the inside. Large enterprises like our corporate group, especially, need a vibrant **corporate culture** that fosters innovation. Key elements of this culture include fast decisions and implementation on the basis of lean internal processes, freeing up creative potential, promoting and challenging new ideas, and entrepreneurial initiative.

Innovation is born not only in Deutsche Telekom's special innovation units but must also be driven by the entire workforce, including those units dedicated to the Company's traditional core business and to direct marketing in our national markets. Interaction between innovation and our core business is the only way that can succeed in generating innovation for customers in our different markets.

Clear process structures give ideas the scope they need to grow and transform into innovative products and services. As **GRAPHIC 48** shows, **innovation processes** in our Company pass through four phases.


G 48

#### Deutsche Telekom's innovation process



- First, there is an idea, which may be the result of market research or customer feedback, or may be sourced internally from our experts in central product and innovation units, our Technology Radar or Ideas Management. In addition to this, we have established a global scouting network and are currently looking at collaboration options with trend scouts in Germany, the United States, Israel and Asia.
- During the selection phase, we evaluate each idea: How easy is it to implement? How great is its potential? How high is customer interest rated?
- In the development phase, we integrate customer desires and requirements for design and handling into the product or service concept.
- Finally, the product or service is transferred to the market.

In each of the four phases, we naturally verify the extent to which the resources we use are in proportion to the anticipated result. This may lead to development of a product being abandoned in one of the phases of the innovation process. This is a vital option, since not every good idea has the potential to become a good product or a good service. Every innovation must offer our customers added value. If customers do not accept an innovation or the timing for the innovation is not right, even the best ideas are worthless.

Sustainability criteria are factored in throughout all stages of the innovation process. Our binding design guidelines are applied when new products are developed. They include sustainability aspects as well as design principles. The first design guideline was taken from the CR strategy and states "Act responsibly – think globally." 

We have set up an innovation governance concept to manage innovation processes in the Group and to further promote our innovation culture. It includes the Portfolio & Innovation Board, which makes sure we get our priorities right. The board identifies and selects innovation



More information on the subject of innovation can be found in our online report at: [www.telekom.com/innovation](http://www.telekom.com/innovation)



Sustainability at Deutsche Telekom

focuses for the Group and resolves the individual strategies for their implementation. This means, for example, defining a portfolio which offers the greatest opportunities and making sure these are actually exploited. Our current focus is on the following areas:

- Products and services, e.g., Joyn
- Platform business, e.g., M2M
- Partnerships, e.g., with Spotify and Netflix
- Processes, e.g., additional direct marketing options in customer service, possibly via apps or video agents like our new “Telekom hilft” video app
- Networks, e.g., our commitment to standardization for the next generation of mobile communications, 5G
- Devices, e.g., our exclusive sales partnership with Amazon for the Fire Phone

**THREE-PRONGED INNOVATION STRATEGY**

We are facing up to the challenges of the future. To develop even greater innovation capacity, our Group not only makes use of its own innovations, but it also successfully integrates innovations from outside the Group. We generate growth from innovation in three different ways: from in-house developments, from partnerships, and from equity investments. As GRAPHIC 49 shows, we see innovation as a three-pronged strategy. The uncompromising central focus is always on the benefit for our customers.

**T-LABS: OUR OWN POWERHOUSE OF IDEAS**

With our central research and innovation unit, Telekom Innovation Laboratories (T-Labs), we operate our own research and development facilities at various locations, including Berlin, Darmstadt and Bonn in Germany, Beer Sheva and Tel Aviv in Israel, and Mountain View in the United States. There, around 500 experts and scientists from various disciplines develop and test new technologies, cooperating closely with international universities and research institutes. Their mission is to collaborate with our operating segments to deliver new ideas and to support the development and rollout of innovative products, services and infrastructures.

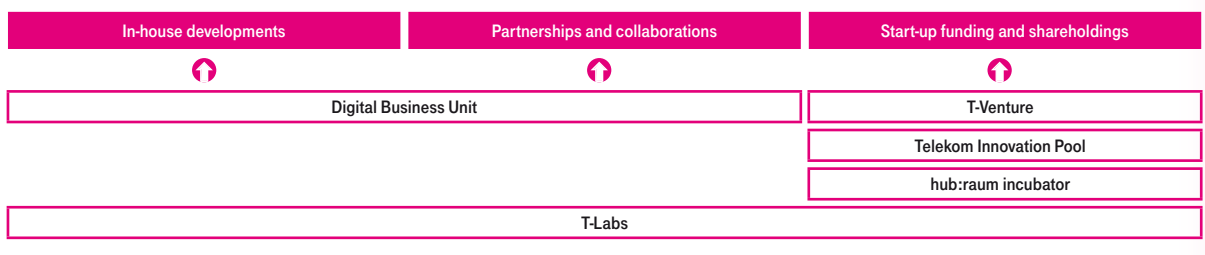
At its main Berlin site, T-Labs has been associated with Technische Universität Berlin since 2004 in one of the biggest and best-known public-private partnerships in Europe. In 2014 T-Labs focused on the following main topics:

- **Infrastructure and network technology:** Here we develop prototype solutions to bundle different types of connection technologies, such as the hybrid technology bundle comprising DSL and LTE, the DSL community bundle of neighboring DSL lines, and cost-effective methods and tools to improve capacities and quality using new 4G+ technologies. In addition to this, we are working on new technologies that will offer customers hundredfold bandwidth at the same cost, e.g., with 5G and optimized FTTx architecture.
- **Automation and virtualization:** Automation and seamless virtualization of IT and network resources have the potential to dramatically accelerate the launch of new services and increase the efficiency of existing resources. This makes new business models possible for broadband build-out. It is especially important that the resources of one network operator be seamlessly available for use by another network operator. In future, such solutions will extend beyond today’s bit stream access. Initiatives promoting more production flexibility are based on the virtualization/automation of installations in customer households as well as in small and medium-sized enterprises.
- **Standardization and licensing:** T-Labs drives standardization activities for broadband access and home networking technologies. Patents from T-Labs also help to protect innovation and reduce direct and indirect license fees at Deutsche Telekom. Prime examples are the development of next-generation prototypes for mobile communication networks, e.g., wireless technologies to succeed LTE/4G networks, as well as next-generation fixed-line networks, for example, fiber-optic technology.
- **Data analytics:** T-Labs is working on ways to suitably deploy and analyze big data. The objective is to obtain information on patterns of individual user groups and use these as the basis for bringing custom offers to market. Here again, we plan to develop new business models with companies from other sectors of industry. Collating and analyzing telecommunications and partner data enables us to generate new value added for industry and our end customers. In the area of data analytics, we also work on state-of-the-art M2M solutions, placing our current focus on predictive maintenance, mobile monitoring and communication. To perform initial analyses and speed up first findings in the field of unstructured big data, T-Labs has rolled out an Analytics Workbench and Toolbox. We

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**Growth through innovation**





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have also set up a competence team with the objective of creating Group-wide transparency, guaranteeing an exchange between relevant units and positioning the topic of big data in the Group. Supported by the Creation Center, the competence team performed a user-centric deep dive into the subject of big data, and developed guidelines for big data business in our Group.

- Industry 4.0:** We agreed a research cooperation with Siemens in October 2014 in order to drive industry digitization in Europe. The objective of the cooperation is to defend our lead in the computerization of the manufacturing industry, which is known as Industry 4.0. This cooperation will initially run for three years and is open to new partners. The first step will be to link three Siemens locations in a pilot project. One of the tasks will be to clarify how communication in real time without delays and the security of data can be guaranteed. Within the **Farming 4.0** project, T-Systems and T-Labs collaborated with CLAAS, an agricultural machinery maker, to demonstrate how ICT can significantly improve production and energy efficiency in farming and, at the same time, reduce employee workloads. One aim of the associated T-Labs DEXmp (Data Exchange Marketplace) project is to make a generic services platform available. It enables farmers and other agriculture players to collect status and movement data, to process and evaluate it, and thus to increase process transparency in real time. It also allows them to handle a broad range of analytic and planning tasks. Together with T-Systems, T-Labs has therefore developed and implemented various horizontal services with a generic role and rights management facility. These services can be used not only for agricultural applications but also in other Industry 4.0 projects such as in civil engineering.
- Software Defined Networking:** Software Defined Networking (SDN) is a key technology that relies on virtualization and automation to enhance the efficiency and flexibility of our network infrastructure. This means that customers can, for example, book and begin using services within seconds, enjoy mobile access to services in their home networks and forget about ever having to configure devices themselves. In the SWAN project, we are working on adapting SDN technologies for wide area networks (WANs), which will enable us to offer business enterprises VPN services and other added-value gateway services with greater efficiency and speed. In a close cooperation with T-Systems, T-Labs plans to achieve a major reduction in provisioning times for WAN services. This will also make new earnings models for on-demand usage possible. The VPN2Go product prototype has been transferred successfully to T-Systems and marketed by us. In addition, T-Labs is working on a draft version for the next generation of WAN platforms.

### Creating scope for ideas

Our Telekom Innovation Arena creates the ideal scenario for ideas for digital life in the future. It offers first and foremost optimal working conditions, from a state-of-the-art IT infrastructure, modern premises and opportunities for an exchange of ideas which are available round the clock, through to creative rooms for relaxation. Here employees from T-Labs, from hub:raum, and from the design and partnering areas work together in the Digital Business Unit on premises extending over around 8,000 square meters. The creative mix of people from all areas of our innovation business, ranging from entrepreneurs to developers and designers, makes the Innovation Arena the hotspot for ideas in Germany. Our Group Business Development unit depends on the Innovation Arena as a central basis for start-up scouting within the framework of its partnering activities. We also use the facility to offer our international partners a place to explore the start-up scene in Berlin. The second Night of the Start-ups was held in Berlin in 2014. We hosted the event, during which more than 100 start-ups from Germany, Israel and the United States held presentations for over 2,500 visitors.

### IN-HOUSE DEVELOPMENTS

In the future, our innovation segment, the Digital Business Unit (DBU), will focus to an even greater degree on innovation issues and manage them centrally for the Group. In doing so, it will cooperate closely with the operating segments in order to be closer and faster to market. Our innovation capacity is of crucial importance in our core business units, where it is vital to assert ourselves in the face of growing competition and to position ourselves as a premium provider on a long-term basis. In 2014, the DBU was heavily involved in enhancing and introducing a variety of products, including tolino, the hybrid router, Roaming Pass, Global Corporate Access and the QIVICON Smart Home.

### PARTNERSHIPS AND COOPERATIONS

The changes taking place in our innovation area are fully in line with our Group strategy. Our strategic area of operation "Win with partners" underlines the importance of cooperations for the future success of our Group. Naturally, we will also continue to rely on our own ideas. However, we are open to innovations from outside the Company and plan to cooperate with new partners. For in-house developments, we therefore focus on our core competencies in the areas of networks, network-related services and platforms. In the case of other services, we concentrate on partnerships in which we collaborate with partners to offer a broad portfolio of products and services. Big global corporations as well as small start-ups have the chance to become our peer partners. We can then use partner developments to enhance our own ideas. Smart concepts can often be intelligently combined to produce an even better offer for the customer.

Partnerships help us differentiate our Company from the competition. Excellent networks and the best service are the foundation for our success with customers. However, customers also expect the latest apps and services from the online world. We therefore rely on the massive innovative capacity of Silicon Valley, Germany and other innovation hotspots. Partnerships include companies such as Evernote,




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“dropbox,” and Lookout. This partnership strategy is also valid in the business customer segment, e.g., the partnership with salesforce.com, a provider of customer management solutions from the cloud. In the area of IT security and cyber security, our experts now work closely together with FireEye.

We want to deliver the digital services that our customers require, on standard platforms and with attractive partners. We can connect partners and partner products to this technical commercial platform fast, flexibly and at low cost, in the same way as we would plug devices into a multiway power strip. We guarantee fast access to standardized interfaces, and take care of billing, security and transmission quality in the background. Our customers can then subscribe to services such as Spotify’s music streaming service quickly and easily. 

As an architect of the digital age, we want to help craft the future. Our networks are the basis for doing so. We are in great demand as a partner on the way to the digital future, cooperating, for example, with companies from other sectors including energy, healthcare and connected car. 

- **Energy:** We have positioned our Company as a proficient provider to the power industry for the coming roll-out of smart meters in Germany. The legal and regulatory basis for smart metering in Germany must now be put into force so that energy utilities can launch this upgrade. We are already one of the biggest providers, operating around 50,000 metering systems for customers such as RWE. We have also established ourselves successfully as a leading provider of security services in the energy sector. The security solutions we deliver are central components for secure smart metering. They include a security module which we developed together with semiconductor manufacturer NXP as well as points of issue for technical certificates allowing encrypted communication in energy networks.

- **Healthcare:** We made progress in the health sector again in 2014. During the first six months, we succeeded in integrating the healthcare IT business we acquired from brightONE and were pleased with its business development. As of May 2014 we have standardized our international market presence in our Telekom Healthcare Solutions. We continue to make progress on the product development side. Together with healthcare region Carus Consilium Sachsen, we are developing the telemedicine infrastructure of the future for the state of Saxony. Our smart care products, which enable the elderly to live independent lives, will be the subject of a feasibility study in 2015. As sole supplier, we are developing the telematics infrastructure for tests in Bavaria and Saxony. The test phase for this will commence in 2015 and is thus a prerequisite for future expansion in the whole of Germany.

- **Connected Car:** We entered into groundbreaking partnerships in order to promote the car as a mobile workplace. We develop and market the Vehicle Backend for the Mercedes multimedia system COMAND Online, the platform for global vehicle and driver services from Daimler. 3,300 HotSpots were installed in the BMW fleet of car hire company Sixt, giving all passengers access to broadband Internet in the car. Besides this, we won big points in the commercial vehicle market, when Europe’s biggest truck rental firm PEMA opted to buy one of our telematics solutions, as did MAN and Continental.

In a collaboration with China Mobile, we are establishing a peer-to-peer joint venture for the connected car and signed a contract to this effect in autumn 2014. The plan is for the collaboration to offer products and services for the connected car in China from the city of Shanghai. We supply the core technology – a cloud-based connected car platform – and also channel our know-how in the telematics sector into the project. With an ultra-modern mobile communications network based on LTE, China Mobile supplies digital services for cars, e.g., with apps or vehicle-based services. The objective is for the joint venture to establish itself as a leading telematics provider in China’s connected car market.

#### START-UP FUNDING AND SHAREHOLDINGS

Beside the traditional approach with in-house research and development, we also rely on open innovation. We look for the best ideas and the best brains outside as well as inside the Company. Through our participation in joint ventures, we provide advice and support as well as financing. To broaden our access to innovations, we plan a significant increase in the scope and volume of our investments in the areas of venture capital and technology innovation. Over a period of five years, we are looking at providing an investment volume of EUR 500 million, doubling our current venture capital and innovation investments. A new fund structure under the name **Deutsche Telekom Capital Partners** (DTCP) will provide the basis for our activities. DTCP is due for launch in 2015, and will be one of the biggest innovation funds in Europe. In the future, we will mainly handle new investments outside our core business via DTCP. Alongside venture capital investments that focus on the steadily growing start-up scene, DTCP will extend its activities to include private equity investments in established companies in order to drive collaboration between our Group and what are known as “OTT players.” Over and above this, DTCP will provide our Group with consulting services on existing shareholdings. DTCP combines the strengths of a large corporation with the expertise, agility and flexibility of a small investment company, and hence considerably enhances our Group’s spectrum.

We also promoted innovation in 2014 through **T-Venture**, our venture capital arm. Since the inception of T-Venture in 1997, we have acquired over 200 minority shareholdings, supported these companies in their development as an active investor, and sold numerous companies at a profit. Following the launch of DTCP, T-Venture will not handle any new investments from the existing fund, but will continue to manage the existing portfolio and be responsible for follow-up investments in this portfolio. Over EUR 100 million will be available for this purpose in the next few years. In addition, T-Venture will continue to support Telekom Innovation Pool GmbH (TIP) and make investments for hub:raum. T-Venture currently holds interests in around 100 companies, two of which we present here:

- **Racemi** guarantees top efficiency for the migration of physical servers to the cloud. Racemi uses algorithms which enable fully automated migration of operating system, application software and data to the cloud data center environment with minimum error. Our customers therefore stand to benefit from hassle-free server migration without resulting server downtimes. Along with other prominent investors, T-Venture acquired an interest in the U.S. company headquartered in Atlanta in 2014.



For more information on our cooperations and partnerships, please refer to the section “Highlights in the 2014 financial year,” PAGE 61 ET SEQ.



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■ **ETA Devices**, a spin-off of the Massachusetts Institute of Technology (MIT), develops reference designs, produces and licenses an innovative, chip-based voltage transformer architecture for application in mobile devices and mobile communications base stations. This technology makes voltage transformers, the biggest energy consumers in these applications, smaller and up to 70 percent more efficient and is instrumental in their commercial implementation for future mobile communications standards and the increasing bandwidths involved. With ETA Devices we and our customers therefore benefit, firstly, from cost savings in network building and operation and, secondly, from more powerful, more compact devices with longer battery service life. Here, we make an additional contribution toward climate protection, since far less energy is consumed in the mobile communications network.

The object of **Telekom Innovation Pool GmbH (TIP)** is to integrate young companies in our Group. TIP also takes over internal company spin-offs, units that are outsourced from Deutsche Telekom as stand-alone companies.

We also make a point of supporting start-ups at their inception with our **hub:raum** incubator, which aims to promote the networking of people and capital with innovative business ideas and to build up new business. Already, **hub:raum** is a familiar name in the start-up scene. **hub:raum** has also gained a foothold at international level, firstly by setting up a program that specifically addresses Israeli start-ups and, secondly, with the launch of Poland's own **hub:raum** in Krakow. Also in 2014, **hub:raum** entered into partnerships in Western Europe's leading start-up markets, e.g., London, Paris, and Stockholm.

### Patents

Patents are gaining more and more significance in the telecommunications industry. Market players and their areas of activity are changing, with a knock-on effect on our IPR (intellectual property rights) agenda. On the one hand, our Group's scope for action must be maintained. On the other and alongside our own research and development activities, we want to open the door to open innovation through cooperations and partnerships. National and international IPRs are vital for these types of activity. We are strongly dedicated to generating our own property

rights. In the reporting year, we filed 196 patent applications, taking the total number of IPRs held by the Group to around 7,900 (7,500 in 2013).

Thanks to our intense efforts to develop and structure our IPR portfolio, the rights we hold are highly valuable and firmly in line with our Group's strategic objectives. We have put in place a professional patent law management process to keep our IPR assets safe. Additionally, we are represented on various standardization bodies. We manage our IPRs on the basis of cost/benefit aspects, filing only selected applications subject to a strict schedule.

### EXPENDITURE AND INVESTMENT IN RESEARCH AND DEVELOPMENT

Research and development expenditure includes pre-production research and development, such as the search for alternative products, processes, systems, and services. By contrast, we do not class as research and development expenditure the costs of developing system and user software which is designed to improve productivity and make our business processes more effective. In 2014, research and development expenditure in the Deutsche Telekom Group amounted to EUR 95.6 million, almost the same level as in the previous year. As the parent company, Deutsche Telekom AG bears part of the Group's research and development expenditure. At EUR 60 million, this amount remained at prior-year level (2013: EUR 60 million).

However, this indicator must not be considered in isolation from the three-pronged innovation strategy described above. In this strategy, we rely not only on in-house developments but also on innovations from external partners and on start-up funding. In 2015, we will greatly increase our investments in the areas of venture capital and technology innovation with DTCP.

Deutsche Telekom's investments in internally generated intangible assets to be capitalized were also down year-on-year at EUR 93.2 million. These investments predominantly relate to internally developed software, mainly in our Systems Solutions operating segment. In the reporting year, some 2,900 employees (2013: around 2,900) were involved in projects and activities to create new products and market them more efficiently. The majority of employees working for T-Labs, the unit responsible for results-oriented research and innovation, are researchers from a wide variety of disciplines.

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### Expenditure and investment in research and development

millions of €

	2014	2013	2012	2011	2010
Research and development expenditure	95.6	97.0	65.9	121.4	145.6
Investments in internally generated intangible assets to be capitalized	93.2	112.0	78.0	122.4	162.2

## EMPLOYEES

- Implementation of the HR strategy
- HR strategy 2015
- Headcount development

For further information, please refer to our other publications. □

### HUMAN RESOURCES STRATEGY

Ours is a constantly changing business. We must regularly ask ourselves what can be done today in order to respond to the challenges of tomorrow. High-performance managers, employees and teams are the cornerstones of our economic success. We know that only satisfied employees deliver consistently excellent performance. With this in mind, good HR work is devoted to the success of its employees and the success of the Company in equal measure.

The task of Human Resources is to support the Group strategy by taking suitable measures and initiatives in order to become the leading telecommunications provider in Europe. Our scope for action is defined by our external and internal environment. We fight for success in the fiercely competitive and often highly regulated ICT market. Immense price pressure forces us to become ever more innovative and efficient. We also take global trends into account that have a formative influence on our HR work: digitization, globalization, changing standards and values, demographic development, and our evolution into a knowledge society. At the same time, we remain mindful of our internal values, including our Social Charter, Code of Conduct, and Guiding Principles. ☒

Our HR strategy takes all of this into consideration and shows the way forward so that all HR units at Deutsche Telekom are focused on the same objectives. In 2014, we dedicated our HR work to five principal themes which translate our HR vision into more specific terms: the HR Big 5.

- HR Big 1 – Continue business-driven total workforce management
- HR Big 2 – Encourage leadership and performance development
- HR Big 3 – Foster employability of our workforce
- HR Big 4 – Increase organizational effectiveness
- HR Big 5 – We make it lean and simple

Below are a few examples illustrating the successful implementation of our human resources strategy in the year under review, categorized according to the HR Big 5.

### IMPLEMENTATION OF THE HR STRATEGY

#### HR BIG 1 – CONTINUE BUSINESS-DRIVEN TOTAL WORKFORCE MANAGEMENT

The transformation of our Group is a top priority, and will remain so for the next few years. We manage the various aspects of the transformation, such as the necessary adjustments to our business models, the focusing of talent development on business needs, and the ongoing training of employees, via our **transformation programs** – for instance at T-Systems: In this transformation program, we are increasing profitability further by driving forward digital growth areas, transforming our ICT business while at the same time making it more efficient, and putting a stop to unprofitable growth. This is why a complex restructuring of the workforce is also necessary. As part of this process, we have managed to resize the workforce in a socially considerate manner during the reporting year. The Group supports all employees whose roles have become redundant with a wide range of staff restructuring mechanisms and innovative change management procedures to help them find a new career. This meant that we were able to avoid compulsory redundancies and set up our new business areas with qualified IT experts.

Particularly in growth areas where new jobs are emerging, we have been able to successfully pursue our HR initiative of giving **priority to internal candidates** over external staff in Germany. This initiative aims to give preference to suitable internal applicants, in particular those from units with a surplus of staff, when filling positions and in external staff assignments. In the reporting year alone, we recorded almost 600 successful internal placements. This process is coordinated and managed by our central service provider for staff restructuring, Vivento, which has operated internally under the name “Telekom Placement Services” since April 1, 2014.

#### HR BIG 2 – ENCOURAGE LEADERSHIP AND PERFORMANCE DEVELOPMENT

The skills of our managers and the performance development of our staff are two key success factors for us in global competition. That is why we have realigned our leadership model and established consistent, Group-wide leadership principles. These activities are combined in our HR initiative “**Lead to win.**”

Based on our new leadership principles “Collaborate,” “Innovate” and “Empower to perform,” coupled with our Guiding Principles, our leadership model “Lead to win” was launched in 2014, initially among top management. It will be gradually rolled out to other management levels during 2015. Essentially, “Lead to win” focuses on a continuous exchange between managers and employees about performance and development issues (Performance dialog), a direct link between performance assessment and incentives (Rewards), and personal development paths (New horizon).

 [www.telekom.com/  
media/publications](http://www.telekom.com/media/publications)

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### HR BIG 3 – FOSTER EMPLOYABILITY OF OUR WORKFORCE

In order to implement our strategic focus “Foster employability of our workforce,” we are pursuing two thrusts in particular:

- Our HR initiative Education 3.0 is focused on expanding the expertise of our employees and driving forward training in the direction of skills that will be in high demand in the future.
- Diversity measures that support the different aspects of diversity in the Group: We remain determined to increase the proportion of women and make our workforce more international. When it comes to demographic change, we rely on integrated demographics management, and are particularly keen to ensure the employability of our older employees. We also promote this with a range of measures as part of work-life management at every phase of life, such as flexible working time models, company childcare facilities, and leave of absence in case of a family emergency. These activities are combined under the heading of “Demographics and work-life management.”

Our HR initiative on training – **Education 3.0** – is all about aligning the training portfolio with the Group’s strategic skills requirements. We want our investments in training to pay off. In order to ensure the greatest possible benefit for our employees and our Company, we therefore combine stand-alone offerings of training, further training, and university in integrated educational chains. In this way, we enable our employees to develop their skills in a seamless process. In the reporting year, we already set up educational chains for the strategic skills requirements of IT security, all IP and big data, initiating new, needs-based training programs in the process. The Cyber Security Professional, for example, provides for the strategic further development of IT experts among our trainees and students on cooperative study programs, and thus allows us to counter the lack of skilled professionals in this important business area. At the same time, we increasingly rely on modern, digitally-supported methods of learning so as to meet the needs of a digital working world also in terms of training.

**Demographics and work-life management.** The labor market is changing. In a multi-generational workforce, people of different age groups with different values, ideas and needs will now be required to work together for much longer. This brings its own set of challenges. Mindful of these challenges, in the year under review we continued to tweak our systematic demographics management program, and derived a raft of measures to suit all ages and life phases. These include healthcare programs and the promotion of cross-generational working teams. By focusing on work-life balance, we want to empower our employees to balance the work and private spheres even more effectively at every stage of their lives. One example is the encouragement of tandem positions, where two employees share responsibility for one job. Furthermore, a new initiative gave large numbers of managers the opportunity to test out our various flexible working time models and options for themselves and act as ambassadors for them as part of a pilot project.

**Women’s quota.** We are committed to increasing the share of women in management, and introduced a women’s quota back in 2010, our goal being that by the end of 2015, at least 30 percent of senior and middle management positions worldwide will be held by women. By the end of 2013, almost one in five such positions in Germany, and one in four worldwide, were held by women. In 2014, growth slowed somewhat, primarily as a result of company acquisitions and sales. These changes partially offset our initiatives to raise the number of women in management positions. Nevertheless, in the medium term, we want to ensure that our goal of a 30 percent women’s quota extends well beyond 2015. Getting more women into management will bring about a deep-seated cultural transformation throughout the Company and encourage more diverse teams. From the outset, our program to achieve the women’s quota has been applied to the entire global talent pipeline, by measuring the proportion of women at all entry and selection points, from recruitment through to management development programs and selection assessments, and then setting ourselves targets to improve the situation.

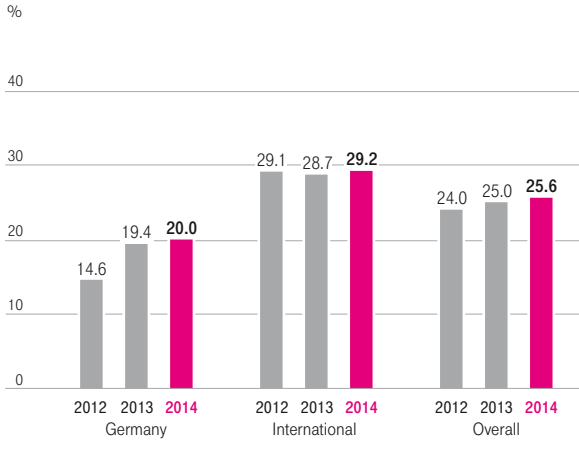
Overall, the proportion of women in management positions has risen since 2010. Group-wide, it increased from 19 percent in February 2010 to 25.6 percent in December 2014. Since 2010, we have also consistently increased the proportion of women in our supervisory boards, particularly among employee representatives. In 2010, women accounted for 17.7 percent of supervisory board members in Germany, rising to 28.1 percent by December 2014. Over the same period, the rise in the proportion of female employers’ representatives in our international supervisory boards was equally encouraging, and increased from 7.4 to 22.6 percent. We are also one of only a few DAX corporations to have had a woman on its Board of Management for a number of years. Female members of our Business Leader Team, the international management team below the Group Board of Management, increased from two in February 2010 to eight (out of a total of 55) in December 2014.

Key measures to promote diversity and women in the year under review include improving the visibility of our talents beyond segment borders, and our program to train candidates for supervisory board roles. We have set up our own platform, Talents@Telekom, which allows HR staff to access employee profiles from other Group units and approach suitable candidates when vacancies arise. In the fourth quarter of 2014, we launched a development program to create a pool of potential female supervisory board members for our affiliated companies. Around 250 places on internal supervisory boards need to be filled regularly. Women currently account for just under 25 percent of such roles. This prompted the Company to devise a dedicated preparatory program across all Company units, and in 2014 this was attended by 29 female managers from a range of countries. Another key measure in 2014 was to selectively address women, e.g., with a “women special” on our website, internal and external advertisements, plus attendance at trade fairs dedicated specifically to women, such as femtec. We have also stepped up our collaboration with our internal women’s networks to broaden our appeal to interested and ambitious women, e.g., via job newsletters.



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**Women in middle and top management**

Sustainability at  
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**HR BIG 4 – INCREASE ORGANIZATIONAL EFFECTIVENESS**

As the volume and content of work expands, demands are constantly rising. This calls for a high degree of flexibility at both an individual and an organizational level. We use forward-looking methods and tools to help our employees adjust quickly to new challenges. Modern workplaces, working time models and work formats provide the framework for our concept of flexible work environments, which was further extended in 2014. This helps to promote collaboration and strengthen innovation within the Group. We have two HR initiatives focusing on effective work techniques: **Shareground** and **Future Work**.

**Shareground** is an initiative we launched in 2013 and which was the beginning of a number of high-caliber projects. Shareground paved the way for new work methods, forms of collaboration and innovative learning formats which enhance our Company's transformation capabilities and help to ensure successful change projects. What is more, Shareground encourages innovative thinking among employees, together with a consistent focus on customer benefits. Shareground also helps to implement the new concept of leadership within the Group, along with cultural innovations focusing on transformation.

One example: the **Magenta MOOC** format was the first "massive open online course" to be offered by a German DAX-listed company. MOOCs are an Internet-based distance learning technique centering around video lectures by renowned scientists and distinguished experts, and augmented by interactive exercises and group discussions. The Magenta MOOC was an online course, accessible Group-wide, which focused on virtual collaboration within the Group. In 2014, the theme for the MOOCs was "Share your corporate spirit." It was held between April and July 2014. More than 3,600 employees from 27 countries took part. Interdisciplinary, Company-wide teams used agile methods to develop innovative customer-focused solutions derived from transformation trends, customer needs and simplicity strategies. This inspired 100 business and product ideas.

The **Shareground Simplicity** offers are directed at managers, teams, and employees with the aim of embedding simplicity as the fundamental principle of work and encouraging the use of corresponding techniques in their own management and working context. The result was simplifications in, for example, product portfolios, customer-relevant processes and internal workflows. In 2014, almost 750 colleagues took up this offer.

The **Shareground Business Labs** offer on-the-job training on current business challenges and focuses. In selected top transformation projects, they teach user-centric working methods and adapt them to the relevant working context. In the year under review, we held 55 such projects.

Under the heading **Future Work**, we subsume the design of the working world. For us, this is about our attractiveness as an employer and effective working under changing conditions. We want to ensure the smoothest possible interaction between the office organization, IT infrastructure, and the working and leadership culture – because modern leadership based on initiative and entrepreneurship is also part of the working world. We want our workforce to experience a modern working atmosphere that encourages efficient collaboration and provides ample freedom for creativity. In 2014, we set out a basic framework for Future Work, outlining our ideal office environment of the future, based on four principles: "Open office environments support collaboration among departments," "A new leadership style is based on personal responsibility," "The sharing and free choice of workstations encourages communication and optimizes the number of workstations," and "Mobile working enables flexible work organization."

**HR BIG 5 – WE MAKE IT LEAN AND SIMPLE**

Our fifth focus is about further improving operational HR work and continuously aligning it with the needs of the business. We also want to continue the process of harmonizing, simplifying and integrating the IT used for HR processes. Two HR initiatives turn these goals into reality: "**Streamlining the HR product portfolio**" and **HR Suite/One.HR**.

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In the “Streamlining the HR product portfolio” initiative, we continuously optimize our HR offerings which are made up of a large number of different HR products. We want to achieve maximum standardization of our product portfolio, while at the same time ensuring that the latest business requirements are addressed. Since the project started in 2013, we have reduced our product portfolio by 5 percent in total. We achieved this result by reducing the number of products through a process of standardization, while at the same time creating scope for the introduction of new, modern HR products.

The standardization of our HR IT systems through the HR Suite/One.HR initiative was also a focal issue in the reporting year. The roll-out of the HR Suite IT system links Group-wide HR processes and supports them in a shared IT system. Focuses here include processes for recruiting and training our employees. The basis for the successful linking of different HR IT systems is a common standardized master data system implemented under the name One.HR. The project is comprised of a domestic module and an international module. In both projects, various IT systems were standardized in 2014, and further systems will follow suit in 2015.

**Awards**

Whether for a fair, socially responsible and sustainable HR policy, an innovative career website, or exemplary health management, in 2014 we received a number of awards for our HR work. Overall, in the year under review, our HR department received 30 national and international awards and prizes. □

Here are details of a few of the major awards and prizes: ☞

- We won the HR Excellence Award again in 2014. Our “AppSelect – personnel diagnostics in the digital world” project was acclaimed in the “Personnel diagnostics” category. AppSelect is the first professional, DIN standard iPad app for assessment centers which is integrated into the HR IT system landscape.
- Our “Tandem model,” an innovative approach for a more flexible transition into retirement, was awarded a prize in the “Arbeit und Alter” (work and aging) ideas competition by the charitable organization “berufundfamilie gGmbH.”
- In recognition of our exemplary emphasis on health and the fact that we are among the companies with the best health rates in Germany, we were presented with the Corporate Health Award by the Handelsblatt business newspaper, the TÜV Süd technical service corporation, and the research company EuPD Research Sustainable Management.

- The Polish Employers’ Institute awarded our mobile communications subsidiary T-Mobile Polska the Top Employers Institute’s Certification for the best employment policy for the fifth year in succession.
- The Hungarian Academy of Sciences awarded our Magyar Telekom group the special prize “Most family-friendly company.”
- We collected further awards for our Blind Applying idea (Trendence Innovation Award) and Equal Pay Day campaign, in which our pay structures were successfully scrutinized by the Logib-D consulting service. Our innovative careers site and mobile recruiting channels helped us win second place in the APRIORI study. We also came second with our online careers site in the 2014 Online Talent Communication Study.

**Employee satisfaction.** ☞ Our image as an attractive employer continues to grow, and our employees are giving us good grades. The most recent Group-wide employee survey in 2012 was the fifth since 2005, and invited some 195,000 employees in 27 countries to give us their feedback in 18 languages. Around 150,000 employees worldwide took part, a response rate of 76 percent. We also conduct pulse surveys at regular intervals to gauge employee satisfaction. Consistently high participation rates bear witness to the high level of interest and a growing desire among employees to help actively shape our Group. The results of such surveys, as per the most recent pulse survey in 2014, remain at a high level. The next employee survey will take place in April/May 2015.

**HR STRATEGY 2015**

When it comes to setting strategic priorities in our HR work and fleshing out the details, we continue to be guided by our Leading European Telco corporate strategy. It sets ambitious corporate targets which we achieve by ensuring that every employee delivers excellent results and performance today and tomorrow. Our Leading People For Leading Telco philosophy defines and shapes our HR strategy. Our employees and their outstanding performance will pave the way for creating a basis for increasing our Group’s productivity and innovative strength and becoming Europe’s leading telecommunications provider. This aim is underscored by our strategic priorities – the HR Big 1 to 4 – for 2015.



Sustainability at Deutsche Telekom



The complete list can be found here: [www.telekom.com/employer-awards](http://www.telekom.com/employer-awards)



Sustainability at Deutsche Telekom

**HR Big 1 – Manage workforce transformation.** We want to develop our business models faster than our competitors. For this reason, we continuously invest in increasing the skills and knowledge of our workforce, for example, by training employees for vacant positions, offering them strategic further training, or training them to replace loan and temporary workers. After all, training employees in marketable, forward-looking skills is a key component in staff restructuring. In Germany, we are supported in this process by our central service provider for staff restructuring, Vivento, which operates internally under the name “Telekom Placement Services.” Its objective is clearly described: focusing on giving employees the prospect of long-term employment in the Company precisely where their know-how is most urgently needed.

**HR Big 2 – Develop talents and strategic skills.** Innovation is a significant part of our brand which sets us apart from our competitors. We are constantly working on innovations – on new products, our processes, and on how our customers experience us. A fundamental requirement for us to be successful in international competition is to empower our talents, identify and develop strategically relevant skills and expertise – for example, to open up growth areas such as cloud, big data, cyber security, intelligent networks or new markets in the healthcare, energy and automotive sectors.

**HR Big 3 – Encourage leadership and performance development.** Together we want to achieve results we can be proud of. In 2015, it is again vital that we enable both our managers and our staff to enhance their proficiency and further develop their leadership skills. In the “Lead to win” program, launched in 2014, which covers our binding, Group-wide Leadership Principles, we will involve more management levels. The leadership principles focus on collaboration, innovation and empowerment to perform. Our managers aim to identify and leverage innovation potential within the workforce and create a work culture in which people continually challenge the status quo and reflect their own conduct, in which they need not be afraid to make mistakes, in which they champion their ideas boldly and fight passionately for them.

**HR Big 4 – Foster global culture and collaboration.** Our aim is to support effective, cross-functional cooperation in our Company. We therefore support the exchange of knowledge and experience throughout the Group. Our efforts include the introduction of international job rotation for experts and temporary exchange programs. These enable our staff to familiarize themselves with overall contexts and to develop their social skills as a result of interfacing with new colleagues and foreign cultures. They bring valuable information and ideas back with them when they return to their units. As a result, mutual support becomes easier and more effective. With this approach, we mobilize our diversity and unleash our full innovation potential.

#### HEADCOUNT DEVELOPMENT

The Group’s headcount was slightly below the figure for the end of 2013. Our segments showed countervailing effects to some extent. In the Germany operating segment, we increased headcount by three percent in 2014 compared with the previous year, as staff were taken on primarily for the build-out and upgrade of our “networks of the future.” The 7 percent rise in overall headcount in our United States operating segment in the reporting year is due to the recruitment of additional staff in retail and customer service to serve the wider customer base. In our Europe operating segment, staff levels decreased by 2.4 percent compared with December 31, 2013. This trend is attributable to two offsetting effects. On the one hand, the number of employees decreased on account of the disposal of shares in Euronet Communications in the Netherlands. Efficiency enhancement measures in a number of countries in our operating segment, such as Romania, Croatia and Hungary, also contributed to the reduction. On the other hand, the headcount increased due to the inclusion of the GTS Central Europe group since May 30, 2014 and growth following the staff restructuring in Greece. Headcount in our Systems Solutions operating segment fell by 3.6 percent, largely due to personnel restructuring measures in Germany. The number of employees in the Group Headquarters & Group Services segment was down 10.7 percent compared with the end of 2013. The main reasons for this decline were deconsolidation of the Scout24 group and personnel restructuring activities.



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## WORKFORCE STATISTICS

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### Headcount development

Employees in the Group	Dec. 31, 2014	Dec. 31, 2013 <sup>b</sup>	Dec. 31, 2012 <sup>b</sup>	Dec. 31, 2011	Dec. 31, 2010
<b>TOTAL</b>	<b>227,811</b>	<b>228,596</b>	<b>229,686</b>	<b>235,132</b>	<b>246,777</b>
Of which: Deutsche Telekom AG	28,569	29,577	30,637	33,335	35,855
Of which: civil servants (in Germany, with an active service relationship)	19,881	20,523	21,958	23,516	25,570
Germany operating segment	68,754	66,725	67,497	69,574	70,902
United States operating segment	39,683	37,071	30,288	32,868	37,760
Europe operating segment	51,982	53,265	57,937	58,794	63,338
Systems Solutions operating segment	47,762	49,540	52,106	52,170	51,742
Group Headquarters & Group Services	19,631	21,995	21,858	21,726	23,035
<b>BREAKDOWN BY GEOGRAPHIC AREA</b>					
Germany	114,749	116,643	118,840	121,564	123,174
International	113,061	111,953	110,846	113,568	123,603
Of which: other EU member states	63,032	63,939	63,244	64,257	68,941
Of which: rest of Europe	3,127	3,238	9,422	9,736	9,991
Of which: North America	40,346	37,856	31,037	33,511	38,467
Of which: rest of world	6,556	6,920	7,143	6,064	6,204
<b>PRODUCTIVITY TREND<sup>a</sup></b>					
Net revenue per employee	thousands of € 275	262	250	244	247

<sup>a</sup> Based on average number of employees.<sup>b</sup> Figures for prior-year periods in the Europe operating segment and the Systems Solutions operating segment have been adjusted.

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### Personnel costs


billions of €

	2014	2013	2012	2011	2010
Personnel costs in the Group	14.7	15.1	14.7	14.8	15.1
Special factors <sup>a</sup>	0.9	1.4	1.2	1.2	1.0
Personnel costs in the Group (adjusted for special factors)	13.8	13.7	13.5	13.6	14.1
Net revenue	62.7	60.1	58.2	58.7	62.4
<b>ADJUSTED PERSONNEL COST RATIO</b>	<b>% 22.0</b>	<b>22.7</b>	<b>23.2</b>	<b>23.1</b>	<b>22.5</b>
<b>PERSONNEL COSTS AT DEUTSCHE TELEKOM AG UNDER GERMAN GAAP</b>	<b>2.8</b>	<b>3.1</b>	<b>3.3</b>	<b>3.4</b>	<b>3.4</b>

<sup>a</sup> Expenses for staff-related measures. 

For detailed information, please refer to the section "Development of business in the Group," PAGE 82 ET SEQ.

## SIGNIFICANT EVENTS AFTER THE REPORTING PERIOD

**Acquisition of spectrum licenses.** For information on the frequency auction in the United States completed on January 29, 2015, please refer to the section "The economic environment." 

**Agreement on the sale of our EE joint venture.** On February 5, 2015, we and the French telecommunications operator Orange reached an agreement with the British telecommunications operator BT on the sale of the EE joint venture. Upon closing of the transaction at an agreed purchase price of GBP 12.5 billion, Deutsche Telekom will become the largest shareholder in BT with a stake of approximately 12 percent. Depending on BT's share price and other factors at closing, we may receive a cash payment in addition to the 12 percent stake in BT. The transaction is yet to be approved by BT's shareholders and the responsible authorities. Closing is expected before the end of March 2016. The EE joint venture, which is part of the Group Headquarters & Group Services segment, was reported under non-current assets and disposal groups held for sale as of December 31, 2014.

## FORECAST<sup>1</sup>

### ECONOMIC OUTLOOK

Barring any significant escalations in geopolitical hotspots or a further Europe-wide sovereign debt or banking crisis, we expect global economic growth to accelerate again in the course of 2015 and 2016. The economic outlook in our core markets is as follows:

- Moderate growth is expected in Germany in the next few years. The labor market situation is expected to remain stable given the positive environment.
- In the United States, the economy is expected to grow by more than 3 percent per year. The labor market situation will continue to improve, bolstered by this economic expansion.
- In the core countries of our Europe operating segment, most of the economies are expected to grow in 2015 and 2016. Despite this momentum, however, positive effects are only expected to filter through to the respective labor markets in the medium term. This is due in part to the lag-effect in labor-market recovery, but also to the high level of structural unemployment. The economic recovery in Greece may be adversely affected by a substantial deviation from the budget policy agreed with the Troika.

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### Forecast on the development of GDP and the unemployment rate in our core markets for 2015 and 2016

%	GDP for 2015 compared with 2014	GDP for 2016 compared with 2015	Unemployment rate for 2015 compared with 2014	Unemployment rate for 2016 compared with 2015
Germany	1.5	1.5	6.8	6.8
United States	3.6	3.3	5.5	5.3
Greece	2.6	2.4	24.6	22.9
Romania	3.2	3.4	4.5	4.3
Hungary	2.5	2.6	6.9	6.9
Poland	3.6	3.8	11.5	11.0
Czech Republic	2.8	2.9	7.2	6.9
Croatia	0.8	1.8	19.6	19.3
Netherlands	1.4	1.4	8.0	7.9
Slovakia	3.2	3.6	12.9	12.0
Austria	1.3	2.1	4.9	4.8
United Kingdom	2.7	2.4	2.5	2.2

Source: Oxford Economics, January 2015.



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## MARKET EXPECTATIONS

### GERMANY

We expect the downward trend in the telecommunications market in Germany to continue in 2015 and 2016. In addition to the intense competitive environment, this is due to the change in customers' usage patterns. They are shifting their communication activities to social networks such as Facebook or Google+, or to IP messaging services, such as WhatsApp. According to the industry association BITKOM, revenues in the German market for information and telecommunications technology will grow only slightly by 0.6 percent to EUR 154.3 billion. Business with data technology, software and services is expected to grow, and revenue from telecommunications and consumer electronics to decrease.

Traditional voice revenues in the fixed-network and mobile market will continue to decline, primarily because voice telephony is bundled together with other telecommunications products in the form of flat rates. The fight for customers with innovative, attractive, integrated products comprising fixed-network and mobile communications as well as offerings organized in partnerships becomes ever more important for the competitive position.

We also anticipate a further decline in service revenues in the mobile market in the next two years due to price erosion. What is more, text messages continue to be substituted by IP messaging services largely offered free-of-charge. The downward revenue trend is further intensified by expected regulatory price cuts, such as price reductions in relation to national termination in December 2014 and the possible abolition of EU roaming at the end of 2015. Increasingly, integrated data volumes and speed are what differentiate between competitors in the design of rate portfolios. In addition, voice and messaging services are increasingly offered in the form of flat rates.

In the fixed-network broadband market, we expect cable network operators to continue to grow. Above all, we expect growth in market segments such as television, IT through cloud services, M2M, mobile payment, and cyber security. Demand for integrated telecommunications products continues to rise among small and medium-sized enterprises, particularly for secure data transmission, for instance, in cloud applications. In order to be able to exploit this opportunity for growth, telecommunications companies are investing in modern broadband integrated networks, network concepts and capacities, IT, and innovations and partnerships.

### UNITED STATES

The U.S. mobile market continues to be characterized by intense competition among the major mobile carriers. Competitive factors within the U.S. mobile market include dynamic changes in pricing, voice market saturation, service and product offerings, customer experience, network quality, development and deployment of technologies, availability of spectrum licenses and regulatory changes. The mobile postpaid market in the United States is embracing equipment installment plans and allowing customers to subscribe for wireless services separately without the purchase of or payment for a bundled device. With these plans, carriers recognize revenues for the device upfront, offsetting the majority of the equipment cost. Additionally, data services continue to be a growth driver, and despite the high level of competition, the U.S. mobile market is expected to grow from mobile broadband data services in 2015 and 2016, further supporting network investment by the major mobile carriers in the U.S. mobile market.

### EUROPE

Our European markets (excluding Germany) are dominated by tough competition between market players from the traditional telecommunications industry, alternative broadband providers such as cable and fiber-optic network operators, and providers of Internet-based services such as short messaging (e.g., WhatsApp) and Internet TV (e.g., Watchever). We also expect competition to further intensify and the telecommunications market to further consolidate over the next two years. Despite initial signs of a price recovery in some markets, this has resulted in aggressive pricing with flat rate and/or SIM-only offerings.

In most of our European markets, we expect the general macroeconomic conditions to improve. Experience has shown, however, that an increase in GDP will only translate into revenue growth in the medium term. We are concerned that the governments of some European countries want to further improve their financial situation and will therefore intervene in the telecommunications market with fiscal policies: The Croatian government, for example, decided to triple the spectrum fees in the 2014 financial year. Furthermore, we expect decisions by national regulatory authorities and the European Union, which will put the markets under pressure and have a negative impact on mobile revenues in future.

Overall, we expect the decline in revenue in the telecommunications markets in the individual countries of our Europe operating segment to be less sharp over the next two years. This is due on the one hand to the smaller decline in termination rates compared with prior years, and on the other to the fast rising penetration of smartphones with mobile broadband, especially in Eastern Europe, and in the fixed-network market with a growing number of broadband and pay-TV lines. From 2017, we expect revenues to stabilize in the telecommunications markets in the countries of our footprint.

## SYSTEMS SOLUTIONS

Even if the anticipated recovery in the global economy fails to materialize, we expect the growth trend in the ICT market to increase again in the next two years. We believe the ICT market will be influenced by digitization, persistent cost pressure, and strong competition. Digitization is leading to greater demand for solutions from the areas of cloud services, big data, intelligent network services like Industry 4.0, the Internet of Things, and M2M, as well as the mobilization of business processes.

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

- **Telecommunications:** A range of factors are leading to new challenges in the intensely contested telecommunications market. Innovative change, the high intensity of competition, and persistent price erosion, as well as interventions by national regulatory authorities result in a steady market decline, even though business with mobile data services will continue to grow over the next few years.
- **IT services:** After only low-level growth in the reporting year, the market for IT services is expected to recover strongly in the following years. The IT services market is undergoing major change, however, brought about by progressive standardization, demand for intelligent services, changes in outsourcing business caused by cloud services, and new challenges posed by issues such as ICT security, big data, and increasing mobility. Traditional ICT business will only grow slightly due to price competition, whereas growth in areas such as cloud services, mobility, and cyber security may even reach double digits. So we will continue to increase investments in growth markets such as cloud services, cyber security, and intelligent network solutions for the healthcare sector or the automotive industry.

## STATEMENT BY THE COMPANY'S MANAGEMENT ON THE EXPECTED DEVELOPMENT OF THE GROUP

**Deutsche Telekom on growth course.** At our Capital Markets Day in Bonn at the end of 2012 we had announced our goal of returning to growth from 2014. On a like-for-like basis, we already achieved this goal in 2013, a year ahead of schedule. And we are still on course for success: In the 2014 financial year, we achieved growth again of 2.9 percent on a like-for-like basis, primarily due to revenue growth in our United States operating segment. The new business model and the merger between T-Mobile USA and MetroPCS were well received, as can also be seen from the noticeable increase in the number of branded postpaid customers. This improvement in the customer base is expected to continue to significantly affect revenues and earnings in subsequent years. We also expect to be on course for growth again outside of the United States in the next few years.

We expect to see the following developments in the individual operating segments by 2016:

- We will maintain our position as market leader in our mobile communications and broadband business areas in Germany and stabilize our revenues by 2016. This will be based on our excellent network quality, our innovative and easy-to-use products, and our outstanding customer service.
- In our Europe operating segment, we want to defend and extend our strong market position in the respective countries and stabilize our revenue, in spite of tough competitive conditions and regulatory environments, as well as government interventions.
- Based on the very positive customer perception and the resulting trend in the customer base, we want to substantially increase revenue and adjusted EBITDA in 2015 in our United States operating segment.
- Our Systems Solutions operating segment continues to work on its business model, investing in digital innovation areas, but also further expanding partnerships. For 2015, therefore, we expect slight revenue growth and a slight increase in adjusted EBITDA.

These positive overall expectations are the result of our systematic strategic focus: We are driving forward the development of our Group – towards becoming the leading telecommunications provider for consumers and business customers in Europe. We want to offer best customer experience, based on intelligent solutions at home and on the move. To this end, we combine our multi-award-winning network

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quality with our own innovative applications and rate plans, such as hybrid technology and MagentaEINS. But we also integrate partner products. We will continue to invest massively in our networks and build out our broadband infrastructure. In Germany and Europe, we will be investing considerably in fiber-optic and vectoring technology in particular, as well as in the high-speed mobile standard LTE. In this way, we will safeguard our technology and quality leadership in the fixed network and in mobile communications, and strengthen our competitive position. In the United States, we will also invest a great deal in the quality and coverage of the mobile network. Overall, we aim for a Group-wide total investment volume (excluding spectrum investments) of around EUR 9.8 billion in 2015, followed by a slight increase in 2016. However, the prerequisite for our investments is a reliable, innovation-friendly regulatory environment in Europe, now and in the future.

To make the transformation towards becoming Europe's leading provider as profitable as possible, we will implement more measures and initiatives to cut costs, especially indirect costs, focusing primarily on human resources efficiency, the leveraging of synergies, process optimization, and target costing.

Overall, we expect to see the following developments in our financial performance indicators:

- We expect our revenue to increase year-on-year in 2015, largely as a result of the positive development of revenues in the United States. We expect revenue to increase again in 2016 relative to 2015.
- We expect adjusted EBITDA to stand at around EUR 18.3 billion in 2015, and to increase year-on-year in 2016.
- We expect strong decreases in EBITDA and EBIT in 2015 compared with 2014, due on the one hand to special factors, which had a positive impact on the 2014 financial year and thus on the basis for comparison. These special factors were income from the deconsolidation of the Scout24 group and from the transaction completed between T-Mobile US and Verizon Communications concerning the acquisition and swap of spectrum. On the other hand, we are planning, especially for 2015, increased special factors for the medium-term realization of savings in indirect costs, which will have a corresponding negative impact on EBITDA and EBIT in 2015. In 2016, we expect a strong increase in EBITDA and EBIT compared with 2015 due to the positive development in operations.

- The Group's free cash flow is expected to amount to approximately EUR 4.3 billion in 2015 and to increase strongly again in 2016.
- We expect the return on capital employed (ROCE) to decrease significantly in 2015, due to the described positive special factors in 2014 and increased special factors in 2015. We expect a strong increase in 2016.

All year-on-year estimates are based on the assumption of a comparable consolidated group structure and comparable exchange rates.

We intend to continue leveraging economies of scale and synergies in the future, through partnerships or appropriate acquisitions in our footprint markets. There are no plans for major acquisitions or expansion in emerging markets. We will continue to subject our existing cooperation activities and investments to strategic review with the focus on maximizing the value of our Company.

Despite substantial capital expenditure, we want to continue to compensate our shareholders appropriately. Subject to approval by the relevant bodies and the fulfillment of other legal requirements, a dividend of at least EUR 0.50 per dividend-bearing share is to be paid for each of the financial years 2015 to 2018. Relative growth of free cash flow is also to be taken into account when measuring the amount of the dividend for the specified financial years.

In relation to the dividend for the 2014 financial year, we are considering once again offering our shareholders the choice of converting their dividend into Deutsche Telekom AG shares instead of having it paid out in cash.

Developments on the international financial markets in 2014 can be described as stable overall. The environment was dominated in particular by the expansive monetary policy of the central banks and, consequently, a persistent period of low interest. The return on ten-year German government bonds fell by more than 70 percent in the course of the year. The euro zone is expected to experience a weak and fragile upturn in 2015, with interest levels remaining low. We continue to enjoy outstanding access to international capital markets and thanks to our continuous issuing activities are in a position at any time to place issues on these markets at short notice. Provided we meet the following

targets, defined as part of our finance strategy, we will continue to enjoy flexible access to the international debt capital markets:

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

Deutsche Telekom did not issue any debt capital in 2014. Liquidity reserves were high throughout 2014, due in particular to the sale in November 2013 of T-Mobile US bonds worth USD 5.6 billion that were acquired as part of the business combination of T-Mobile USA with MetroPCS, the sale of 70 percent of the shares in the Scout24 group, and the payment of part of the dividend in the form of shares following the choice by a large number of shareholders to convert their dividend entitlement into shares. In 2014, T-Mobile US issued new corporate bonds for a total volume of USD 3.0 billion in order to finance investments and expenditure for licenses; however, USD 1.0 billion of this was used to buy back outstanding callable bonds. In December 2014, T-Mobile US also issued Mandatory Convertible Preferred Stock worth USD 1.0 billion.

Repayments totaling EUR 4.0 billion in bonds, medium-term notes, and promissory notes will be due in 2015.

At the end of 2014, the rating agencies Standard & Poor's, Fitch, and Moody's rated us as a solid investment grade company at BBB+/BBB+/Baa1. The outlook from all three rating agencies was "stable." In order to retain secure access to the international financial markets in the future, a solid investment grade rating from A- to BBB is part of our finance strategy. A sound rating also helps us to manage our planned capital expenditure flexibly over the next few years and thus to contribute to future growth.

As of the end of 2014, we had a comfortable liquidity reserve of around EUR 20.4 billion. For 2015, too, we plan to maintain a liquidity reserve that is able to cover all maturities of the next 24 months. To maintain our liquidity, we will borrow funds on the capital market in 2015. First and foremost, we will align the timing of our financing measures with the environments of the various international capital markets.

**Expectations for Deutsche Telekom AG.** The development of business at Deutsche Telekom AG as the parent company of the Group is reflected particularly in its commercial relationships with our subsidiaries, the results from our subsidiaries' domestic reporting units, and other income from subsidiaries, associated and related companies. In other words, the future development of

Deutsche Telekom AG's figures is mainly shaped by our subsidiaries' operating results and by the opportunities and challenges they face. Accordingly, in addition to our expectations for the Group, the expectations described on the following pages concerning the operating segments' revenue and profit developments – such as strong competition, regulatory intervention, market and economic expectations, etc. – have an impact on our expectations concerning the development of Deutsche Telekom AG's future income after taxes.

Based on the described expectations for our operating segments and the resulting effects, and taking existing retained earnings into account, Deutsche Telekom AG also expects to distribute a dividend of at least EUR 0.50 per dividend-bearing share for the financial years 2015 to 2018, subject to approval by the relevant bodies and the fulfillment of other legal requirements. Relative growth of free cash flow is also to be taken into account when measuring the amount of the dividend for the specified financial years.

In relation to the dividend for the 2014 financial year, we are considering once again offering our shareholders the choice of converting their dividend into Deutsche Telekom AG shares instead of having it paid out in cash.

**Expectations up to 2016 and ambition up to 2018.** The expectations for the Group and the operating segments up to 2016 are shown in TABLES 044 and 045, and assume a comparable consolidated group structure and constant exchange rates. The same applies for the ambition until 2018. Expectations may change if the macroeconomic situation deteriorates and/or there is any unforeseen government or regulatory intervention. All trends denote year-on-year changes.

To show the intensity and trends of our forecasts, we use the following assessment matrix: strong decrease, decrease, slight decrease, stable trend, slight increase, increase, strong increase.

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## Financial performance indicators

		Results in 2014	Pro-forma in 2014 <sup>a</sup>	Expectations for 2015 <sup>b</sup>	Expectations for 2016 <sup>b</sup>	Ambition up to 2018 <sup>b</sup>
<b>NET REVENUE</b>						
Group	billions of €	62.7	62.8	increase	increase	CAGR 1–2% <sup>f</sup>
Germany	billions of €	22.3	22.3	slight decrease	stable trend	
	billions of USD					
United States (in local currency)		29.7	29.7	strong increase	increase	
Europe	billions of €	13.0	13.1	decrease	stable trend	
Systems Solutions	billions of €	8.6	8.6	slight increase	stable trend	
Of which: Market Unit	billions of €	6.9	6.9	increase	slight increase	
<b>PROFIT (LOSS) FROM OPERATIONS (EBIT)</b>	billions of €	7.2	7.2	strong decrease	strong increase	
<b>EBITDA</b>	billions of €	17.8	17.8	strong decrease	strong increase	
<b>EBITDA (ADJUSTED FOR SPECIAL FACTORS)</b>						
Group	billions of €	17.6	17.6	around 18.3	increase	CAGR 2–4% <sup>f</sup>
Germany	billions of €	8.8	8.8	around 8.8	stable trend	
	billions of USD					
United States (in local currency)		5.7	5.7	around 7.0	strong increase	
Europe	billions of €	4.4	4.5	around 4.3	slight increase	
Systems Solutions	billions of €	0.8	0.8	around 0.9	increase	
<b>ROCE</b>	%	5.5		strong decrease	strong increase	ROCE > WACC <sup>g</sup>
<b>CASH CAPEX<sup>c</sup></b>						
Group	billions of €	9.5	9.5	around 9.8	slight increase	CAGR 1–2% <sup>f</sup>
Germany	billions of €	3.8	3.8	stable trend	slight increase	
	billions of USD					
United States (in local currency)		4.3	4.3	slight increase	slight increase	
Europe	billions of €	1.6	1.6	increase	stable trend	
Systems Solutions	billions of €	1.2	1.2	decrease	decrease	
<b>FREE CASH FLOW (BEFORE DIVIDEND PAYMENTS AND SPECTRUM INVESTMENT)</b>	billions of €	4.1	4.1	around 4.3	strong increase	CAGR ≈ 10% <sup>f</sup>
<b>RATING</b>						
Standard & Poor's, Fitch		BBB+		from A– to BBB	from A– to BBB	from A– to BBB
Moody's		Baa1		from A3 to Baa2	from A3 to Baa2	from A3 to Baa2
<b>OTHER</b>						
Dividend per share <sup>d,e</sup>	€	0.50		Dividend based on free cash flow growth Minimum € 0.50	Dividend based on free cash flow growth Minimum € 0.50	Dividend based on free cash flow growth Minimum € 0.50
EPS (adjusted for special factors)	€	0.54		strong increase	strong increase	≈ 1
Equity ratio	%	26.3		25 to 35	25 to 35	25 to 35
Relative debt		2.4 x		2 to 2.5 x	2 to 2.5 x	2 to 2.5 x

<sup>a</sup> Significant changes in the composition of the Group included up to the date of preparation of the consolidated financial statements and the combined management report.

<sup>b</sup> On a like-for-like basis.

<sup>c</sup> Before any spectrum investment.

<sup>d</sup> The indicated expectation regarding the dividend per share refers to the respective financial year indicated.

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

<sup>f</sup> Average annual growth rates in the period between 2014 and 2018.

<sup>g</sup> Weighted average cost of capital.

T 045

**Non-financial performance indicators**

		Results in 2014	Expectations for 2015	Expectations for 2016
<b>GROUP</b>				
Customer satisfaction (TRI*M index)		65.9	slight increase	slight increase
Employee satisfaction (commitment index) <sup>a</sup>		4.0	stable trend	stable trend
<b>FIXED-NETWORK AND MOBILE CUSTOMERS</b>				
<b>GERMANY</b>				
Mobile customers	millions	39.0	increase	increase
Fixed-network lines	millions	20.7	slight decrease	decrease
Of which: retail IP-based	millions	4.4	strong increase	strong increase
Broadband lines	millions	12.4	slight increase	slight increase
Television (IPTV, satellite)	millions	2.4	strong increase	strong increase
<b>UNITED STATES</b>				
Branded postpaid	millions	27.2	strong increase	increase
Branded prepay	millions	16.3	increase	increase
<b>EUROPE</b>				
Mobile customers	millions	56.0	slight increase	stable trend
Fixed-network lines	millions	9.0	decrease	decrease
Of which: IP-based	millions	3.5	strong increase	strong increase
Retail broadband lines	millions	5.0	strong increase	increase
Television (IPTV, satellite, cable)	millions	3.7	strong increase	strong increase
<b>SYSTEMS SOLUTIONS</b>				
Order entry	millions of €	7,456	slight increase	stable trend
<b>ESG KPIs</b>				
CO <sub>2</sub> Emissions ESG KPI	thousands of tons	3,872	slight decrease	slight decrease
Energy Consumption ESG KPI <sup>b,c</sup>	MPEI	118	decrease	slight decrease
Sustainable Procurement ESG KPI	%	72	75	slight increase



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

<sup>b</sup> Calculated using fact-based estimates and/or extrapolations.

<sup>c</sup> MPEI describes electricity consumption in thousands of MWh/revenue in billions of euros.

We are aiming to achieve a slight improvement in the development of our customer retention/customer satisfaction in 2015 and 2016 respectively, measured in terms of the TRI\*M index performance indicator.

Having already achieved a high level on the commitment index of 4.0 – on a scale of 1.0 to 5.0 – following the 2012 employee survey and the results of the pulse survey performed in 2014, we expect the positive response of our employees regarding our Company to remain stable in the next employee survey. The next employee survey is scheduled for April/May 2015.

For detailed information on our ESG KPIs and our expectations, please refer to the section “Corporate responsibility.”  

Our plans are based on the exchange rates assumed in TABLE 046.

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**Exchange rates**

Croatian kuna	HRK	7.64/€
Polish zloty	PLN	4.19/€
Czech koruna	CZK	27.54/€
Hungarian forint	HUF	308.70/€
U.S. dollar	USD	1.33/€



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Sustainability at  
Deutsche Telekom



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The following TABLE 047 contains a summary of our model calculations and analyses of the key potential external factors.

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#### Factors that may impact results

Premises	Expected trend	Impact on results
<b>ECONOMY:</b>		
Macroeconomic trends in Europe (incl. Germany)	improvement	+
Macroeconomic trends in the United States	improvement	+
Inflation in Europe (incl. Germany) and the United States	same	○
Development of USD exchange rate	improvement	+
Development of exchange rates of European currencies	same	○
<b>REGULATORY/STATE INTERVENTION:</b>		
Regulation of mobile communications in Europe (incl. Germany)	intensification	-
Regulation of the fixed network in Europe (incl. Germany)	same	○
Additional taxes (in Europe/the United States)	intensification	-
<b>MARKET DEVELOPMENT:</b>		
Intensity of competition in telecommunications sector in Europe (incl. Germany) and the United States	intensification	-
Price pressure in telecommunications markets	intensification	-
ICT market	improvement	+
Data traffic	improvement	+

+ positive  
 ○ unchanged  
 - negative

## EXPECTATIONS FOR THE OPERATING SEGMENTS

### GERMANY

We have launched a comprehensive transformation program in the Germany operating segment. The project is set to run for five years and aims to secure market leadership: We want to remain the leading integrated telecommunications provider in Germany.

Optical fiber represents the infrastructure of the future. It enables all customer requirements to be realized in the fixed network. We are paving the way for this with our integrated network strategy. We are building a new network so that in the future, we can offer our customers competitive high-speed lines, e.g., by migrating our VDSL network to vectoring technology. In addition, we are investing massively to offer greater coverage and even more speed.

We want to be the number 1 in terms of growth in the TV market. To this end, we are investing in our IPTV platform and thereby winning new customers. In addition, more and more customers in the housing sector are using our television offering.

The mobile Internet continues to grow unabated. We intend to participate in this growth. With attractive LTE-enabled devices, a simple price structure and brands for premium and smart shoppers, we are addressing the entire market. Fixed-network and mobile package offerings represent the supreme discipline for an integrated provider. Ultimately, customers who use package offerings are more loyal. Our portfolio covers an integrated fixed-network/mobile offering (FMC). We increasingly offer bundled products like this: Thus families can, for example, subscribe to special mobile rate plans in addition to DSL. Entertain customers can manage their television recordings using their smartphones and "Entertain to go" lets them watch television programs on their tablets. We win over our customers with Deutsche Telekom's best network with a simple logic of rate plans and benefits. Hence in fall 2014, we launched MagentaEINS and MagentaMobil on the market.

The IP transformation is a requirement for being able to bring innovative, competitive offers to the market more quickly. We will therefore migrate all customers to IP products by 2018. This will put us in a position to develop new products such as FMC or self-service offerings quickly, flexibly, and at low cost. Once the IP migration is complete, we can switch off our legacy platforms, save operating costs and, in this way, make our Group fit for the future – with the best customer experience and highest level of customer satisfaction.

We want to remain the market leader in both mobile communications and the fixed network. Demand for bandwidth will continue to grow rapidly. We will therefore invest considerably more in the coming years in broadband networks, innovative products and customer service. The success of these investments will be reflected in our network quality and the TRI\*M customer satisfaction index. Another milestone in the migration to all IP is the use of innovative hybrid technology. This technology bundles the transmission capacities of the fixed and mobile networks and allows additive use to be made of the maximum bandwidth.

In the Germany operating segment, we expect revenue to undergo a slight decrease year-on-year in 2015. A major reason for this lies in the trend in voice telephony, where revenues continue to decline in both the fixed network and in mobile communications, while revenue from bundled product increases. The wholesale business is also declining in terms of prices and volumes. The positive effect of what is known as the contingent model is not able to compensate this trend. On top of that are the substitution effects on text messaging, which is increasingly being replaced by free-of-charge IP messaging services such as WhatsApp. Revenue will also be negatively impacted by regulatory price cuts, e.g., in roaming in 2015. We expect mobile data services and demand for handsets to continue to develop positively. In the next few years, the further propagation of smartphones and tablets in particular will have a positive impact on mobile data and Internet usage – and thus also on our revenues. At the same time, we will continue to expand our fiber-optic services, including business models with wholesale products such as the contingent model and further collaboration, for example in the housing sector. In addition, together with partners, we will provide new services for our customers.

From 2016, we aim to stabilize revenues. Thanks to our outstanding network quality, we expect mobile service and handset revenues to increase year-on-year due to higher demand. Our multiple-brand strategy will also have a positive impact. This trend will be supported by our IT revenues from the SME initiative and technical support services. Wholesale revenues are stabilizing due to a positive development driven by high demand for the contingent model.

For our Germany operating segment, we expect adjusted EBITDA to remain stable for 2015 and 2016. This will be achieved primarily through savings in indirect costs, e.g., lower IT costs, reduction in shared functions, and increased productivity. We expect a slight increase in the adjusted EBITDA margin to something in the range of around 40 percent in both 2015 and 2016.

We are laying the foundation for innovation and growth: While we will continue to drive forward investments in new technologies with even greater intensity in the future, we are reducing investments in old technologies. Thus we will increase our investment in our network infrastructure in the coming years, particularly in the build-out of our vectoring/fiber-optic and LTE networks. As a result, cash capex will remain stable in 2015 and increase slightly in 2016.

Our expectations for the medium term for the Germany operating segment, as to be announced at our Capital Markets Day event in February 2015, are shown in TABLE 048:

T 048

**Mid-term ambition level**

<b>MARKET</b>	No. 1 in FMC with MagentaEINS	3 million customers	2018
	No. 1 in mobile service revenues	≈ EUR 6.7 billion/market share > 36 %	2018
	No. 1 in terms of broadband	≈ EUR 5.6 billion/market share > 40 %	2018
<b>QUALITY</b>	Customer loyalty index	≈ 64 points	2018
<b>FINANCIAL FIGURES</b>	Adjusted EBITDA margin	≈ 42 %	2018
	Growing adjusted EBITDA	CAGR 1 to 2 %	2014–2018
	Growing adjusted cash contribution	CAGR ≈ 2 %	2014–2018

**UNITED STATES**

In 2015, T-Mobile US will continue to execute on its Un-carrier promise to deliver the best value experience in the U.S. wireless industry. Key elements of the Un-carrier promise include delivering distinctive value for consumers in all customer segments by eliminating customer pain points and providing excellent 4G services through a strong mid-band spectrum position supplemented by low-band spectrum in key metropolitan areas and a nationwide fourth-generation LTE network. Additionally, the Un-carrier initiatives focus on attracting and retaining a loyal customer base by offering devices when and how they want them, and plans that are simple, affordable and without unnecessary restrictions to deliver the best value in wireless.

T-Mobile US expects a strong increase in branded postpaid customers in 2015 and a further increase in 2016. Branded prepaid customers are expected to increase in 2015 and 2016. However, competitive pressures and unforeseen changes in the wireless communications industry in the United States may significantly affect the expected ability to attract and retain branded postpaid and prepaid customers.

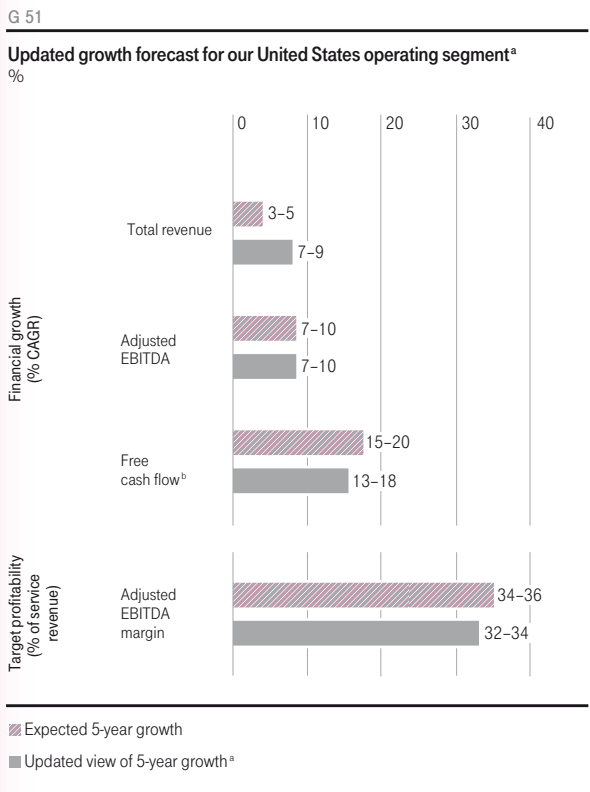
T-Mobile US expects a strong increase in total revenues in U.S. dollars in 2015 and a further increase in 2016. Results in 2015 are expected to be positively impacted by continued customer growth momentum and increases in equipment revenues, including those with installment plan financing.

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T-Mobile US also expects a strong increase in adjusted EBITDA – in U.S. dollars in 2015 and 2016. As a result of the significant growth in customers over the past year, revenue growth is expected to outpace increases in expense. Additionally, T-Mobile US expects continued focus on cost saving initiatives and realization of operational and network synergies from the business combination with MetroPCS. However, adjusted EBITDA is expected to be impacted by continued investment in the network and increased marketing of the T-Mobile US brand focused on attracting and retaining customers. Additionally, competitive pressures may significantly affect expected revenues and adjusted EBITDA in U.S. dollars and exchange rates may significantly affect revenues and adjusted EBITDA in euros in 2015 and 2016.

Excluding the expenditures relating to spectrum, T-Mobile US expects a slight increase in U.S. dollars in cash capital expenditures in 2015 and 2016 as it continues to roll out its 4G LTE network.

Our expectations, as updated compared with Capital Markets Day 2012, for the medium term up to 2017 for the United States operating segment, as to be announced at our Capital Markets Day event in February 2015, are shown in GRAPHIC 51:



<sup>a</sup> Updated view based on the actual figures for 2012-2014 and projections for 2015-2017.  
<sup>b</sup> Free cash flow defined as EBITDA less capital expenditures.

**EUROPE**

In spite of the tough competitive conditions in most of our footprint countries in this operating segment, we intend to defend and extend our market position in each country. In the case of our integrated companies, we will work on maintaining our market leadership in both the fixed network and mobile communications or on using our strong position in the fixed network to push ahead with our mobile business, depending on the position of the respective company in its market. In particular through the acquisition of the GTS Central Europe group and the merger of the local business units of T-Systems Czech Republic and T-Mobile Czech Republic, we can offer our consumers and business customers in previously mobile-only companies, such as in Poland or the Czech Republic, a significantly expanded product portfolio and expand them into integrated companies.

On the road to becoming Europe's leading telecommunications provider, we are increasingly relying on technology leadership in the production model and in Next Generation Access. We want a simplified and standardized network. To this end, we will invest in the next few years in a pan-European all-IP network and migrate all networks in our national companies with fixed-network architecture to IP. In 2014, the migration was completed in the F.Y.R.O. Macedonia and Slovakia. Over the next few years, further national companies such as Croatia and Montenegro will follow suit, until we have migrated all our integrated companies in the Europe operating segment to IP by 2018. Building on this, we are harmonizing our network and IT architectures, so as to enable the centralized, cloud-based production of our services. Advantages of the new IP-based production model are that we create the best customer experience with our products and services, and that we achieve the greatest possible efficiency. Especially in broadband and TV, we can offer our customers a consistent and personalized user experience across all devices with products such as Broadband on Demand in the F.Y.R.O. Macedonia. This allows customers to change the features, e.g., speed, of their broadband line. In Romania, we can offer our customers a completely personalized product, for example, with the new IPTV platform. We will enrich the TV offering with exclusive premium content, one example being the broadcast of the UEFA Champions League in Greece. But we will also continue to offer our own channels as well as content in partnership with other companies, like Netflix. We are already working with partners for other digital content, such as the Internet services Spotify, Deezer, or Evernote.

Another technology milestone on the road to the network of the future is TeraStream, a concept that is based on a cloud-based IP architecture. This solution helps us create a completely new customer experience in terms of availability, personalization, reliability, and bandwidth. A pilot project is already successfully underway in Croatia. We also want to conduct similar pilot projects in other countries of our Europe operating segment. As a preliminary stage for TeraStream, we have started to introduce a broadband network gateway (BNG) in Greece and Hungary. We plan to complete this process in both countries before the end of 2015.

On the basis of our integrated network strategy, we will drive forward the fiber-optic roll-out in the fixed network at an even faster pace. In Greece, we continue to lay optical fiber up to the nearest cable distributor, which in the next step will enable us to add vectoring technology. In all other integrated companies, we have been investing for a number of years in the FTTH roll-out. We will continue and intensify our efforts in this respect in 2015, especially in Hungary, Croatia, and Romania.

In mobile communications, we are responding to the fast growing demand for bandwidth. We were able to acquire mobile spectrum for the roll-out of the mobile standard LTE in all countries. In the next few years, there will only occasionally be spectrum auctions. This allows us to focus our investments in mobile communications on two areas: extending reach and implementing LTE-advanced technology with transmission rates of more than 150 Mbit/s. Our national companies have various roll-out targets: We want to cover between 75 and 95 percent of the population with LTE by 2018. In order to achieve this high level of network coverage, further network partnerships are needed with other companies, as currently, for example, in Poland. Furthermore, we will invest to further improve our customer service and processes. We are developing and implementing new products and services in mobile communications, too. One example for this is the Mobile Wallet, which has already been successfully launched in Poland, Slovakia, and Hungary. Another innovation is the Ultimate APP application, which combines all services and applications for all Deutsche Telekom products – for mobile communications, fixed network, and television. Our test market for this is Romania.

With the increasing merging of broadband lines with different access technologies, we as an integrated telecommunications operator are driving forward the convergence of fixed-network and mobile communications: On the one hand, we offer our customers fixed-mobile-convergence (FMC) products, on the other, we are developing most of our national companies into an integrated business model. Of particular note in this regard is the acquisition of the GTS Central Europe group, which allows our companies in Poland and the Czech Republic to offer integrated products and services in the key business customer segment. In addition, all of our already integrated national companies now offer FMC products.

We also want to win over business customers with our high-performance ICT products. We want to direct our offering not only at corporate customers, but also increasingly at small and medium-sized enterprises. We will continue to further expand our business with secure cloud solutions for this customer group in particular. To this end, we are increasingly working on standardized platforms, such as the international M2M platform. With this M2M partner program, we are positioning ourselves as a provider that offers its customers cross-industry M2M solutions as complete packages from a single source in cooperation with competent partners. Many countries of our Europe operating segment are already taking part in this program.

We expect to win more customers for our bundled products in our Europe operating segment. This will be reflected in a sharp increase in TV and broadband lines in 2015. We expect the number of mobile customers to increase slightly in the coming year. For 2016, we expect a sound mobile customer development – excluding the prepaid registration regulations expected to be implemented in one of our countries. We also expect a decline in fixed-network lines in the next two years, due on the one hand to the fact that mobile communications are increasingly substituting the fixed network, and on the other to ongoing strong competition.

In the next few years, changes in legislation, such as taxes and duties, and national austerity programs could negatively impact our revenue and earnings. This could restrict our ability to invest locally. Exchange rate effects could also put pressure on our earnings on a euro basis.

Based on these assumptions and parameters, we expect revenues in our Europe operating segment to decrease on a like-for-like basis in 2015, assuming constant exchange rates and based on assumptions about regulation, new market players, spectrum auctions, and the same organizational structure. The transformation of our production model will strengthen our investments in the pan-European all-IP network and in the integrated network strategy. As a result, cash capex will increase in 2015. We plan to increase productivity and cut costs, including by reducing the headcount in some countries of our Europe operating segment. We want to invest some of these cost savings in the network upgrade. Consequently, we expect a temporary decline in adjusted EBITDA. For 2016, we expect revenues and cash capex to remain stable and adjusted EBITDA to increase slightly.

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Our expectations for the medium term for the Europe operating segment, as to be announced at our Capital Markets Day event in February 2015, are shown in TABLE 049:

T 049

**Mid-term ambition level**

<b>TECHNOLOGY LEADERSHIP</b>	Start of PANNET implementation, migration of first platform	2015
	AIHP Transformation: All integrated national companies 100% IP-based	2018
	Next generation accesses: 75–95% LTE pop coverage, 50% household coverage <sup>a</sup> with FTTx with up to 100 Mbit/s	2018
<b>BEST CUSTOMER EXPERIENCE</b>	Realization of customer experience initiative "eTransformation": between 30% and 99% eService share in our national companies	2018
	Implementation of innovative FMC & TV experiences	2015–2018
	Continuation of revenue transformation: 38% of revenues with pockets of growth	2018
<b>SUPERIOR CASH PERFORMANCE</b>	Superior cash performance: Return to 2014 level by 2018	2018
	Reduction of indirect cost by € 0.4 billion	2018 vs. 2014
	Operative ROCE improvement by almost +2%pts	2018 vs. 2014

<sup>a</sup> In our integrated national companies.

**SYSTEMS SOLUTIONS**

The T-Systems Market Unit focuses on the ICT services growth market, offering solutions for corporate customers. We also concluded major deals in Germany and abroad in 2014, for example, with the automotive manufacturer Daimler, the steel and technology company ThyssenKrupp, the British brewery group SABMiller, or the Swiss WICOR group. We also extended our contract with the insurance group ERGO and in Belgium we were awarded a contract to set up and operate a satellite-based toll system for trucks.

Furthermore, our standard solutions in the growth area of cloud computing succeeded in the face of strong competition, winning us contracts with many of our corporate customers. We further expanded our dynamic resources from the cloud accordingly in the reporting year. This will pay off for our customers in the future: They receive bandwidth, computing capacity, storage, and software as they need them, while sharing infrastructure and paying only for what they actually use. We have complemented our offers through partnerships with, for example, salesforce.com (Software as a Service), Cisco Systems (cloud services), FireEye (cyber security), and Siemens (Industry 4.0).

The T-Systems Market Unit continues to work on its business model and will invest in new digital innovation areas to support customers in the ongoing digitization of their business. In addition to traditional ICT business, platform-based services and cloud services will play an increasing role. These include, for example, cyber security, M2M, and big data, as well as the further expansion of intelligent network services. Another important component in the implementation of our business model is the targeted expansion of our strategic partnerships. We want to complete the transformation towards digital innovation areas by 2016. Growth in these areas is then intended to compensate for lower-margin business with traditional outsourcing.

As a service provider for the Group, Telekom IT constantly develops our Group's IT landscape, thus making an important contribution to our Company's competitiveness. Standardized and optimized systems and processes contribute to systematic efficiency management and to reducing the Group's IT costs further. The reduction of IT expenditure for our Group is reflected in falling revenues. We therefore expect revenues at Telekom IT to continue to decline in subsequent years.

We expect order entry, revenue, and adjusted EBITDA in the Systems Solutions operating segment to increase slightly in 2015. For 2016, we expect order entry to remain stable, revenue to remain stable, and adjusted EBITDA to increase.

In order to continue growing sustainably and profitably, we will expand and evaluate our business model. We will drive forward this transformation with the aim of generating growth with scalable, cloud-based services, changing traditional ICT elements to make them more profitable, and identifying services that we no longer want to perform ourselves. Thus we will continue to intensify our efforts to promote and sell products from our growth areas. The aim is to achieve double-digit growth rates in the growth areas. The newly-established Digital Division, which bundles growth areas within T-Systems, is to support these activities. We also want to grow in traditional ICT with products that generate a high margin.

We expect the Market Unit to generate revenue growth in 2015, and slight growth again in 2016, due to the described development and the successful launch of the realignment. We expect the Systems Solutions operating segment's cash capex to decrease year-on-year for the next two years.

Our expectations for the medium term for the Systems Solutions operating segment, as to be announced at our Capital Markets Day event in February 2015, are shown in TABLE 050:

T 050

#### Mid-term ambition level for 2018

<b>TSI REVENUE</b>	> 1 % CAGR expected
<b>MARKET UNIT REVENUE</b>	Above market growth, 3 % CAGR expected
<b>QUALITY</b>	Maintain TRI*M index above peer average and > 83 points
<b>ADJUSTED EBIT MARGIN</b>	Systems Solutions: around 6 % Market Unit: around 7 %

#### GROUP HEADQUARTERS & GROUP SERVICES

We are currently realigning our Digital Business Unit as the Group's central innovation unit. In the future, the focus will be on innovation and products developed on behalf of and in close dialog with our operating segments. The needs of the segments, their markets and customers are the crucial factors for these activities. The Digital Business Unit will focus more on business with platforms such as M2M or Smart Home.

Over the next two years, we will resolutely continue our cost management in Group Services and in the area of innovation. Furthermore, we will continue to pursue structural measures in 2015, which will contribute to improved earnings from 2016.

<sup>1</sup> The forecasts contain forward-looking statements that reflect management's current views with respect to future events. Words such as "assume," "anticipate," "believe," "estimate," "expect," "intend," "may," "could," "plan," "project," "should," "want," and similar expressions identify forward-looking statements. These forward-looking statements include statements on the expected development of revenue, EBIT, EBITDA, adjusted EBITDA, ROCE, cash capex, and free cash flow. Such statements are subject to risks and uncertainties, such as an economic downturn in Europe or North America, changes in exchange and interest rates, the outcome of disputes in which Deutsche Telekom is involved, and competitive and regulatory developments. Some uncertainties or other imponderabilities that might influence Deutsche Telekom's ability to achieve its objectives, are described in the section "Risk and opportunity management," PAGE 146 ET SEQ. of the combined management report, and the "Disclaimer," PAGE 284 at the end of the Annual Report. Should these or other uncertainties and imponderabilities materialize or the assumptions underlying any of these statements prove incorrect, the actual results may be materially different from those expressed or implied by such statements. We do not guarantee that our forward-looking statements will prove correct. The forward-looking statements presented here are based on the current structure of the Group, without regard to significant acquisitions, dispositions, business combinations or joint ventures Deutsche Telekom may choose to undertake. These statements are made with respect to conditions as of the date of this document's publication. Without prejudice to existing obligations under capital market law, we do not intend or assume any obligation to update forward-looking statements.

## RISK AND OPPORTUNITY MANAGEMENT

- Risk early warning system
- Identification of opportunities

### RISK AND OPPORTUNITY MANAGEMENT SYSTEM

As one of the world's leading providers in the telecommunications and information technology industry, we are subject to all kinds of uncertainties and change. In order to operate successfully in this ongoing volatile environment, we need to anticipate any developments at an early stage and systematically identify, assess and manage the resulting risks. It is equally important to recognize and exploit opportunities. A functioning risk and opportunity management system is therefore a central element of value-oriented corporate governance.

In addition to business management requirements, a risk management system is required by regulations and by law, in particular § 91 (2) of the German Stock Corporation Act (Aktiengesetz – AktG). The Audit Committee monitors the effectiveness of the internal control system and the risk management system as required by § 107 (3) sentence 2 AktG.

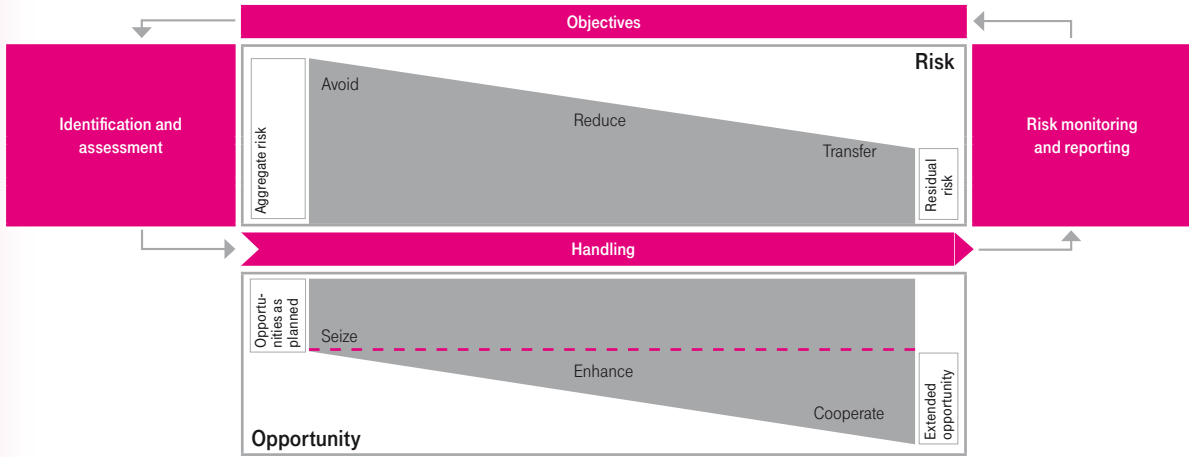
Our Group-wide risk and opportunity management system covers all strategic, operational, financial, and reputational risks as well as the corresponding opportunities for our fully consolidated entities. The aim is to identify these early on, monitor them, and manage them in accordance with the desired risk profile.

As GRAPHIC 52 shows, we base our system on an established standard process. Once risks and opportunities have been identified, we move on to analyze and assess them in more detail. The effects of risks and opportunities are not offset against each other. This is followed by a decision on the actual action to be taken, e.g., reducing risks or seizing opportunities. The respective risk owner implements, monitors, and evaluates the associated measures. All steps are repeatedly traversed and modified to reflect the latest developments and decisions.

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The risk and opportunity management system



Our risk and opportunity management system is based on the globally applicable risk management standard of the International Standards Organization (ISO). ISO standard 31 000 “Risk management – Principles and guidelines” is regarded as a guideline for internationally recognized risk management systems.

Our Internal Audit unit reviews the functionality and effectiveness of our risk management system at regular intervals. The external auditor mandated by law to audit the Company’s annual financial statements and consolidated financial statements in accordance with § 317 (4) of the German Commercial Code (Handelsgesetzbuch – HGB) examines whether the risk early risk warning system is able to identify at an early stage risks and developments that could jeopardize the Company’s future. The system complies with the statutory requirements for risk early warning systems and conforms to the German Corporate Governance Code.

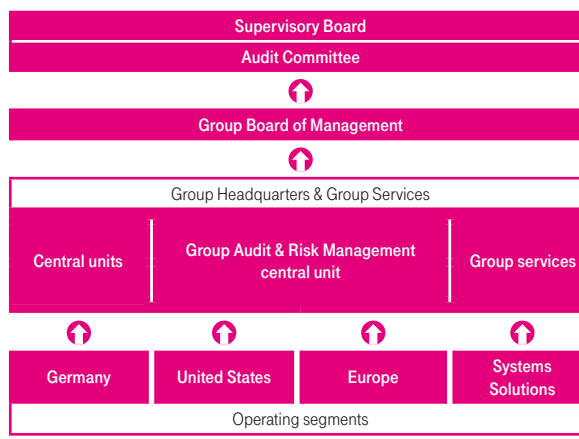
In addition, our Group Controlling unit specifies a series of Group guidelines and processes for the planning, budgeting, financial management and reporting of investments and projects. These guidelines and processes guarantee the necessary transparency during the investment process and the consistency of investment planning and decisions in our Group and operating segments. They also provide decision-making support for the Board of Management and the Board of Management Assets Committee. This process additionally includes the systematic identification of strategic risks and opportunities.

ORGANIZATION OF RISK MANAGEMENT

The Group Risk Management & Insurance unit has central responsibility for the methods and systems used in an independent risk management system that has been standardized across the Group, and the associated reporting. Our Germany, United States, Europe, and Systems Solutions operating segments are connected to the central risk management via their own risk management. The relevant risk owners in the operating segments and central Group units are responsible for managing and reducing risks.

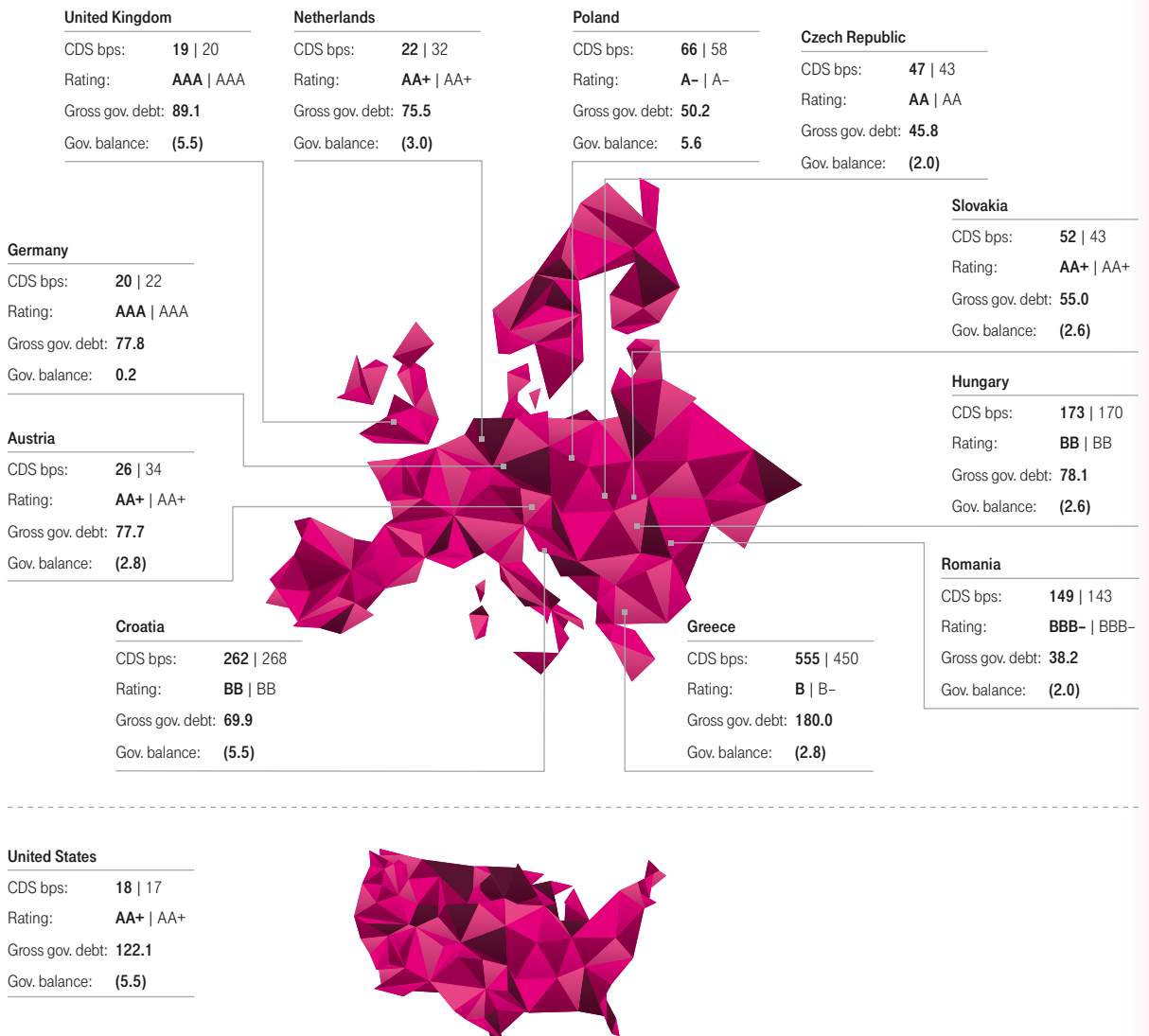
G 53

Risk management



G 54

## Extract from the risk cockpit: Map showing national debt



Source: Bloomberg, Standard &amp; Poor's, Oxford Economics, last revised: October 2014.

## RISK IDENTIFICATION AND REPORTING

Each operating segment produces a quarterly risk report according to the standards laid down by the central Risk Management unit and based on specific materiality thresholds. These reports assess risks, taking into account their extent in terms of impact on results of operations or financial position, as well as their probability of occurrence, and they identify action to be taken and suggest or initiate measures. The assessment additionally includes qualitative factors that could be important for our strategic positioning and reputation and also determine the aggregate risk. We base our assessment of risks on a period of two years. This is the same forecast period as that of our company-specific forecast.

The Group risk report, which presents the main risks, is prepared for the Board of Management on the basis of this information. The Board of Management informs the Supervisory Board. The Audit Committee of the Supervisory Board also examines this report at its meetings. If any unforeseen risks arise outside regular reporting of key risks, they are reported ad hoc.

In addition to the quarterly risk report, we use our risk cockpit, which we developed in response to the financial and sovereign debt crisis and continuously refine, as an additional tool for monitoring and analyzing risks. In the risk cockpit we collect a large number of early warning and economic indicators each quarter, e.g., on macroeconomic, political and legal developments in our markets. When analyzing economic indicators, we use leading, coincident and lagging indicators. The



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OECD's composite leading indicators, for example, as the product of several upstream sub-indicators, can map economic developments overall. The fact that a large number of early indicators are generated on a monthly basis allows economic activity to be measured more quickly than, for instance, with gross domestic product, which is published once per quarter. GRAPHIC 54 on the left shows a sample extract from our risk cockpit.

We create various scenarios based on the entire system of indicators of macroeconomic parameters and taking into account political and legal developments, and analyze potential effects. With the risk cockpit, we have developed a tool that creates greater transparency about our risks, assesses the relevance of these risks, and prioritizes them.

**IDENTIFICATION OF OPPORTUNITIES THROUGH THE ANNUAL PLANNING PROCESS**

In addition to the systematic management of risks, the Company's long-term success must be secured through integrated opportunities management. The identification of opportunities and their strategic and financial assessment play a major role in our annual planning process.

Our operating segments and Group Headquarters identify and make use of opportunities in our business throughout the year as part of the short-term monitoring of results and medium-term planning processes. While short-term monitoring of results mainly targets opportunities for the current financial year, the medium-term planning process focuses on opportunities that are strategically important for our Group. We distinguish between two types of opportunities:

- Opportunities with external causes over which we have no influence, for example, the revocation of additional taxes in Europe.
- Opportunities created internally, for example by focusing our organizational structure on innovations (e.g., T-Labs and the newly established Deutsche Telekom Capital Partners), growth areas and products, and business relationships and collaborations from which we expect synergies.

We have continuously increased the efficiency of our planning process so as to give us greater scope. This puts the organization in a position to identify and seize new opportunities and generate new business. The preliminary plans of our operating segments form the basis for a concentrated planning phase during which members of the Board of Management, business leaders, senior executives, and experts from all business areas intensively discuss the strategic and financial focus of our Group and our operating segments on a daily basis and ultimately produce an overall picture. The identification of opportunities from innovation and their strategic and financial assessment play a major role throughout this phase. During the daily decision-making rounds, possible results of this "brainstorming" lead to opportunities being rejected, passed back to the working groups for revision, or adopted and transferred to the organization.

**RISK ASSESSMENT AND RISK CONTAINMENT**

**ASSESSMENT METHOD**

Risks are assessed on the basis of "probability of occurrence" and "risk extent." The following assessment yardsticks apply:

T 051

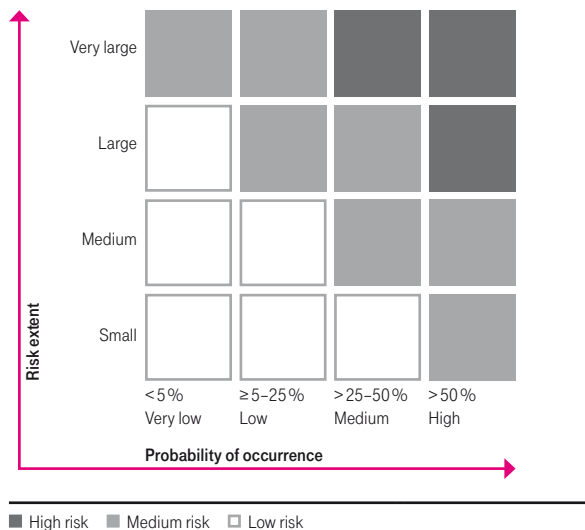
Probability of occurrence	Description
< 5 %	very low
≥ 5 to 25 %	low
> 25 to 50 %	medium
> 50 %	high

Risk extent	Description
Small	Limited negative effects on business activities, results of operations, financial position, and reputation; individual EBITDA risk < € 100 million
Medium	Certain negative effects on business activities, results of operations, financial position, and reputation; individual EBITDA risk ≥ € 100 million
Large	Significant effects on business activities, results of operations, financial position, and reputation; individual EBITDA risk ≥ € 250 million, and/or affects more than one Group entity
Very large	Damaging negative effects on business activities, results of operations, financial position, and reputation; individual EBITDA risk ≥ € 500 million, and/or affects more than one Group entity

By assessing risks according to the aspects of probability of occurrence and risk extent, we can classify them into low, medium and high risks, as shown in GRAPHIC 55.

G 55

**Risk level**



Once risks have been categorized in this way, all risks classified as "high" and "medium" are reported. Exceptions are possible in specific cases: For the sake of reporting continuity, for example, we also report risks from prior years that are classified as low for the current reporting period.

It should be noted that risks with an extent currently assessed as being small may in the future acquire a larger extent than risks that are currently assessed as having a larger extent. This may be due to uncertainties that cannot be assessed at present and over which we have no influence. Likewise, on account of uncertainties that cannot be assessed at present, risks that are currently unknown to us, or those that we currently consider to be insignificant, may affect our business activities in the future.

### RISK CONTAINMENT MEASURES

**Risk management and insurance.** To the extent possible and economically viable, we take out adequate Group-wide insurance cover for insurable risks. Group Risk Management & Insurance is supported by DeTeAssekuranz GmbH as an insurance broker. DeTeAssekuranz GmbH works for the Group as a wholly owned subsidiary of Deutsche Telekom AG and supports insurance risk management in the Group. It develops and implements solutions for the Group's operational risks using insurance and insurance-related tools and places them on the national and international insurance markets.

Taking out insurance cover is an essential option for our external **risk transfer**. The coverage of risks in our Group insurance programs requires a risk transfer for the purpose of protecting the Group's financial position (i.e., the possible risk extent reaches a volume "relevant for the Group") or for risks to be bundled and managed at Group level to protect the Group's interests (opportune reasons/cost optimization/risk reduction).

**Business Continuity Management (BCM).** BCM is a support process within operational risk management that protects business processes from the consequences of damaging incidents and disruptions, and ensures the continuation of business processes through ongoing analysis, assessment, and management of relevant risks for people, processes, technology, and information. The aim of BCM is therefore to identify potential threats and to reduce the impact and duration of a disruption of critical business processes to an acceptable minimum by ensuring appropriate resilience in the organization plus the ability to effectively cope with threats.

For this, BCM identifies critical business processes and business processes needing protection including any supporting processes, process steps, and assets (employees, business processes, information, and technology). Appropriate precautionary measures are also defined. Specifically, the possible consequences of external and internal threats with relevance for security (natural disasters, vandalism, sabotage, etc.) need to be analyzed by Security Management in coordination with the relevant units and process owners. Once the extent of the damage and the probability that damage will occur have been evaluated, the basis is created for implementing preventive measures and developing emergency plans.

Further measures for containing risks are introduced and implemented by risk owners according to their quality and nature. A wide range of measures are available, depending on the risk type. A few examples of these measures are:

- We tackle market risks with comprehensive sales controlling and intensive customer management.
- We manage interest and currency risks with the help of our systematic risk management and hedge them using derivative and non-derivative financial instruments.
- We also take a large number of measures for dealing with operational risks: For example, we improve our networks through continuous operational and infrastructural measures. We continuously enhance our quality management, the related controls, and quality assurance. We offer systematic training and development programs for our employees.
- We deal with risks from the political and regulatory environment through an intensive, constructive dialog with authorities and politics.
- We endeavor to minimize risks in connection with legal disputes by ensuring suitable support for proceedings and designing contracts appropriately in the first place.
- The Group Tax unit identifies potential tax-related risks at an early stage and systematically records, assesses and monitors them. Measures to minimize tax-related risks are taken as necessary and coordinated with the Group companies affected. The unit also draws up and communicates policies for overcoming or avoiding tax risks.

### RISKS AND OPPORTUNITIES

In the following section, we present all risks and opportunities that have been identified as significant for the Group and, as things currently stand, could affect the results of operations, financial position, and/or reputation of Deutsche Telekom and, via the subsidiaries' results, the results of operations, financial position and/or reputation of Deutsche Telekom AG. We describe the majority of the risks before the measures for risk containment are taken. If any remaining risks have been identified despite such measures for risk containment, they are labeled as such. If risks and opportunities can be clearly allocated to an operating segment, this is subsequently presented.

As of the reporting date and the time of preparing the statement of financial position, there were no risks that jeopardize Deutsche Telekom AG's and key Group companies' continued existence as a going concern.

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In order to make it easier to understand and explain their effects better, we have allocated the individually assessed risks to the following categories:

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**Corporate risks**

	Probability of occurrence	Risk extent	Risk level	Change against prior year
<b>INDUSTRY, COMPETITION AND STRATEGY</b>				
Economic risks, Germany	low	small	low	↻
Economic risks, United States	low	medium	low	↻
Economic risks, Europe	low	medium	low	↻
Risks relating to the market and environment, Germany	medium	small	low	↻
Risks relating to the market and environment, United States	low	large	medium	↻
Risks relating to the market and environment, Europe	medium	medium	medium	↻
Risks relating to innovations (substitution)	medium	medium	medium	↻
Risks relating to strategic transformations and integration	medium	medium	medium	↻
<b>REGULATION</b>	see page 153 et seq.			
<b>OPERATIONAL RISKS</b>				
Personnel, Germany and Systems Solutions	medium	small	low	↻
Risks relating to IT/NT network operations, Germany	very low	very large	medium	↻
Risks relating to IT/NT network operations, United States	very low	large	medium	↻
Risks relating to IT/NT network operations, Europe	very low	large	low	↻
Risks relating to existing IT architecture, United States	medium	medium	medium	↻
Future viability of the IT architecture, United States	medium	large	medium	↻
Procurement	low	small	low	↻
Data privacy and data security	medium	medium	medium	↻
<b>BRAND, COMMUNICATION AND REPUTATION</b>				
Brand and reputation (reporting in the media)	low	small	low	↻
Sustainability risks	very low	small	low	↻
Health and environment	low	medium	low	↻
<b>LITIGATION AND ANTI-TRUST PROCEEDINGS</b>	see page 158 et seq.			
<b>FINANCIAL RISKS</b>				
Liquidity, credit, currency, interest rate risks	low	small	low	↻
Tax risks	see page 163			
Other financial risks	see page 163			

↻ improved   ↻ unchanged   ↻ deteriorated

## RISKS AND OPPORTUNITIES FROM INDUSTRY, COMPETITION AND STRATEGY

**Risks and opportunities relating to the macroeconomic environment.** The economic development and outlook for our markets have improved, in part through the ECB's expansive monetary policy. However, a renewed intensification of the sovereign debt crisis and the possibility that the banking crisis will flare up again remain the greatest economic risks for our European countries in particular. A radical escalation of the current or future geopolitical crises may also have an adverse effect on the economies of the countries in which we operate. The economic recovery in Greece could be adversely affected by a substantial deviation from the budget policy agreed with the Troika.

Risks to economic development could manifest themselves in different ways in some of our countries, where consumers and business customers could rein in their consumption if the economy slows again sharply and uncertainty continues to rise. Government austerity measures could also have negative effects on demand for telecommunications services – caused by reduced public demand and lower disposable incomes in the private sector. On account of national efforts at consolidation, our operational business also faces the risk of further, unannounced tax rises or special taxes, particularly in our Southern and Eastern European markets. Furthermore, the risks arising from the sovereign debt crisis also give rise to volatile exchange rate fluctuations.

By contrast, a clear improvement in the economic situation in the countries in which we operate may lead to a further increase in consumer behavior as well as in business and public investment activity and, as a result, to a moderate increase in demand for telecommunications and ICT services from consumers, business customers, and the public sector.

**Risks relating to the market and environment.** The main market risks we face are the consistently falling price levels for voice and data services in the fixed network and in mobile communications. In addition to price reductions imposed by regulatory authorities, this is primarily attributable to intensive competition in the telecommunications industry, cannibalization effects due to new products and services, and technological progress. Consolidations and partnerships that resulted in stabilization in the market helped to reduce the risks compared with the prior year and could have further positive effects in the future.

Competitive pressure is expected to continue, especially in the fixed network in Germany and Europe. In the broadband market, we continue to observe growing market shares of cable network operators in the new customer business, especially in Germany. Furthermore, regional telecommunications carriers may further increase their market coverage. In certain regions, our competitors are extending their own fiber-optic network to the home so that they are independent of our network in the local loop, too. Another competitive risk lies in the fact that we are increasingly faced with competitors who are not part of the telecommunications sector as such, but rather major players in the Internet and consumer electronics industries. We continue to be exposed to the risk of a further loss of market share and falling margins.

We also expect prices in mobile voice telephony and mobile data services to decline further, which could adversely affect our mobile revenue. Among the main reasons for the decrease in prices are discount operators that are expanding in Germany and other European markets. The pure eSIM smartphone offerings from major smartphone manufacturers could also further push down prices in mobile voice telephony and for mobile data services. Our national companies in Europe continue to operate in a highly competitive environment. On the one hand, consolidations (e.g. in Austria) and partnerships provide impetus for stabilization. On the other hand however, competition remains intense due to new market players as a result of frequency auctions and wholesale agreements (especially in mobile communications). In addition, there is also the risk that smaller competitors will take unforeseen, aggressive pricing measures.

During the reporting year, we were the smallest of the four national mobile providers in the United States and the third largest in the prepaid segment. Our relative market position in the United States entails particular risks, especially in connection with our market shares, brand positioning, network coverage – including in roaming agreements – and network quality. We expect joint ventures, mergers, acquisitions, and strategic business combinations in the U.S. mobile industry to result in increased competition in the U.S. market. Thanks to their market position and market shares, our three strongest competitors (Verizon Wireless, AT&T, Sprint-Nextel) can react faster and more effectively to market opportunities and invest more in customer acquisition. In the future, T-Mobile US will require additional spectrum in order to meet the rising demand for capacity. If spectrum is not acquired, risks include a deterioration in the quality of services due to saturation of frequency capacities. T-Mobile US participated in the FCC frequency auction, which ended on January 29, 2015. We expect that these and further transactions will improve network coverage of broadband spectrum and enable the expansion of LTE coverage. In 2015, T-Mobile US will try to acquire more spectrum to enhance its portfolio. T-Mobile US is also pursuing the option of acquiring spectrum from other providers and to conclude agreements on sharing network capacity with other network operators.

Our Systems Solutions operating segment also faces challenges. After all, the information and communications technology market is dominated by continuing strong competition, persistent price erosion, long sales cycles, and restrained awarding of projects. This creates a potential risk of revenue losses and declining margins at T-Systems.



For further information, please refer to the section "The economic environment," PAGE 76 ET SEQ.

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**Opportunities relating to the market and environment.** In the following section, we present opportunities for each business segment which we believe will allow us to achieve above-average market growth and which could be significant for us in terms of our future financial position and results.

The telecommunications and IT market is highly dynamic and characterized by intense competition. The economic conditions affect our actions and impact on our Company indicators. We generally expect the situation to develop as described in the section "Market expectations".

One opportunity in the German market could arise from customer demand for broadband connections being significantly higher than our planning assumptions. The marketing of convergent products comprising fixed network and mobile communications in the consumer and business customer segments could also increase the high-value customer base beyond our planning assumptions. Higher investments in high-performance broadband networks based on LTE by all national competitors and the ongoing consolidation of the mobile and fixed-network markets could lead to increased competition on the basis of performance, and reduce the substantial price erosion of the last few years. Further opportunities could result from a stronger trend beyond our expectations for tablets and smartphones with mobile data connections, which are becoming increasingly good value for end customers thanks to strong competition among manufacturers.

Higher net immigration leads to a growing population, which has a positive impact on the telecommunications market, especially the mobile market. However, this also offers additional opportunities, especially for those industrial nations that are aging and in some cases already shrinking: By admitting migrant workers, they can maintain their levels of productivity and counter the shortage of skilled labor.

The improved market situation of T-Mobile US could have a positive effect on the monetization of data services. This could be stimulated in particular by the constant introduction of innovative rate plans. Moreover, it could be possible to improve the margin in the lower and middle segment's terminal equipment business if procurement volumes can be bundled and specifications simplified. In addition, the momentum brought about by the Un-carrier strategy in the U.S. mobile market may continue in 2015 and thereby generate revenues and customer growth for T-Mobile US beyond our expectations. The momentum in the U.S. market is also supported by significant net immigration in the U.S. population.

**Risks relating to innovations.** Ever shorter innovation cycles confront the telecommunications sector with the challenge of bringing out new products and services at shorter and shorter intervals. New technologies are superseding existing technologies, products, or services in part, in some cases even completely. This could lead to lower prices and revenues in both voice and data traffic. In the future, the effects of new technological developments, such as WebRTC (Web Real Time Communication) could have a significant impact on the telecommunications market. For example, customers may only demand pure data rates. These substitution risks could impact our revenue and earnings,

in particular in the Europe and United States operating segments. We deal with the impact of substitution risks by offering package rates, which provide new and existing customers with an integrated solution from Deutsche Telekom's communications portfolio.

**Risks relating to strategic transformations and integration.** We are in a continuous process of strategic adjustments and cost cutting initiatives. If we are unable to implement these transformations and integration measures as planned, we will be exposed to risks. In other words, the benefit of the measures could be less than originally estimated, or they could take effect later than expected, or not at all. Each of these factors, on their own or combined with others, could have a negative impact on our business situation, financial position, and results of operations.

**Opportunities relating to strategic initiatives, innovations, and partnerships.** In the following section, we present the opportunities which we believe will allow us to achieve above-average market growth and which could be significant for us in terms of our future financial position and results.

Deutsche Telekom is redesigning its processes on the basis of a new ERP platform. This transformation covers the areas of Finance, Procurement, Human Resources, Production, Service & Logistics and their master data. Processes, data and IT are being standardized Group-wide and raised to a new level. This gives rise to a high level of quality and agility, making it possible to realize savings. It also provides a new basis for carrying out business management, which can thus be optimized. There are further advantages in the improved support for our programs to expand our network infrastructure and in the simplified implementation of partnerships.

For T-Mobile US, a stronger strategic focus on the business customer market can bring with it the opportunity for a larger market share in this segment. This also creates higher revenue and earnings potential.

#### RISKS AND OPPORTUNITIES RESULTING FROM REGULATION

In the following section, we describe our main regulatory and political risks and opportunities which, as things currently stand, could affect our results of operations, financial position, or cash flows, and/or our reputation.

Our German and international companies remain subject to sector-specific market regulation. The national regulatory authorities have extensive powers to intervene in our product design and pricing, with significant effects on our operations. We can only to a limited extent anticipate such regulatory interventions, which may additionally increase existing price and competitive pressure.

There are concerns that regulation in Germany and other European countries may continue to impact the revenue trend in the fixed network and in mobile communications in the medium and long term.

We are always subject to strict regulation in cases where national regulatory bodies consider us to have "significant market power" in the relevant telecommunications market. This means the national



See the section "Forecast,"  
PAGE 134 ET SEQ.

regulatory bodies can compel us to grant competitors access to our networks. On the other hand, they can also regulate specific wholesale products and the rates to be paid for these.

In relation to the types of rates regulation, a distinction must be made between ex-ante and ex-post regulation. In ex-ante regulation, prices must be submitted to the regulatory bodies for approval – before they take effect. In Germany, a strict cost review is performed for our wholesale services for access to unbundled local loop lines (ULLs) and for the termination of voice calls in our fixed and mobile networks. The second type of rate regulation is ex-post regulation, which does not involve a strict cost review; however, investigations whether prices are abusively excessive or too low can be launched at any time. In Germany, bitstream products are subject to ex-post rate regulation with a notification requirement. This means that we must announce rate measures to the Federal Network Agency before they take effect and the latter may initiate a more extensive review. Decisions by the Federal Network Agency may on the one hand lead to lower prices and thus lower revenue and, in ex-post proceedings, to delays in the introduction of pricing measures. On the other hand, opportunities arise if the Federal Network Agency approves stable or rising rates. Longer-term approvals ultimately increase our planning reliability.

**Assignment of frequencies.** In terms of risks and opportunities regarding spectrum regulation, particular note should be made of the spectrum allocation processes currently in preparation or being planned in some countries. The allocation procedures mainly relate to the auctioning of spectrum in the 0.8 GHz, 1.8 GHz, and 2.6 GHz ranges. Risks could arise from the fact that inappropriate auction rules and frequency usage requirements, excessive launch price demands and disproportionately high annual spectrum fees could jeopardize the acquisition of our target spectrum. By contrast, we see an opportunity in particular in the fact that via such spectrum allocation procedures, mobile operators can acquire sufficient spectrum that is ideal for their purposes. We would thus be equipped for further growth and innovation. Allocation procedures are currently being prepared in Albania, Germany, Poland, and the Czech Republic, which are expected to start in the first half of 2015. Frequency auctions will also be held in the medium term in Montenegro, the United Kingdom, the Netherlands and the United States.

**Consumer protection.** In February 2014, the Federal Network Agency presented a draft regulation designed to achieve more transparency and greater cost control in telecommunications services. The extensive requirements will give consumers and other end users the opportunity to check their Internet speeds in the mobile and fixed network on request, for example. Warnings in the event of high data consumption and new regulations for avoiding bill shocks are also envisaged. These new regulations will entail significant adjustments for Telekom Deutschland. In parts, the draft regulation addresses considerations being discussed at EU level in the context of the regulation on the single market for electronic communications which may apply across the EU at a later date. At present, the Federal Network Agency's draft is being agreed with the government ministries involved, following which it must be agreed with the German national parliament, the Bundestag. The regulation will enter into force after a six-month transposition period. An extended transposition period of twelve months is envisaged for individual rules.

**Retrospective new ruling on rate approvals.** In Germany, in addition to the general regulatory risks already described, there are also uncertainties arising from the fact that administrative courts can reverse rate rulings made by the national regulatory authority. The regulatory authority then has to decide again on the rates for past periods. It is generally not clear at all, whether, to what extent, and in which direction rates will be revised.

At EU level, the relevant regulatory framework is largely determined by regulations to be applied directly by the member states, by directives to be transposed into national law by the member states, and by recommendations by the European Commission that, while not directly binding, must be taken into account by the national regulatory authorities. Examples of important regulations and recommendations:

- **The Roaming Regulation**, which entered into force on July 1, 2012, specifies price caps for retail roaming services through 2017. Risks arise from possible early new regulations on roaming as part of the draft regulation by the European Commission on the single market for electronic communications. For example, the draft envisages abolition of roaming premiums compared with national rates from 2016. The introduction of Roam Like at Home, as it is called, could give rise to substantial revenue losses as well as significant implementation costs.



For more information on the administrative court proceedings, see the section "Litigation," PAGE 158 ET SEQ.



For information on frequency auctions that are currently ongoing or were completed in 2014, please refer to the section "The economic environment," PAGE 76 ET SEQ.

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- The European Commission Recommendation of May 7, 2009 on the **Regulatory Treatment of Fixed and Mobile Termination Rates** in the EU set out that termination rates across the European Union are to be set on the basis of a new costing approach from January 1, 2013. As a result, the termination rates of our subsidiaries in Europe and in Germany were substantially reduced and will be reduced further in 2015 through regulatory decisions and preliminary drafts by the relevant regulatory authorities. The European Commission had also announced that in the event of non-compliance with the recommendation to change the cost standard, it would consider legal action with regard to the final decisions by the Federal Network Agency on the mobile and fixed-network termination rates.
- In the revision of the **Recommendation on Relevant Markets** published on October 9, 2014, various product markets are defined in which regulatory measures are to apply in general. According to the revised recommendation, the number of markets to be regulated has been reduced from seven to four. The new recommendation offers the opportunity for deregulation of the telephony service markets, such as retail rates for the telephone line as well as wholesale products, such as **Call by Call**. The recommendation also allows the waiving of an obligation to "physically unbundle" access networks in favor of more efficient "active" wholesale services for fiber-optic lines. On the other hand, the recommendation carries the risk of an increase in regulation for individual wholesale services for business customer markets. The national regulatory authorities have to take the recommendation into account in future market analysis procedures. The opportunities and risks described can only take effect when taken into consideration in national decisions.


Further development of the European legal framework in the form of new EU regulations or directives provides opportunities for greater legal certainty; however, risks of additional regulatory restrictions also arise.

- In addition to positive proposals on spectrum policy and regulatory principles, the original **draft regulation by the European Commission on the single market for electronic communications** envisaged regulatory cuts in roaming fees and the international call rates within Europe. At the same time, customer protection regulations are expected to be harmonized further and regulations on Net neutrality enshrined at EU level. In the ongoing legislative procedure in the European Parliament and the European Council, the draft has already been changed significantly. For example, the European Council is no longer discussing the proposed regulations on spectrum policy, but has moved on to the abolition of premiums for roaming services for 2016. We expect that the regulation will not be passed until the second quarter of 2015 at the earliest, possibly even in the second half of 2015.

- Depending on how they are implemented, the planned EU regulations on **Net neutrality** might significantly curtail our freedom in product design. The regulations in the form agreed by the European Parliament would only allow "special services" to be offered under strict conditions – for example, data traffic management in set cases; on the other hand, they would impede optional calling plans in mobile communications, limit access to certain Internet services and applications, or exclude them from volume restrictions. The European Council is currently debating a less restrictive, more principles-based approach. The European Council and the Parliament have to agree on a joint text. In mobile communications in particular, there is a risk arising from EU legislation that numerous business models that differentiate between services and applications can no longer be legally offered.
- A complete **overhaul of the applicable EU legal framework for telecommunications** will be initiated by the European Commission next year. Opportunities, such as a reduction in "ex-ante" regulation, and risks, such as in the area of universal service obligations or customer protection, cannot yet be conclusively assessed at the present time.

#### OPERATIONAL RISKS AND OPPORTUNITIES

**Personnel.** In 2014, we once again used socially responsible measures to restructure the workforce in the Group, essentially by means of voluntary redundancies, partial and early retirement, and employment opportunities for civil servants and employees offered by Vivento, especially in the public sector. Staff restructuring will continue in the coming financial year. If it is not possible to implement the measures as planned or at all, this may have negative effects on our financial targets and profitability. The right of civil servants to return to Deutsche Telekom also carries risks: When Group entities that employ civil servants are disposed of, it is generally possible to continue to employ them at the Group entity to be sold, provided the civil servant agrees or submits an application to be employed at the respective unit in future. However, there is a risk that they may return to us from a sold entity, for instance after the end of their temporary leave from civil servant status, without the Company being able to offer them jobs.

There are currently around 2,200 civil servants who are entitled to return to Deutsche Telekom in this way (as of December 31, 2014). On the assumption that all these civil servants had returned to us in the reporting year, the maximum risk would be around EUR 0.1 billion per year. This risk could be reduced by compensation payments, for example, but not completely eliminated. 

**Risks relating to IT/NT network operations.** We have an increasingly complex information/network technology (IT/NT) infrastructure, which we constantly expand and modernize. Outages in the current and also future technical infrastructure cannot be completely ruled out. Any such disruptions could in certain circumstances result in revenue losses or increased costs, since our IT/NT resources and structures are the main organizational and technical backbone for our operations.



Glossary, PAGE 277 ET SEQ.



For information on major litigation in connection with personnel, please refer to the section "Litigation," PAGE 158 ET SEQ.



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Risks could arise in this area relating to all IT/NT systems and products that require Internet access. For instance, faults between newly developed and existing IT/NT systems could cause interruptions to business processes, products and services, such as smartphones and Entertain. In order to avoid the risk of failures, e.g., arising from natural disasters or fire, we use technical early warning systems and duplicate IT/NT systems. Our Computer Emergency Response Team (CERT) at T-Systems provides security for our corporate customers' servers. In cloud computing, all data and applications are stored at a data center. Deutsche Telekom's data centers have security certification and meet strict legal data protection provisions and EU regulations. All data relating to companies and private persons are protected from external access. Constant maintenance and automatic updates keep the security precautions up to date at all times. Based on a standardized Group-wide Business Continuity Management process, we are also taking organizational and technical measures to prevent any damage or to minimize the effects. Furthermore, we have Group-wide insurance cover for insurable risks.

**Risks relating to the existing IT architecture.** T-Mobile US is exposed to risks in relation to its IT infrastructure: Systems for sales and service have become less efficient over time, leading to interruptions or outages. For as long as it takes to upgrade our IT systems, T-Mobile US will have to continue to expect limitations in the sales process and in service.

**Future viability of the IT architecture.** If T-Mobile US is not ready in time to exploit the benefits of technological advances, we will have reason to fear a decline in demand for our services. System failures, security breaches, data protection violations, disruption of operations, and unauthorized use or impairment of our network and other systems could damage our reputation and adversely impact our financial situation. In 2014, T-Mobile US began to introduce a new billing system which, once implemented successfully, is to substantially support the transformation. The integration of the new billing system entails operational risks. In addition, T-Mobile US must take long-term measures in the area of IT in 2015 in order to maintain its ability to act quickly on the market and ensure compliance with recognized standards for authorization management and access protection.

**Opportunities arising from the IT architecture.** T-Mobile US is making significant investments in the IT infrastructure, including optimizing the customer service systems. If these investments succeed in considerably improving sales and service processes, there is an opportunity to save more costs than currently expected.

**Procurement.** As a service provider and an operator and provider of telecommunications and IT products, we cooperate with a variety of suppliers of technical components, such as software, hardware, transmission systems, switching systems, outside plant, and terminal equipment.

Supply risks cannot be entirely ruled out. Delivery bottlenecks, price increases, changes in the prevailing economic conditions or suppliers' product strategies may have a negative impact on our business processes and our results. Risks may result from the dependence on individual suppliers or from individual vendors' defaulting as a direct result of the economic crisis. We employ organizational, contractual, and procurement strategy measures to counteract such risks.

**Data privacy and data security.** Our products and services are subject to risks in relation to data privacy and data security, especially in connection with unauthorized access to customer, partner, or employee data.

The security and privacy of customer data are always our top priority. This also applies to the growing cloud computing business, which is subject to the same rigorous requirements for security and data privacy as all our other products. In order to maintain these high standards and largely exclude risks, we support the view that European data protection rules should be made mandatory where a company offers its services on the European market. This would provide consumers with the same rights all over Europe. Loopholes in data protection in Europe could also be closed and uniform competitive conditions created.

With regard to IT security, we are faced with numerous new challenges. In recent years, the focus has shifted from prevention to analysis. This is where our early warning system comes in: It detects new sources and types of cyber attack, analyzes the behavior of the attackers while maintaining strict data privacy, and identifies new trends in the field of security. Along with the honeypot systems, which simulate weaknesses in IT systems, our early warning system includes alerts and analytical tools for spam mails, viruses, and Trojans. The information we obtain from these sensors is exchanged with public and private bodies to enable new attack patterns to be detected and new protection systems to be developed.

Cyber crime and industrial espionage are on the rise. We are addressing these risks with comprehensive security concepts, and we are increasingly doing so in partnerships, for example with public and private organizations. This allows us to create greater transparency and thus be better able to tackle the threats. With Security by Design we have established security as a fixed development component for new products and information systems. In addition, we carry out intensive and mandatory digital security tests. □



We provide regular reports on the latest developments in these areas on our websites [www.telekom.com/dataprotection](http://www.telekom.com/dataprotection) and [www.telekom.com/security](http://www.telekom.com/security).



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**RISKS AND OPPORTUNITIES ARISING FROM BRAND, COMMUNICATION AND REPUTATION**

**Negative media reports.** An unforeseeable negative media report on our products and services or our corporate activities and responsibilities can have a huge impact on the reputation of our Company, our standing, and our brand image. Social networks have made it possible that such information and opinions can spread much more quickly and extensively than they could just a few years ago.

Ultimately, negative reports can impact on our revenue and brand value. In order to avoid negative reports, we seek out a constant, intensive and constructive dialog, in particular with our customers, the media, and the financial world. Keeping our stakeholders happy and thereby upholding our reputation is a priority for us.

**Ongoing media reports concerning the surveillance of telephone and Internet traffic by intelligence agencies.** In light of the ongoing public coverage of the monitoring of telephone and Internet traffic by secret services, surveys from Germany show that the German public's trust in Internet services has been undermined. For network operators, indirect damage to their reputation and therefore commercial risks cannot be ruled out since, like all network operators, Deutsche Telekom is obliged to cooperate with national security agencies and based on non-disclosure obligations may speak publicly thereof only to a limited extent.

**Sustainability risks.** For us, comprehensive risk and opportunities management also includes considering the risks and opportunities of corporate responsibility (CR). As part of our CR management, we pursue a strategy in which the different stakeholder groups are systematically involved in identifying current and potential risks and opportunities. To this end, we participate in a number of committees and initiatives. Continuous monitoring of CR topics enables us to systematically identify stakeholder positions on relevant sustainability issues. To this end, we use, for example, our NGO Radar, which summarizes the activities, research projects, publications, and opinions of relevant NGOs and assesses them for us. In addition, we ask our stakeholders on an annual basis as part of our CR reporting which sustainability issues are important to them.

■ **Climate protection.** At present, we do not see any severe risks to the achievement of our climate protection targets within our reference period. Deutsche Telekom sees climate protection above all as an opportunity: ICT products and services have the potential to save seven times as many carbon emissions in other industries as the ICT industry emits itself (SMARTer2020 study). Examples of resulting external opportunities include changed customer expectations, political measures to implement the energy revolution, the growing consideration of sustainable criteria in tenders and in procurement, as well as the interest of sustainable investors (socially responsible investing – SRI). The Carbon Disclosure project, for example, manages 767 institutional investors (approx. USD 92 trillion), selecting investments in climate-friendly assets. Opportunities that Deutsche Telekom can develop itself are the continuous reduction in its own electricity consumption and emissions, as well as a reduction in carbon emissions by means of climate-friendly products and services, thus also tapping into new target groups.

■ **Suppliers.** We see more sustainability in our supply chain as an opportunity. It helps to enhance our reputation and our economic success. Thus through a development program, we help strategic suppliers to introduce business practices that are socially and ecologically acceptable and economically efficient. The program launched in 2014 has already produced measurable initial successes and is to be rolled out further in 2015. At the same time, our global procurement activities can expose us to country- and supplier-specific risks. These include, for example, the use of child labor, the conscious acceptance of environmental damage or inadequate working and safety conditions in the local supplier factories. However, the reporting of NGOs or media can give rise to risks to the Company's reputation, but also to supply risks. We reduce these risks by systematically reviewing suppliers.

In the important sustainability ranking SAM, Deutsche Telekom was rated very positively for its supplier management in the last few years. In 2014, we improved further (from 88 points in 2013 to 93 points). Our partnerships with suppliers that comply with international sustainability standards ensure a high level of product quality and reliability in procurement.

**Health and environment.** Mobile communications, or the electromagnetic fields used in mobile communications, regularly give rise to concerns among the general population about potential health risks. There is intense public, political, and scientific debate of this issue. Acceptance problems among the general public concern both mobile communications networks and the use of mobile handsets. In mobile communications, this affects projects like the build-out of the mobile communications infrastructure and the use of mobile handsets. In the fixed network, it affects sales of traditional DECT (digital cordless) phones and devices that use Wi-Fi technology. There is a risk of regulatory interventions, such as reduced thresholds or the implementation of precautionary measures in mobile communications (e.g., amendments to building law or labeling requirements for handsets).

Over the past few years, recognized expert organizations such as the World Health Organization (WHO) and the International Commission on Non-Ionizing Radiation Protection (ICNIRP) have repeatedly reviewed the current limit values for mobile communications and confirmed that if these values are complied with the use of mobile technology is safe based on current scientific knowledge. In 2011, despite a lack of scientific evidence, the International Agency for Research on Cancer (IARC), a WHO agency, classified high-frequency electromagnetic fields as "possibly carcinogenic" as a precautionary measure on the basis of isolated indications. This is the weakest category indicating a potential carcinogenic effect. Drinking coffee is also included in the same category. However, the classification provoked an increase in media coverage, as well as controversy among experts. The German Commission on Radiology Protection criticized the IARC's classification on the basis that there is insufficient scientific evidence for it in the Commission's view. There is still agreement among all institutions and expert committees that there is so far no scientific evidence of a health risk from high-frequency electromagnetic fields but there is a need for more research into this issue.

See section "Corporate responsibility," PAGE 116 ET SEQ.

Sustainability at Deutsche Telekom

See section "Forecast," PAGE 134 ET SEQ.

We are convinced that mobile communications technology is safe if specific threshold values are complied with. We are supported in this conviction by the assessment of the recognized bodies. The basis of our responsible management of mobile communications is Deutsche Telekom's EMF Policy. With this policy we are committing ourselves to more transparency, information, participation, and financial support of independent research on mobile communications, far beyond that which is stipulated by legal requirements. We aim to overcome uncertainty among the general public by pursuing an objective, scientifically well-founded, and transparent information policy. Thus, we remain committed to maintaining our trust-based, successful communication with local authorities over and above the statutory requirements. The same applies even after the longstanding cooperation with local authorities in connection with the build-out of the mobile network, which in the past was implemented on the basis of voluntary commitments by the network operators, was enshrined in law in 2013.

## LITIGATION

**Major ongoing litigation.** Deutsche Telekom is party to proceedings both in and out of court with government agencies, competitors, and other parties. The proceedings listed below are of particular importance from our perspective. If, in extremely rare cases, required disclosures on the significance of individual litigation and anti-trust proceedings are not made, we conclude that these disclosures may seriously undermine the outcome of the relevant proceedings.

T 053

### Major ongoing litigation

Toll Collect arbitration proceedings
Prospectus liability proceedings
Claims for damages concerning the provision of subscriber data
Claims by partnering publishers of telephone directories
Claims for damages due to price squeeze
Claims relating to charges for shared use of cable ducts
Litigation concerning decisions by the Federal Network Agency
Monthly charges for the unbundled local loop
Auction of LTE frequencies
Reduced pay tables
Claim for compensation against Slovak Telekom
Claim for compensation against OTE
Patents and licenses
Reduction of the Company's contribution to the civil service pension of the former Deutsche Bundespost

- **Toll Collect arbitration proceedings.** The principal members of the Toll Collect consortium are Daimler Financial Services AG and Deutsche Telekom AG. In the arbitration proceedings between these principal shareholders and the consortium company Toll Collect GbR on one side and the Federal Republic of Germany

on the other concerning disputes in connection with the truck toll collection system, Deutsche Telekom received the Federal Republic of Germany's statement of claim on August 2, 2005. In this statement, the Federal Republic claimed to have lost toll revenues of approximately EUR 3.51 billion plus interest owing to a delay in the commencement of operations. The total claims for contractual penalties amount to EUR 1.65 billion plus interest; these claims are based on alleged violations of the operator agreement: alleged lack of consent to subcontracting, allegedly delayed provision of on-board units and monitoring equipment. In a letter dated May 16, 2008, the Federal Republic recalculated its claim for damages for lost toll revenues and reduced it by EUR 169 million. The claim is now approximately EUR 3.33 billion plus interest. The main claims by the Federal Republic – including the contractual penalty claims – thus amount to around EUR 4.98 billion plus interest. Further hearings took place in spring and fall 2014. In connection with the hearing in spring 2014, the proceedings and the share of the risk borne by Deutsche Telekom were reexamined and, as a result, appropriate provisions for risk were recognized in the statement of financial position.

- **Prospectus liability proceedings.** There are around 2,600 ongoing actions filed by around 16,000 alleged buyers of T-Shares sold on the basis of the prospectuses published on May 28, 1999 (second public offering, or DT2) and May 26, 2000 (third public offering, or DT3). The complainants assert that individual figures given in these prospectuses were inaccurate or incomplete. The amount in dispute totals approximately EUR 80 million. Some of the actions are also directed at KfW and/or the Federal Republic of Germany as well as the banks that handled the issuances. The Frankfurt/Main Regional Court has issued certified questions to the Frankfurt/Main Higher Regional Court in accordance with the German Capital Investor Model Proceedings Act (Kapitalanleger-Musterverfahrensgesetz – KapMuG) and has temporarily suspended the initial proceedings. In the model proceedings ("Musterverfahren") on the second public offering (DT2) on July 3, 2013, the Frankfurt/Main Higher Regional Court issued a decision and ruled that the disputed stock exchange prospectus did not contain any errors. On May 16, 2012, the Frankfurt/Main Higher Regional Court had ruled in the model proceedings ("Musterverfahren") on the third public offering (DT3) that there were also no errors in the prospectus for Deutsche Telekom AG's third public offering. The Frankfurt/Main Higher Regional Court therefore believes there is no basis for holding Deutsche Telekom AG liable. In its decision on October 21, 2014, the Federal Court of Justice revoked this ruling, determined that there was a mistake in the prospectus, and referred the case back to the Frankfurt/Main Higher Regional Court. A decision on possible liability for damages was not made. We continue to hold the opinion that there are compelling reasons why Deutsche Telekom AG should not be liable for damages. It is currently not possible to estimate the financial impact with sufficient certainty.

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- **Claims for damages concerning the provision of subscriber data.** In 2005, Deutsche Telekom AG received a claim for damages of approximately EUR 86 million plus interest from telegate AG. telegate AG alleges that Deutsche Telekom AG charged excessive prices for the provision of subscriber data between 1997 and 1999, resulting in telegate AG not having sufficient funds available for marketing measures, thus preventing it from reaching its target market share. Also in 2005, Deutsche Telekom AG received a claim for damages of approximately EUR 329 million plus interest from Dr. Harisch, the founder of telegate AG. Dr. Harisch alleges that the excessive prices for the provision of subscriber data between 1997 and 1999 caused telegate AG's equity ratio to decrease significantly on several occasions, resulting in the need for capital increases. This required Dr. Harisch and another shareholder to release shares from their own holdings, which diluted their remaining shareholdings. The complainant has since lodged an increased claim for EUR 612 million plus interest. The Cologne Regional Court dismissed both actions in its rulings on May 28, 2013. Both Dr. Harisch and telegate AG have appealed against the rulings. In its ruling on July 2, 2014, the Düsseldorf Higher Regional Court dismissed the appeal filed by Dr. Harisch. Dr. Harisch filed a complaint against the non-allowance of appeal with the Federal Court of Justice on July 8, 2014. A further claim for approximately EUR 14 million plus interest was filed in 2006 by klickTel AG, which is now part of telegate AG, on the grounds that the company had lost substantial profits because, without the allegedly excessive prices, it would have launched online directories as early as in 1999. The Cologne Regional Court dismissed the action in its ruling on November 27, 2012, too. In its ruling on December 11, 2013, the Düsseldorf Higher Regional Court dismissed the appeal filed by the complainant against this. The decision is final and legally binding.
- **Claims by partnering publishers of telephone directories.** Several publishers that had set up joint ventures with DeTeMedien GmbH, a wholly owned subsidiary of Deutsche Telekom AG, to edit and publish subscriber directories, filed claims against DeTeMedien GmbH and/or Deutsche Telekom AG at the end of 2013. The complainants are claiming damages or refund from DeTeMedien GmbH and to a certain extent from Deutsche Telekom AG as joint and several debtor next to DeTeMedien GmbH. The complainants base their claims on allegedly excessive charges for the provision of subscriber data in the joint ventures. In 2014, further partnering publishers made claims for compensation or refund against DeTeMedien GmbH. At the end of 2014, several plaintiffs further quantified the amounts claimed. Thus the claimed amounts currently total around EUR 470 million plus interest. Hearings were held regarding two actions filed against DeTeMedien GmbH at the Frankfurt/Main Regional Court on July 16, 2014 which the Court rejected in rulings on October 22, 2014. The decisions are not final and legally binding yet. The complainants have filed an appeal with the Frankfurt/Main Higher Regional Court against the rulings. We expect decisions in the numerous other cases in 2015. Deutsche Telekom has recognized appropriate provisions for risks in 2014 in the statement of financial position.
- **Claims for damages due to price squeeze.** Various competitors had filed actions against Deutsche Telekom AG or Telekom Deutschland GmbH seeking damages on the grounds of a price squeeze between wholesale and retail prices in the local network after a squeeze was identified by the European Commission in 2003 as part of a decision to impose fines. In the appeal proceedings launched by EWE Tel with a claim of approximately EUR 82 million plus interest, the Düsseldorf Higher Regional Court issued a ruling on January 29, 2014 revising the ruling of the Cologne Regional Court, particularly with regard to the scale of the claims that had lapsed, and referred the case back to the Cologne Regional Court regarding the amount of compensation awarded – not allowing the appeal. Both EWE Tel GmbH and Telekom Deutschland GmbH filed complaints with the Federal Court of Justice against the non-allowance of the appeal. In the appeal proceedings brought by Versatel GmbH with a claim of around EUR 70 million, the Federal Court of Justice rejected Versatel's complaint against the non-allowance of appeal in a ruling dated September 23, 2014. The decision is final and legally binding. With the exception of the claim of EWE Tel no further proceedings are pending in this matter.
- **Claims relating to charges for shared use of cable ducts.** With an action filed in spring 2012, Kabel Deutschland Vertrieb und Service GmbH (KDG) is asserting two claims: first, Telekom Deutschland GmbH is to reduce the annual charge for the rights to use cable duct capacities in the future; second, it is to partially refund payments made in this connection since 2004. KDG quantified the amount of the claims incurred up to and including 2012 at approximately EUR 340 million plus interest. In its ruling on August 28, 2013, the Frankfurt/Main Regional Court dismissed the complaint. In the appeal proceedings, KDG also quantified its claims for 2013 through an extension of claim and is now seeking a refund of charges allegedly paid in excess of approximately EUR 407 million as well as alleged net interest received of around EUR 34 million, plus interest in each case. On December 9, 2014, the Frankfurt/Main Higher Regional Court rejected the appeal and disallowed a further appeal. KDG has filed a complaint against the non-allowance of appeal with the Federal Court of Justice. 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. For charges allegedly paid in excess for the shared use of cable ducts from 2009 up to and including 2012, Unitymedia Hessen GmbH & Co. KG is currently demanding payment of approximately EUR 36.5 million plus interest, Unitymedia NRW GmbH EUR 90.8 million plus interest, and Kabel BW GmbH EUR 61.5 million plus interest. It is currently not possible to estimate the financial impact of either of the proceedings with sufficient certainty.

- **Litigation concerning decisions by the Federal Network Agency.** Several competitor companies have requested the revocation of decisions by the Federal Network Agency that had been in favor of Deutsche Telekom or Telekom Deutschland GmbH. If these applications were to be successful, they would normally require a new decision by the Federal Network Agency. The proceedings listed below are of particular importance from our point of view:
  - **Monthly charges for the unbundled local loop.** With the exception of the approval of one-time charges from 1999, 2001, 2005, and 2010, approvals in connection with unbundled local loop lines (ULLs) are not binding for companies demanding ULLs, having applied to have them revoked by the competent courts. Certain approvals have been revoked with final and binding effect, so the Federal Network Agency has to decide again on the charges in relation to the former complainants. Currently, this applies specifically to the approvals of the ULL monthly charges from 1999, 2001, 2003, 2005, and 2007 and to the new ruling on the ULL one-time charges from 2002 with regard to the cancellation charges.
  - **Auction of LTE frequencies.** In 2010, the Federal Network Agency auctioned off additional frequencies in the 800 MHz, 1.8 GHz, 2.0 GHz and 2.6 GHz ranges, with all four German mobile network operators participating in the auction. Several companies appealed against the rulings of the Federal Network Agency with regard to the auction. Alongside the complaints brought by broadcasters and cable network operators that were dismissed with final and legally binding effect, the complaint by a telecommunications company that was still pending was recently dismissed by the Cologne Administrative Court in a ruling on September 3, 2014. This decision is not yet final and legally binding. The complainant had filed a complaint against the non-allowance of appeal with the Federal Administrative Court. All complainants have also appealed against the allocation of frequencies to Telekom Deutschland GmbH; however, this has not yet been ruled upon.
  - **Reduced pay tables.** With the entry into force of the reform of civil service law (Dienstrechtsneuordnungsgesetz), in 2009 the legislator integrated the previous year-end bonus paid annually in accordance with the German Federal Act on Bonus Payments into the basic monthly salary for all federal civil servants. In accordance with § 78 of the Federal Civil Service Remuneration Act (Bundesbesoldungsgesetz – BBesG), this does not apply for civil servants employed by the successor companies to Deutsche Bundespost. Several appeals against the new, reduced pay tables were filed, including at the Stuttgart Administrative Court. After the Federal Constitutional Court issued an order for reference advising that it deems this provision to be constitutional, the majority of the appeals were withdrawn or dismissed by the Stuttgart Administrative Court. We thus consider it unlikely that recourse will be taken to the courts in the cases still pending.
- **Claim for compensation against Slovak Telekom.** In 1999, an action was filed against Slovak Telekom based on the accusation that the legal predecessor of Slovak Telekom had ceased broadcast of an international radio program contrary to the underlying contract. The claimant originally demanded approximately EUR 100 million plus interest for damages and lost profit. On November 9, 2011, the Bratislava Regional Court ruled partly in favor of the claimant and ordered Slovak Telekom to pay approximately EUR 32 million plus interest. On December 27, 2011, Slovak Telekom appealed to the Supreme Court against this judgment. In case of a final and legally binding court ruling against Slovak Telekom, Deutsche Telekom AG can assert recourse claims against third parties for a part of the sum demanded.
- **Claim for compensation against OTE.** In May 2009, Lannet Communications S.A. filed an action against OTE claiming compensation for damages of EUR 176 million plus interest arising from an allegedly unlawful termination of services by OTE – mainly interconnection services, unbundling of local loops, and leasing of dedicated lines. A hearing took place on May 30, 2013; a ruling has not yet been issued.
- **Patents and licenses.** Like many other large telecommunications and Internet providers, Deutsche Telekom is exposed to a growing number of intellectual property rights disputes. There is a risk that we may have to pay license fees and/or compensation; there is also a risk of cease-and-desist orders, for example relating to the sale of a product or the use of a technology.
- **Reduction of the Company's contribution to the civil service pension of the former Deutsche Bundespost.** Deutsche Telekom complies with its obligation to pay contributions to the Civil Service Pension Fund in accordance with the German Act on the Legal Provisions for the Former Deutsche Bundespost Staff (Postpersonalrechtsgesetz). The Act on the Legal Provisions for the Former Deutsche Bundespost Staff states that the obligation to contribute to the Civil Service Pension Fund may be reduced to a level that is in line with the market and a peer company if a former Deutsche Bundespost company bound by such payment obligations can provide evidence to the German government that the payment would constitute an unreasonable burden on its competitiveness. Deutsche Telekom previously filed an application with the responsible Federal Ministry of Finance to have its contribution obligations reduced, which was rejected. After the application had been rejected, Deutsche Telekom filed an appeal with the responsible administrative court seeking reimbursement of a portion of the paid contributions and a reduction of the contributions to be paid in future.
 

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

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## Proceedings concluded

- MetroPCS.** In October 2012 and subsequently, Deutsche Telekom obtained knowledge of several class actions filed in the United States against the business combination of MetroPCS Communications Inc. (MetroPCS) and T-Mobile USA. By the end of 2014, all pending actions against the business combination of MetroPCS and T-Mobile USA had been settled. The body of cases has been concluded.
- Extension of GSM frequency usage.** In July 2009, the Federal Network Agency extended the usage period of the GSM frequencies assigned to T-Mobile Deutschland GmbH (today Telekom Deutschland GmbH), which were originally assigned until December 31, 2009, until December 31, 2016. A number of companies appealed to the Federal Network Agency against this decision. In its ruling on October 9, 2014 in the only proceedings still pending, the Münster Higher Administrative Court dismissed the complaint against non-allowance of appeal filed by Airdata against the ruling by the Cologne Administrative Court on November 28, 2013 in which it rejected Airdata's claim. The ruling of the Administrative Court thus became legally binding.
- LTE frequency allocation auction, T-Mobile Austria.** On December 6, 2013, T-Mobile Austria had filed a complaint with the Austrian Administrative Court against an assignment and payment notice from the Austrian regulatory authority TKK. In the notice in dispute, the regulatory authority assigned the spectrum won in the frequency auction on October 21, 2013 to T-Mobile Austria and set down the charge to be paid. In a ruling on December 11, 2014, the Austrian Administrative Court dismissed the complaint in a final and legally binding decision.
- Billing for premium SMS content.** In July 2014, a lawsuit was filed by the FTC against T-Mobile US that alleged unauthorized billing for premium SMS content provided by third parties. In addition to this lawsuit, the FCC and other U.S. authorities began investigations and inquiries against T-Mobile US regarding billing for premium SMS content. The proceedings and investigations against T-Mobile US ended on December 19, 2014 through the conclusion of a settlement with the FCC, FTC, and other U.S. authorities.


## ANTI-TRUST PROCEEDINGS

Like many other companies, our Group is subject to the regulations of anti-trust law. In some countries, Deutsche Telekom and its subsidiaries, joint ventures, and associates are subject to various proceedings under anti-trust or competition law, which may also lead to civil follow-on claims. Deutsche Telekom believes the respective allegations are unfounded. The major anti-trust and consumer protection actions are described below.

**Proceedings by Anti-Monopoly Commission in Poland.** On November 23, 2011, the Anti-Monopoly Commission in Poland (UOKiK) concluded investigations started in 2010. It decided that T-Mobile Polska (formerly PTC) and other Polish telecommunications companies had fixed prices in breach of anti-trust law and imposed a fine on T-Mobile Polska of PLN 34 million (approximately EUR 8 million). T-Mobile Polska continues to believe these allegations are unfounded and thus complained in a lawsuit against the decision. As a result, the fine is not yet due. The same applies to another fine of PLN 21 million (approximately EUR 5 million) imposed by UOKiK on T-Mobile Polska on January 2, 2012 for an alleged breach of consumer protection law. The court has not yet made a decision.

**European Commission proceedings against Slovak Telekom and Deutsche Telekom.** The European Commission announced its finding on October 15, 2014 that Slovak Telekom had abused its market power on the Slovak broadband market and as a result imposed fines on Slovak Telekom and Deutsche Telekom. The European Commission is of the opinion that Slovak Telekom refused unbundled access to its local loop and had margins squeezed for alternative providers. The fines amount to EUR 38.8 million for Slovak Telekom and Deutsche Telekom and a further EUR 31.1 million for Deutsche Telekom because a fine had already been imposed on Deutsche Telekom in 2003 for a margin squeeze in Germany. 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. For this reason, Deutsche Telekom and Slovak Telekom challenged the European Commission's decision before the Court of the European Union on December 29, 2014. The fines are included in other liabilities as of December 31, 2014.

## FINANCIAL RISKS

With regard to its assets, liabilities and planned transactions, Deutsche Telekom is particularly exposed to liquidity risks, credit risks, and the risk of changes in exchange and interest rates. Financial risk management aims to limit these risks through ongoing operational and finance activities. Simulation calculations on the basis of different worst-case and market scenarios allow us to estimate the effects of different conditions. Depending on the risk assessment, we use selected derivative and non-derivative hedging instruments (hedges) to mitigate the risks. However, Deutsche Telekom only hedges the risks that affect the Group's cash flow. We use derivatives exclusively as hedging instruments, i.e., not for trading or other speculative purposes. The following risk areas of liquidity, credit, currency, and interest rate risks are evaluated after implementation of risk limitation measures. 



For the evaluation, see  
TABLE 052, PAGE 151.

**Liquidity risks.** To ensure the Group's and Deutsche Telekom AG's solvency and financial flexibility at all times, a liquidity reserve is maintained in the form of credit lines and cash. The primary instruments used for medium- to long-term financing are bonds and medium-term notes (MTNs) issued in a variety of currencies and jurisdictions. These are generally issued via Deutsche Telekom International Finance B.V. (DTIF) and are forwarded within the Group as internal loans.

GRAPHIC 56 below shows the development of the liquidity reserve in relation to maturity dates. As of the end of 2014 and in the preceding quarters, we clearly met our targets for the liquidity reserve to cover maturities due in the next 24 months.

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

In addition to the reported liabilities to banks, Deutsche Telekom had standardized bilateral credit agreements with 21 banks for a total of EUR 12.3 billion at December 31, 2014. As of December 31, 2014, EUR 0.2 billion of these credit lines had been utilized. Pursuant to the credit agreements, the terms and conditions depend on Deutsche Telekom's rating. The bilateral credit agreements have an original maturity of 36 months and can, after each period of twelve months, be extended by a further twelve months to renew the maturity of 36 months. From today's perspective, access to the international debt capital markets is not jeopardized. Deutsche Telekom did not issue any bonds in 2014. T-Mobile US issued bonds worth a total USD 3.0 billion in the 2014 financial year, a bond worth USD 1 billion was repaid prematurely. In December 2014, T-Mobile US issued Mandatory Convertible Preferred Shares worth USD 1.0 billion, which will be converted into T-Mobile US

shares after a period of three years. The nominal volume of the mandatory convertible preferred stock is also recognized under the bonds.

**Credit risks.** Through its operating business and certain financing activities, Deutsche Telekom is exposed to a credit risk, i.e., the risk that a counterparty will not fulfill its contractual obligations. As a rule, transactions with regard to financing activities are only concluded with counterparties that have at least a credit rating of BBB+/Baa1, in connection with an operational credit management system. At the level of operations, the outstanding debts are continuously monitored in each area, i.e., locally. The solvency of the business with corporate customers, especially international carriers, is monitored separately.

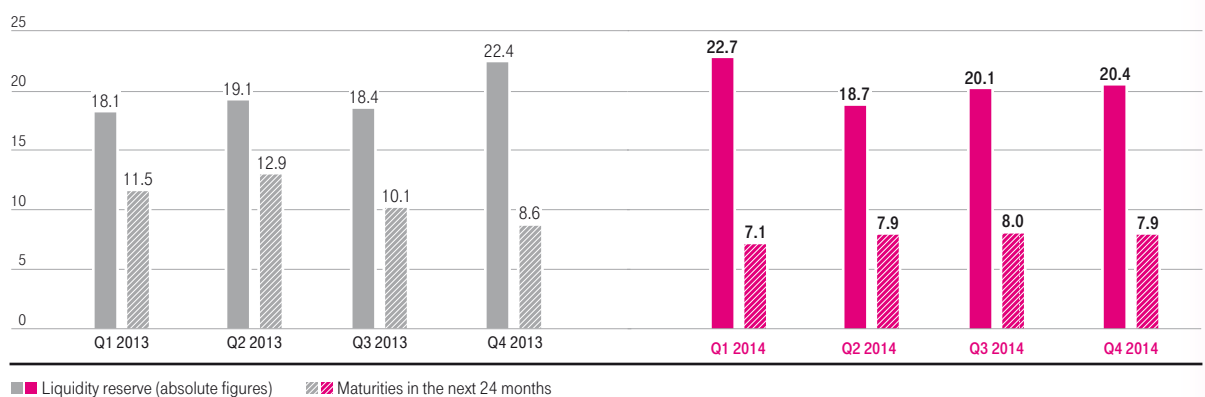
For derivative transactions, it was agreed with counterparties as part of collateral agreements that, in the event of insolvency, all existing contracts will be netted and only a receivable or liability in the amount of the balance will remain. The credit risk arising from derivative transactions is further reduced through the exchange of collateral. For existing receivable balances for existing collateral agreements, Deutsche Telekom receives security from the counterparty in the form of readily available cash, and in return provides such security in the event of liability balances.

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


G 56

#### Liquidity reserve and maturities in 2014 compared with 2013

billions of €



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

**Tax risks.** In many countries, Deutsche Telekom is subject to the applicable legal tax regulations. Risks that affect tax expenses and income as well as tax receivables and liabilities can arise from changes in local taxation laws or jurisdiction and different interpretations of existing regulations.


#### Other financial risks

This section contains information on other financial risks that we consider to be immaterial at present or cannot evaluate based on current knowledge.

**Rating risk.** As of December 31, 2014, Deutsche Telekom's credit rating with Moody's was Baa1, while Fitch and Standard & Poor's rated us BBB+. All three agencies gave us a "stable" outlook. If our rating fell below certain defined levels, interest rates for some of the bonds and MTNs issued would rise.

**Sales of shares by the Federal Republic or KfW Bankengruppe.** As of December 31, 2014, the Federal Republic and KfW Bankengruppe jointly held approximately 31.7 percent in Deutsche Telekom AG.

It is possible that the Federal Republic will continue its policy of privatization and sell further equity interests in a manner designed not to disrupt the capital markets and with the involvement of KfW Bankengruppe. There is a risk that the sale of a significant volume of Deutsche Telekom AG shares by the Federal Republic or KfW, or any speculation to this effect, could have a negative impact on the price of the T-Share.

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

**Sale of the SI business unit at T-Systems France.** When selling the Systems Integration business unit of T-Systems France in the middle of 2013, a 15-month guarantee had to be issued to the responsible works council. The purpose of the guarantee was to compensate employees in the event of insolvency of the buyer. The 15-month guarantee period expired in early September 2014 without incident.

#### MANAGEMENT'S ASSESSMENT OF THE AGGREGATE RISK AND OPPORTUNITIES POSITION

The assessment of the aggregate risk position is the outcome of the consolidated analysis of all material areas of risk or individual risks. The aggregate risk position did not change fundamentally in 2014 compared with the previous year. Our major challenges particularly include the regulatory factors, intense competition, and price erosion in the telecommunications business. As it stands today, Deutsche Telekom's management sees no risk to the Company's continued existence as a going concern. We are convinced that we will also be able to exploit future opportunities and challenges without having to take on any unacceptably high risks.

We strive to achieve a good balance between opportunities and risks, with the aim of increasing added value for our Company and our shareholders by analyzing new market opportunities.



For additional explanations, please refer to Note 37 "Financial instruments and risk management" in the notes to the consolidated financial statements, **PAGE 248 ET SEQ.**



For a detailed explanation, please refer to the section "Summary of accounting policies – Judgments and estimates" in the notes to the consolidated financial statements, **PAGE 193 ET SEQ.**

## ACCOUNTING-RELATED INTERNAL CONTROL SYSTEM

Deutsche Telekom AG's internal control system (ICS) is based on the internationally recognized COSO (Committee of Sponsoring Organizations of the Treadway Commission) Internal Control – Integrated Framework, COSO I, as amended on May 14, 2013.

The Audit Committee of Deutsche Telekom AG monitors the effectiveness of the ICS as required by § 107 (3) sentence 2 AktG. The Board of Management has the responsibility to define the scope and structure of the ICS at its discretion. Internal Audit is responsible for independently reviewing the functionality and effectiveness of the ICS in the Group and at Deutsche Telekom AG, and, to comply with this task, has comprehensive information, audit, and access rights. In addition, the external auditors conduct a risk-oriented audit to verify the effectiveness of those parts of the ICS that are relevant to financial reporting.

The accounting-related ICS comprises the principles, methods, and measures used to ensure appropriate accounting. It is continuously being refined and aims to ensure the consolidated financial statements of Deutsche Telekom are prepared in accordance with the International Financial Reporting Standards (IFRS) as adopted by the European Union, as well as with the regulations under commercial law as set forth in § 315a (1) HGB. Another objective of the accounting-related ICS is the preparation of the annual financial statements of Deutsche Telekom AG and the combined management report in accordance with German GAAP.

It is generally true of any ICS that regardless of how it is specifically structured there can be no absolute guarantee that it will achieve its objectives. Regarding the accounting-related ICS, there can therefore only ever be relative, but no absolute certainty, that material accounting misstatements can be prevented or detected.

Group Accounting manages the processes of Group accounting and management reporting. Laws, accounting standards, and other pronouncements are continuously analyzed as to whether and to what extent they are relevant and how they impact on financial reporting. The relevant requirements are defined in the Group Accounting Manual, for example, communicated to the relevant units and, together with the financial reporting calendar that is binding throughout the Group, forms the basis of the financial reporting process. In addition, supplementary process directives such as the Intercompany Policy, standardized reporting formats, IT systems, as well as IT-based reporting and con-

solidation processes support the process of uniform and compliant Group accounting. Where necessary, we also draw on the services of external service providers, for example, for measuring pension obligations. Group Accounting ensures that these requirements are complied with consistently throughout the Group. The staff involved in the accounting process receive regular training. Deutsche Telekom AG and the Group companies are responsible for ensuring that Group-wide policies and procedures are complied with. The Group companies ensure the compliance and timeliness of their accounting-related processes and systems and in doing so, are supported and monitored by Group Accounting.

Operational accounting processes at the national and international level are increasingly managed by our shared service centers. Harmonizing the processes enhances their efficiency and quality and in turn, improves the reliability of the internal ICS. The ICS thus safeguards both the quality of internal processes at the shared service centers and the interfaces to the Group companies by means of adequate controls and an internal certification process.

Internal controls are embedded in the accounting process depending on risk levels. The accounting-related ICS comprises both preventive and detective controls, which include:

- IT-based and manual data matching
- The segregation of functions
- The dual checking principle
- Monitoring controls
- General IT checks such as access management in IT systems, and change management.

We have implemented a standardized process throughout the Group for monitoring the effectiveness of the accounting-related ICS. This process systematically focuses on risks of possible misstatements in the consolidated financial statements. At the beginning of the year, specific accounts and accounting-related process steps are selected based on risk factors. They are then reviewed for effectiveness in the course of the year, generally by way of external audits. If control weaknesses are found, they are analyzed and assessed, particularly in terms of their impact on the consolidated financial statements and the combined management report. Material control weaknesses, the action plans for eradicating them, and ongoing progress are reported to the Board of Management and additionally to the Audit Committee. In order to ensure a high-quality accounting-related ICS, Internal Audit is closely involved in all stages of the process.



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## OTHER DISCLOSURES

### CORPORATE GOVERNANCE STATEMENT IN ACCORDANCE WITH § 289a HGB

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

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

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

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

### LEGAL STRUCTURE OF THE DEUTSCHE TELEKOM GROUP

Deutsche Telekom AG, Bonn, is the parent of the Deutsche Telekom Group. Its shares are traded on the Frankfurt/Main Stock Exchange as well as on other German stock exchanges. □

### SHAREHOLDERS' EQUITY

Each share entitles the holder to one vote. These voting rights are restricted, however, in relation to treasury shares and shares allocable to Deutsche Telekom in the same way as treasury shares (at December 31, 2014: around 21 million in total). The "trust" shares, as they are known, (at December 31, 2014 around 19 million) relate to the acquisition of VoiceStream and Powertel (now T-Mobile US) in 2001 and are allocable to Deutsche Telekom at December 31, 2014 in the same way as treasury shares. As regards the shares issued to trusts, the trustee waived voting rights and subscription rights and, in general, dividend rights for the duration of the trusts' existence.

**Capital increase.** The resolution on the dividend payout of EUR 0.50 per share for the 2013 financial year gave shareholders the choice between payment in cash or having their dividend entitlement converted into Deutsche Telekom AG shares. Dividend entitlements of Deutsche Telekom AG shareholders amounting to EUR 1.0 billion for shares from authorized capital (2013 authorized capital) were contributed in June 2014 and thus did not have an impact on cash flows. Deutsche Telekom AG carried out an increase in issued capital of EUR 0.2 billion against contribution of dividend entitlements for this purpose in June 2014. This increased capital reserves by EUR 0.8 billion, the number of shares by 84,396,144.

**Treasury shares.** The shareholders' meeting resolved on May 24, 2012 to authorize the Board of Management to purchase shares in the Company by May 23, 2017, with the amount of share capital accounted for by these shares totaling up to EUR 1,106,257,715.20, provided the shares to be purchased on the basis of this authorization in conjunction with the other shares of the Company which the Company has already purchased and still possesses or are to be assigned to it under § 71d and § 71e AktG do not at any time account for more than 10 percent of the Company's share capital. Moreover, the requirements under § 71 (2) sentences 2 and 3 AktG must be complied with. Shares shall not be purchased for the purpose of trading in treasury shares. This authorization may be exercised in full or in part. The purchase can be carried out in partial tranches spread over various purchase dates within the authorization period until the maximum purchase volume is reached. Dependent Group companies of Deutsche Telekom AG within the meaning of § 17 AktG or third parties acting for the account of Deutsche Telekom AG or for the account of dependent Group companies of Deutsche Telekom AG within the meaning of § 17 AktG are also entitled to purchase the shares. The shares are purchased through the stock exchange in adherence to the principle of equal treatment (§ 53a AktG). Shares can instead also be purchased by means of a public purchase or share exchange offer addressed to all shareholders, which, subject to a subsequently approved exclusion of the right to offer shares, must also comply with the principle of equal treatment.

The shares may be used for one or several of the purposes permitted by the authorization granted by the shareholders' meeting on May 24, 2012 under item 7 on the agenda. The shares may also be used for purposes involving an exclusion of subscription rights. They may also be sold on the stock market or by way of an offer to all shareholders, or withdrawn. The shares may also be used to fulfill the rights of Board of Management members to receive shares in Deutsche Telekom AG, which the Supervisory Board has granted to these members as part of the arrangements governing the compensation of the Board of Management, on the basis of a decision by the Supervisory Board to this effect.

Under the resolution of the shareholders' meeting on May 24, 2012, the Board of Management is also authorized to acquire the shares through the use of equity derivatives.



The Statement is available to the public on Deutsche Telekom's website ([www.telekom.com](http://www.telekom.com)).



For information on the composition of capital stock in accordance with § 289 (4) HGB and direct and indirect equity investments, please refer to Note 15 "Shareholders' equity" in the notes to the consolidated financial statements, PAGES 227 and 228.

On the basis of the above authorization by the shareholders' meeting on May 24, 2012 and a corresponding authorization by the shareholders' meeting on May 12, 2011, 110 thousand shares were acquired in June 2011, 206 thousand shares in September 2011, and 268 thousand shares in January 2013. The total volumes amounted to EUR 2,762 thousand in the 2011 financial year, and EUR 2,394 thousand in the 2013 financial year (excluding transaction costs). This increased the number of treasury shares by 316 thousand and 268 thousand, respectively. As part of the Share Matching Plan, a total of 2 thousand shares were transferred free of charge to the depots of eligible participants in the 2012 and 2013 financial years.

Furthermore, a total of 90 thousand shares were reallocated in April, June and December 2014 and transferred free of charge to the depots of eligible participants of the Share Matching Plan.

As part of the acquisition of VoiceStream Wireless Corp., Bellevue, and Powertel, Inc., Bellevue, in 2001 Deutsche Telekom issued new shares from authorized capital to a trustee, for the benefit of holders of warrants, options, and conversion rights, among others. These options or conversion rights fully expired in the 2013 financial year. As a result, the trustee no longer has any obligation to fulfill any claims in accordance with the purpose of the deposit. The 18,517 thousand deposited shares are accounted for in the same way as treasury shares in accordance with § 272 (1a) HGB.

**Authorized capital and contingent capital.** The **authorized capital 2009/II** approved by the shareholders' meeting on April 30, 2009 served the purpose of granting shares to employees of Deutsche Telekom AG and lower-tier affiliated companies (employee shares). The authorization of the Board of Management was valid for the period until April 29, 2014. On August 28, 2014, the Supervisory Board resolved to strike the 2009/II authorized capital from the Articles of Incorporation of Deutsche Telekom AG (change of version). The change in the Articles of Incorporation was entered in the commercial register on September 19, 2014.

The shareholders' meeting on May 16, 2013 authorized the Board of Management to increase the share capital with the approval of the Supervisory Board by up to EUR 2,176,000,000 by issuing up to 850,000,000 no par value registered shares against cash and/or non-cash contributions in the period ending May 15, 2018. The authorization may be exercised in full or on one or more occasions in partial amounts. The Board of Management is authorized, subject to the approval of the Supervisory Board, to exclude residual amounts from shareholders' subscription rights. Furthermore, the Board of Management is authorized, subject to the approval of the Supervisory Board, to disapply shareholders' subscription rights in the event of capital increases against non-cash contributions when issuing new shares for business combinations or acquisitions of companies, parts thereof or interests in companies, including increasing existing investment holdings, or other assets eligible for contribution for such acquisitions,

including receivables from the Company. Further, the Board of Management is authorized, subject to the approval of the Supervisory Board, to determine the further content of share rights and the conditions under which shares are issued (**authorized capital 2013**). Following the increase in share capital against contribution of dividend entitlements, the 2013 authorized capital amounted to EUR 1,959,945,871.36. The remaining 2013 authorized capital was entered in the commercial register on June 11, 2014.

The **2010 contingent capital** granted by the shareholders' meeting on May 3, 2010, was issued to service any options or conversion rights or obligations arising as a result of the authorization granted at the same shareholders' meeting and valid until May 2, 2015, for the issue of convertible bonds, bonds with warrants, profit participation rights and/or participating bonds. This authorization, which has not been utilized, would have expired immediately before the date of the 2015 shareholders' meeting. The shareholders' meeting of May 15, 2014 therefore resolved to annul the 2010 contingent capital and create a new 2014 contingent capital.

As of December 31, 2014, the capital stock was contingently increased by up to EUR 1,100,000,000 composed of up to 429,687,500 no par value shares (**2014 contingent capital**). The contingent capital increase will be implemented only to the extent that

- a) the holders or creditors of bonds with warrants, convertible bonds, profit participation rights, and/or participating bonds (or combinations of these instruments) with options or conversion rights, which are issued or guaranteed by Deutsche Telekom AG or its direct or indirect majority holdings by May 14, 2019, on the basis of the authorization resolution granted by the shareholders' meeting on May 15, 2014, make use of their option and/or conversion rights or
- b) those obligated as a result of bonds with warrants, convertible bonds, profit participation rights, and/or participating bonds (or combinations of these instruments) which are issued or guaranteed by Deutsche Telekom AG or its direct or indirect majority holdings by May 14, 2019, on the basis of the authorization resolution granted by the shareholders' meeting on May 15, 2014, fulfill their option or conversion obligations

and other forms of fulfillment are not used. The new shares shall participate in profits starting at the beginning of the financial year in which they are issued as the result of the exercise of any option or conversion rights or the fulfillment of any option or conversion obligations. The Supervisory Board is authorized to amend § 5 (3) of the Articles of Incorporation in accordance with the particular usage of the contingent capital and after the expiry of all the option or conversion periods.

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### Main agreements including a change of control clause

The main agreements entered into by Deutsche Telekom AG, which include a clause in the event of a change of control, principally relate to bilateral credit lines and several loan agreements. In the event of a change of control, the individual lenders have the right to terminate the credit line and, if necessary, serve notice or demand repayment of the loans. A change of control is assumed when a third party, which can also be a group acting jointly, acquires control over Deutsche Telekom AG.


In addition, the other members of the Toll Collect consortium (Daimler Financial Services AG and Cofiroute S.A.) have a call option in the event that the ownership structure of Deutsche Telekom AG changes such that over 50 percent of its share capital or voting rights are held by a new shareholder and this change was not approved by the other members of the consortium.

The Hellenic Republic shall have the right to purchase all of Deutsche Telekom AG's shares in the Hellenic Telecommunications Organization S.A., Athens, Greece (OTE), from Deutsche Telekom AG or to demand that they be transferred to a third party named by it if Deutsche Telekom AG were to be taken over by another company that is not a telecommunications company based in the European Union or the United States of a similar size and stature to Deutsche Telekom AG. For this purpose, a change of control over Deutsche Telekom shall be deemed to have taken place if one or several entities, with the exception of the Federal Republic of Germany, directly or indirectly acquire 35 percent of the voting rights in Deutsche Telekom AG.


When establishing the EE joint venture in the United Kingdom, Deutsche Telekom AG and France Télécom S.A. agreed in the joint venture agreement that if Deutsche Telekom comes under the controlling influence of a third party, France Télécom will be exempted from all the restrictions imposed on the shareholders with regard to a transfer of their shares for a period of one year. Transferring shares to competitors would remain prohibited even in this situation, however.

In the master agreement establishing the procurement joint venture BuyIn in Belgium, Deutsche Telekom AG and France Télécom S.A./Atlas Services Belgium S.A. (a subsidiary of France Télécom S.A.) agreed that if Deutsche Telekom or France Télécom comes under the controlling influence of a third party or if a third party that is not wholly owned by the France Télécom group of companies acquires shares in Atlas Services Belgium S.A., the respective other party (France Télécom and Atlas Services Belgium only jointly) can terminate the master agreement with immediate effect.

### Changes in the consolidated group

56 German and 197 foreign subsidiaries are fully consolidated in Deutsche Telekom's consolidated financial statements (December 31, 2013: 67 and 177). 13 associates (December 31, 2013: 13) and 6 joint ventures (December 31, 2013: 9) are also included using the equity method. 

### Business combinations

The business combinations are presented in the notes to the consolidated financial statements in the section "Changes in the composition of the Group and transactions with owners." 

### COMPENSATION OF THE BOARD OF MANAGEMENT AND THE SUPERVISORY BOARD

**Basis of Board of Management compensation.** On February 24, 2010, the Supervisory Board resolved on a new system for the compensation of the Board of Management members, taking into account the provisions specified in the German Act on the Appropriateness of Management Board Remuneration (Gesetz zur Angemessenheit der Vorstandsvergütung – VorstAG) that has been in effect since August 5, 2009. The shareholders' meeting of Deutsche Telekom AG on May 3, 2010 approved this new system. As at December 31, 2014, all current members of the Board of Management were covered by the new Board of Management compensation system. 

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

The fixed remuneration is determined for all Board of Management members based on market conditions in accordance with the requirements of stock corporation law. It is ensured that Board of Management compensation is oriented toward the sustained development of the Company and that there is a multi-year measurement base for the variable components. The variable compensation elements include clear upper limits, while the amount of compensation was capped overall. The short- and long-term variable components (Variable I and Variable II) are each capped at a target achievement of 150 percent. Under the Share Matching Plan, the cap is set at triple the share price throughout the term of the plan. Ordinary members of the Board of Management may therefore not receive more than EUR 4.5 million in annual compensation. The Chairman of the Board of Management may not receive more than EUR 7.5 million in annual compensation.

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.



The principal subsidiaries of Deutsche Telekom AG are listed in the notes to the consolidated financial statements in the section "Summary of accounting policies" under "Principal subsidiaries," **PAGE 200 ET SEQ.**



See **PAGE 196 ET SEQ.**



For more information on the compensation of the Board of Management and on the disclosures required by § 314 HGB, as well as German Accounting Standard No. 17 (GAS 17), please refer to Note 40 "Compensation of the Board of Management and the Supervisory Board" in the notes to the consolidated financial statements, **PAGE 261 ET SEQ.**

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

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

The following TABLE 054 is based on model table 1 recommended by the German Corporate Governance Code, which presents the total compensation granted for the reporting year.

## Benefits granted

T 054

### Compensation of the Board of Management

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	Timotheus Höttges			
	Function: Chairman of the Board of Management (CEO) since January 1, 2014			
	2013	2014	2014 (min.)	2014 (max.)
Fixed remuneration	1,037,500	1,450,000	1,450,000	1,450,000
Fringe benefits	23,972	22,359	22,359	22,359
	<b>1,061,472</b>	<b>1,472,359</b>	<b>1,472,359</b>	<b>1,472,359</b>
One-year variable remuneration	760,500	1,092,000	0	1,638,000
<b>Multi-year variable remuneration</b>	<b>964,259</b>	<b>1,405,339</b>	<b>0</b>	<b>3,276,000</b>
Of which: 2013 Variable II (4-year term)	760,500			
Of which: 2014 Variable II (4-year term)		1,092,000	0	1,638,000
Of which: 2013 Share Matching Plan (4-year term)	203,759			
Of which: 2014 Share Matching Plan (4-year term)		313,339	0	1,638,000
	<b>2,786,231</b>	<b>3,969,698</b>	<b>1,472,359</b>	<b>6,386,359</b>
Service cost	582,852	818,212	818,212	818,212
<b>TOTAL COMPENSATION</b>	<b>3,369,083</b>	<b>4,787,910</b>	<b>2,290,571</b>	<b>7,204,571</b>

	Dr. Thomas Kremer			
	Function: Data Privacy, Legal Affairs and Compliance since June 1, 2012			
	2013	2014 <sup>a</sup>	2014 (min.)	2014 (max.)
Fixed remuneration	700,000	700,000	700,000	700,000
Fringe benefits	60,508	60,983	60,983	60,983
	<b>760,508</b>	<b>760,983</b>	<b>760,983</b>	<b>760,983</b>
One-year variable remuneration	550,000	550,000	0	825,000
<b>Multi-year variable remuneration</b>	<b>697,360</b>	<b>707,817</b>	<b>0</b>	<b>1,650,000</b>
Of which: 2013 Variable II (4-year term)	550,000			
Of which: 2014 Variable II (4-year term)		550,000	0	825,000
Of which: 2013 Share Matching Plan (4-year term)	147,360			
Of which: 2014 Share Matching Plan (4-year term)		157,817	0	825,000
	<b>2,007,868</b>	<b>2,018,800</b>	<b>760,983</b>	<b>3,235,983</b>
Service cost	253,723	243,743	243,743	243,743
<b>TOTAL COMPENSATION</b>	<b>2,261,591</b>	<b>2,262,543</b>	<b>1,004,726</b>	<b>3,479,726</b>

<sup>a</sup> The Supervisory Board exercised its discretion to award a special bonus of EUR 250,000 to Dr. Thomas Kremer for the 2014 financial year. With this payment, the Supervisory Board rewards the extraordinary performance of Dr. Thomas Kremer who, as a result of the departure of Prof. Marion Schick for health reasons, assumed responsibility for the Board department for Human Resources for the full 2014 financial year in addition to his own duties in the area of Data Privacy, Legal Affairs and Compliance. This special bonus is disclosed in the table of benefits allocated (model table 2) in the line Other, since this payment was awarded for performance in 2014. Dr. Thomas Kremer had no contractual entitlement to this payment, hence it is not necessary to disclose it in the table of benefits granted.

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Reinhard Clemens				Niek Jan van Damme				Thomas Dannenfeldt			
Function: T-Systems since December 1, 2007				Function: Germany since March 1, 2009				Function: Finance (CFO) since January 1, 2014			
2013	2014	2014 (min.)	2014 (max.)	2013	2014	2014 (min.)	2014 (max.)	2013	2014	2014 (min.)	2014 (max.)
840,000	840,000	840,000	840,000	794,355	850,000	850,000	850,000	0	700,000	700,000	700,000
22,366	17,350	17,350	17,350	24,555	26,758	26,758	26,758	0	22,433	22,433	22,433
<b>862,366</b>	<b>857,350</b>	<b>857,350</b>	<b>857,350</b>	<b>818,910</b>	<b>876,758</b>	<b>876,758</b>	<b>876,758</b>	<b>0</b>	<b>722,433</b>	<b>722,433</b>	<b>722,433</b>
650,000	650,000	0	975,000	550,000	628,333	0	942,500	0	550,000	0	825,000
<b>824,153</b>	<b>836,512</b>	<b>0</b>	<b>1,950,000</b>	<b>697,360</b>	<b>820,378</b>	<b>0</b>	<b>1,902,625</b>	<b>0</b>	<b>707,817</b>	<b>0</b>	<b>1,650,000</b>
650,000				550,000				0			
	650,000	0	975,000		640,083	0	960,125		550,000	0	825,000
174,153				147,360				0			
	186,512	0	975,000		180,295	0	942,500		157,817	0	825,000
<b>2,336,519</b>	<b>2,343,862</b>	<b>857,350</b>	<b>3,782,350</b>	<b>2,066,270</b>	<b>2,325,469</b>	<b>876,758</b>	<b>3,721,883</b>	<b>0</b>	<b>1,980,250</b>	<b>722,433</b>	<b>3,197,433</b>
605,603	599,763	599,763	599,763	305,199	288,661	288,661	288,661	0	246,151	246,151	246,151
<b>2,942,122</b>	<b>2,943,625</b>	<b>1,457,113</b>	<b>4,382,113</b>	<b>2,371,469</b>	<b>2,614,130</b>	<b>1,165,419</b>	<b>4,010,544</b>	<b>0</b>	<b>2,226,401</b>	<b>968,584</b>	<b>3,443,584</b>

Claudia Nemat				Prof. Marion Schick			
Function: Europe and Technology since October 1, 2011				Function: Human Resources until April 30, 2014			
2013	2014	2014 (min.)	2014 (max.)	2013	2014	2014 (min.)	2014 (max.)
900,000	900,000	900,000	900,000	700,000	233,333	233,333	233,333
49,602	65,900	65,900	65,900	23,272	5,743	5,743	5,743
<b>949,602</b>	<b>965,900</b>	<b>965,900</b>	<b>965,900</b>	<b>723,272</b>	<b>239,076</b>	<b>239,076</b>	<b>239,076</b>
675,000	675,000	0	1,012,500	550,000	0	0	0
<b>855,851</b>	<b>868,685</b>	<b>0</b>	<b>2,025,000</b>	<b>697,360</b>	<b>0</b>	<b>0</b>	<b>0</b>
675,000				550,000			
	675,000	0	1,012,500		0	0	0
180,851				147,360			
	193,685	0	1,012,500		0	0	0
<b>2,480,453</b>	<b>2,509,585</b>	<b>965,900</b>	<b>4,003,400</b>	<b>1,970,632</b>	<b>239,076</b>	<b>239,076</b>	<b>239,076</b>
275,014	247,026	247,026	247,026	245,791	0	0	0
<b>2,755,467</b>	<b>2,756,611</b>	<b>1,212,926</b>	<b>4,250,426</b>	<b>2,216,423</b>	<b>239,076</b>	<b>239,076</b>	<b>239,076</b>

### Benefits allocated

The following TABLE 055 corresponds to model table 2 recommended by the German Corporate Governance Code, which discloses the total amount of benefits allocated for the reporting year. Unlike in the above table of benefits granted, this table contains not the target values for short- and long-term variable remuneration components, but rather the

actual benefits allocated for the 2014 financial year. There is another difference between the following table and the table of benefits granted with regard to the presentation of the Share Matching Plan. The figures for the Share Matching Plan shown in this table present the value of the benefits allocated relevant under German tax law at the time of the transfer of matching shares, whereas the above table of benefits granted shows the fair values of remuneration at the grant date.


T 055

### Compensation of the Board of Management

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	Timotheus Höttges		Reinhard Clemens		Niek Jan van Damme	
	Function: Chairman of the Board of Management (CEO) since January 1, 2014		Function: T-Systems since December 1, 2007		Function: Germany since March 1, 2009	
	2013	2014	2013	2014	2013	2014
Fixed remuneration	1,037,500	1,450,000	840,000	840,000	794,355	850,000
Fringe benefits	23,972	22,359	22,366	17,350	24,555	26,758
	<b>1,061,472</b>	<b>1,472,359</b>	<b>862,366</b>	<b>857,350</b>	<b>818,910</b>	<b>876,758</b>
One-year variable remuneration	953,667	1,307,124	755,950	714,350	647,900	708,760
<b>Multi-year variable remuneration</b>	<b>390,000</b>	<b>758,558</b>	<b>390,000</b>	<b>720,364</b>	<b>330,000</b>	<b>614,594</b>
Of which: 2010 Variable II (4-year term)	390,000		390,000		330,000	
Of which: 2011 Variable II (4-year term)		429,000		429,000		363,000
Of which: Share Matching Plan (4-year term)	0	329,558	0	291,364	0	251,594
Other	0	0	0	0	0	0
	<b>2,405,139</b>	<b>3,538,041</b>	<b>2,008,316</b>	<b>2,292,064</b>	<b>1,796,810</b>	<b>2,200,112</b>
Service cost	582,852	818,212	605,603	599,763	305,199	288,661
<b>TOTAL COMPENSATION</b>	<b>2,987,991</b>	<b>4,356,253</b>	<b>2,613,919</b>	<b>2,891,827</b>	<b>2,102,009</b>	<b>2,488,773</b>

<sup>a</sup> The Supervisory Board exercised its discretion to award a special bonus of EUR 250,000 to Dr. Thomas Kremer for the 2014 financial year. With this payment, the Supervisory Board rewards the extraordinary performance of Dr. Thomas Kremer who, as a result of the departure of Prof. Marion Schick for health reasons, assumed responsibility for the Board department for Human Resources for the full 2014 financial year in addition to his own duties in the area of Data Privacy, Legal Affairs and Compliance.

**Basis of Supervisory Board compensation.** Members of Deutsche Telekom AG's Supervisory Board receive fixed annual compensation of EUR 70,000. Furthermore, additional compensation is paid for the activities of the Chairman and Deputy Chairman of the Supervisory Board as well as for activities on Supervisory Board committees. The new compensation system that has been in place since January 1, 2013, no longer provides for performance-related compensation. 



For further information, please refer to Note 40 "Compensation of the Board of Management and Supervisory Board" in the notes to the consolidated financial statements,  
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Thomas Dannenfeldt		Dr. Thomas Kremer		Claudia Nemat		Prof. Marion Schick	
Function: Finance (CFO) since January 1, 2014		Function: Data Privacy, Legal Affairs and Compliance since June 1, 2012		Function: Europe and Technology since October 1, 2011		Function: Human Resources until April 30, 2014	
2013	2014	2013	2014	2013	2014	2013	2014
0	700,000	700,000	700,000	900,000	900,000	700,000	233,333
0	22,433	60,508	60,983	49,602	65,900	23,272	5,743
<b>0</b>	<b>722,433</b>	<b>760,508</b>	<b>760,983</b>	<b>949,602</b>	<b>965,900</b>	<b>723,272</b>	<b>239,076</b>
0	641,300	627,000	606,650	722,925	764,775	568,150	0
<b>0</b>	<b>0</b>	<b>130,625</b>	<b>234,438</b>	<b>227,813</b>	<b>361,969</b>	<b>137,500</b>	<b>260,284</b>
0		130,625		227,813		137,500	
	0	0	234,438	0	361,969	0	0
0		0	0	0	0	0	260,284
0	0	0	250,000 <sup>a</sup>	0	0	0	0
<b>0</b>	<b>1,363,733</b>	<b>1,518,133</b>	<b>1,852,071</b>	<b>1,900,340</b>	<b>2,092,644</b>	<b>1,428,922</b>	<b>499,360</b>
0	246,151	253,723	243,743	275,014	247,026	245,791	0
<b>0</b>	<b>1,609,884</b>	<b>1,771,856</b>	<b>2,095,814</b>	<b>2,175,354</b>	<b>2,339,670</b>	<b>1,674,713</b>	<b>499,360</b>



# CONSOLIDATED FINANCIAL STATEMENTS



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# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

T 056

millions of €

	Note	Dec. 31, 2014	Dec. 31, 2013
<b>ASSETS</b>			
<b>CURRENT ASSETS</b>		<b>29,798</b>	<b>21,963</b>
Cash and cash equivalents	1	7,523	7,970
Trade and other receivables	2	10,454	7,712
Current recoverable income taxes	25	84	98
Other financial assets	8	2,976	2,745
Inventories	3	1,503	1,062
Other assets	9	1,380	1,343
Non-current assets and disposal groups held for sale	4	5,878	1,033
<b>NON-CURRENT ASSETS</b>		<b>99,562</b>	<b>96,185</b>
Intangible assets	5	51,565	45,967
Property, plant and equipment	6	39,616	37,427
Investments accounted for using the equity method	7	617	6,167
Other financial assets	8	2,284	1,362
Deferred tax assets	25	5,169	4,960
Other assets	9	311	302
<b>TOTAL ASSETS</b>		<b>129,360</b>	<b>118,148</b>

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millions of €

	Note	Dec. 31, 2014	Dec. 31, 2013
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
<b>CURRENT LIABILITIES</b>			
Financial liabilities	10	10,558	7,891
Trade and other payables	11	9,681	7,259
Income tax liabilities	25	276	308
Other provisions	13	3,517	3,120
Other liabilities	14	4,160	3,805
Liabilities directly associated with non-current assets and disposal groups held for sale	4	6	113
		<b>67,096</b>	<b>63,589</b>
<b>NON-CURRENT LIABILITIES</b>			
Financial liabilities	10	44,669	43,708
Provisions for pensions and other employee benefits	12	8,465	7,006
Other provisions	13	2,373	2,071
Deferred tax liabilities	25	7,712	6,916
Other liabilities	14	3,877	3,888
		<b>95,294</b>	<b>86,085</b>
<b>LIABILITIES</b>			
		<b>95,294</b>	<b>86,085</b>
<b>SHAREHOLDERS' EQUITY</b>			
	15	<b>34,066</b>	<b>32,063</b>
Issued capital		11,611	11,395
Treasury shares		(53)	(54)
		<b>11,558</b>	<b>11,341</b>
Capital reserves		51,778	51,428
Retained earnings including carryforwards		(39,783)	(37,437)
Total other comprehensive income		(1,838)	(2,383)
Total other comprehensive income directly associated with non-current assets and disposal groups held for sale		798	-
Net profit (loss)		2,924	930
		<b>25,437</b>	<b>23,879</b>
<b>ISSUED CAPITAL AND RESERVES ATTRIBUTABLE TO OWNERS OF THE PARENT</b>			
Non-controlling interests		8,629	8,184
		<b>129,360</b>	<b>118,148</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>			

# CONSOLIDATED INCOME STATEMENT

T 057

millions of €

	Note	2014	2013	2012
<b>NET REVENUE</b>	<b>16</b>	<b>62,658</b>	<b>60,132</b>	<b>58,169</b>
Cost of sales	17	(38,539)	(36,255)	(34,256)
<b>GROSS PROFIT</b>		<b>24,119</b>	<b>23,877</b>	<b>23,913</b>
Selling expenses	18	(13,898)	(13,797)	(14,075)
General and administrative expenses	19	(4,721)	(4,518)	(4,855)
Other operating income	20	3,231	1,326	2,968
Other operating expenses	21	(1,484)	(1,958)	(11,913)
<b>PROFIT (LOSS) FROM OPERATIONS</b>		<b>7,247</b>	<b>4,930</b>	<b>(3,962)</b>
Finance costs	22	(2,340)	(2,162)	(2,033)
Interest income		325	228	306
Interest expense		(2,665)	(2,390)	(2,339)
Share of profit (loss) of associates and joint ventures accounted for using the equity method	23	(198)	(71)	(154)
Other financial income (expense)	24	(359)	(569)	(225)
<b>PROFIT (LOSS) FROM FINANCIAL ACTIVITIES</b>		<b>(2,897)</b>	<b>(2,802)</b>	<b>(2,412)</b>
<b>PROFIT (LOSS) BEFORE INCOME TAXES</b>		<b>4,350</b>	<b>2,128</b>	<b>(6,374)</b>
Income taxes	25	(1,106)	(924)	1,516
<b>PROFIT (LOSS)</b>		<b>3,244</b>	<b>1,204</b>	<b>(4,858)</b>
<b>PROFIT (LOSS) ATTRIBUTABLE TO</b>				
Owners of the parent (net profit (loss))		2,924	930	(5,353)
Non-controlling interests	26	320	274	495
<b>EARNINGS PER SHARE</b>	27			
Basic	€	0.65	0.21	(1.24)
Diluted	€	0.65	0.21	(1.24)

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# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

T 058

millions of €

	2014	2013	2012
<b>PROFIT (LOSS)</b>	<b>3,244</b>	<b>1,204</b>	<b>(4,858)</b>
Items not reclassified to the income statement retrospectively			
Gain (loss) from the remeasurement of defined benefit plans	(1,581)	48	(1,822)
Share of profit (loss) of investments accounted for using the equity method	(29)	(17)	0
Income taxes relating to components of other comprehensive income	477	(16)	556
	<b>(1,133)</b>	<b>15</b>	<b>(1,266)</b>
Items reclassified to the income statement retrospectively, if certain reasons are given			
Exchange differences on translating foreign operations			
Recognition of other comprehensive income in income statement	(4)	0	4
Change in other comprehensive income (not recognized in income statement)	1,849	(901)	318
Available-for-sale financial assets			
Recognition of other comprehensive income in income statement	(1)	0	(227)
Change in other comprehensive income (not recognized in income statement)	41	(4)	33
Gains (losses) from hedging instruments			
Recognition of other comprehensive income in income statement	(267)	178	9
Change in other comprehensive income (not recognized in income statement)	265	(162)	(219)
Share of profit (loss) of investments accounted for using the equity method			
Recognition of other comprehensive income in income statement	0	0	0
Change in other comprehensive income (not recognized in income statement)	0	(37)	22
Income taxes relating to components of other comprehensive income	3	(5)	77
	<b>1,886</b>	<b>(931)</b>	<b>17</b>
<b>OTHER COMPREHENSIVE INCOME</b>	<b>753</b>	<b>(916)</b>	<b>(1,249)</b>
<b>TOTAL COMPREHENSIVE INCOME</b>	<b>3,997</b>	<b>288</b>	<b>(6,107)</b>
<b>TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO</b>			
Owners of the parent	3,184	197	(6,466)
Non-controlling interests	813	91	359

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

T 059

millions of €

	Issued capital and reserves attributable to owners of the parent					
	Number of shares	Equity contributed			Consolidated shareholders' equity generated	
		thousands	Issued capital	Treasury shares	Capital reserves	Retained earnings including carryforwards
<b>BALANCE AT JANUARY 1, 2012</b>	<b>4,321,319</b>	<b>11,063</b>	<b>(6)</b>	<b>51,504</b>	<b>(25,371)</b>	<b>538</b>
Changes in the composition of the Group						
Unappropriated profit (loss) carried forward					538	(538)
Dividends					(3,010)	
Capital increase from share-based payment				2		
Share buy-back						
Profit (loss)						(5,353)
Other comprehensive income					(1,266)	
<b>TOTAL COMPREHENSIVE INCOME</b>						
Transfer to retained earnings					3	
<b>BALANCE AT DECEMBER 31, 2012</b>	<b>4,321,319</b>	<b>11,063</b>	<b>(6)</b>	<b>51,506</b>	<b>(29,106)</b>	<b>(5,353)</b>
<b>BALANCE AT JANUARY 1, 2013</b>	<b>4,321,319</b>	<b>11,063</b>	<b>(6)</b>	<b>51,506</b>	<b>(29,106)</b>	<b>(5,353)</b>
Changes in the composition of the Group					12	
Transactions with owners				(1,050)	(4)	
Unappropriated profit (loss) carried forward					(5,353)	5,353
Dividends					(3,010)	
Capital increase at Deutsche Telekom AG	129,856	332		811		
Capital increase from share-based payment				113		
Share buy-back/shares held in a trust deposit			(48)	48	(2)	
Profit (loss)						930
Other comprehensive income					23	
<b>TOTAL COMPREHENSIVE INCOME</b>						
Transfer to retained earnings					3	
<b>BALANCE AT DECEMBER 31, 2013</b>	<b>4,451,175</b>	<b>11,395</b>	<b>(54)</b>	<b>51,428</b>	<b>(37,437)</b>	<b>930</b>
<b>BALANCE AT JANUARY 1, 2014</b>	<b>4,451,175</b>	<b>11,395</b>	<b>(54)</b>	<b>51,428</b>	<b>(37,437)</b>	<b>930</b>
Changes in the composition of the Group						
Transactions with owners				(527)		
Unappropriated profit (loss) carried forward					930	(930)
Dividends					(2,215)	
Capital increase at Deutsche Telekom AG	84,396	216		807		
Capital increase from share-based payment				70		
Share buy-back/shares held in a trust deposit			1		1	
Profit (loss)						2,924
Other comprehensive income					(1,085)	
<b>TOTAL COMPREHENSIVE INCOME</b>						
Transfer to retained earnings					23	
<b>BALANCE AT DECEMBER 31, 2014</b>	<b>4,535,571</b>	<b>11,611</b>	<b>(53)</b>	<b>51,778</b>	<b>(39,783)</b>	<b>2,924</b>

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Issued capital and reserves attributable to owners of the parent						Total	Non-controlling interests	Total shareholders' equity
Total other comprehensive income								
Translation of foreign operations	Revaluation surplus	Available-for-sale financial assets	Hedging instruments	Investments accounted for using the equity method	Taxes			
(2,778)	(33)	102	537	20	(174)	35,402	4,630	40,032
						0		0
						0		0
						(3,010)	(387)	(3,397)
						2	1	3
						0		0
						(5,353)	495	(4,858)
330		(59)	(210)	22	70	(1,113)	(136)	(1,249)
						<b>(6,466)</b>	<b>359</b>	<b>(6,107)</b>
	(3)					0		0
(2,448)	(36)	43	327	42	(104)	25,928	4,603	30,531
(2,448)	(36)	43	327	42	(104)	25,928	4,603	30,531
						12	287	299
553		(1)				(502)	3,527	3,025
						0		0
						(3,010)	(369)	(3,379)
						1,143		1,143
						113	45	158
						(2)		(2)
						930	274	1,204
(708)		(4)	16	(54)	(6)	(733)	(183)	(916)
						<b>197</b>	<b>91</b>	<b>288</b>
	(3)					0		0
(2,603)	(39)	38	343	(12)	(110)	23,879	8,184	32,063
(2,603)	(39)	38	343	(12)	(110)	23,879	8,184	32,063
						0	1	1
21						(506)	(324)	(830)
						0		0
						(2,215)	(81)	(2,296)
						1,023	2	1,025
						70	34	104
						2		2
						2,924	320	3,244
1,335		41	(3)	(30)	2	260	493	753
						<b>3,184</b>	<b>813</b>	<b>3,997</b>
	(23)					0		0
(1,247)	(62)	79	340	(42)	(108)	25,437	8,629	34,066

# CONSOLIDATED STATEMENT OF CASH FLOWS

T 060

millions of €

	Note	2014	2013	2012
	31			
<b>PROFIT (LOSS)</b>		<b>3,244</b>	<b>1,204</b>	<b>(4,858)</b>
Depreciation, amortization and impairment losses		10,574	10,904	21,957
Income tax expense (benefit)		1,106	924	(1,516)
Interest income and interest expense		2,340	2,162	2,033
Other financial (income) expense		359	569	225
Share of (profit) loss of associates and joint ventures accounted for using the equity method		198	71	154
(Profit) loss on the disposal of fully consolidated subsidiaries		(1,674)	(131)	(6)
Other operating income from the agreement with Crown Castle concerning the leasing and use of cell towers in the United States		-	-	(1,444)
Other non-cash transactions		166	101	15
(Gain) loss from the disposal of intangible assets and property, plant and equipment		(436)	138	(83)
Change in assets carried as working capital		(2,275)	(1,266)	(24)
Change in provisions		382	(195)	(203)
Change in other liabilities carried as working capital		2,207	696	(406)
Income taxes received (paid)		(679)	(648)	(694)
Dividends received		344	273	490
Net payments from entering into, canceling or changing the terms and conditions of interest rate derivatives		55	290	122
<b>CASH GENERATED FROM OPERATIONS</b>		<b>15,911</b>	<b>15,092</b>	<b>15,762</b>
Interest paid		(3,390)	(2,961)	(3,060)
Interest received		872	886	875
<b>NET CASH FROM OPERATING ACTIVITIES</b>		<b>13,393</b>	<b>13,017</b>	<b>13,577</b>
Cash outflows for investments in				
Intangible assets		(4,658)	(4,498)	(2,811)
Property, plant and equipment		(7,186)	(6,570)	(5,621)
Non-current financial assets		(806)	(667)	(1,028)
Payments to acquire control of subsidiaries and associates		(606)	(48)	(19)
Proceeds from disposal of				
Intangible assets		16	8	26
Property, plant and equipment		265	245	187
Cell towers from the framework agreement with Crown Castle in the United States		-	-	1,769
Non-current financial assets		74	54	549
Proceeds from the loss of control of subsidiaries and associates		1,540	650	50
Net change in cash and cash equivalents due to the first-time full consolidation of MetroPCS		-	1,641	-
Net change in short-term investments and marketable securities and receivables		591	(701)	219
Other		9	(10)	8
<b>NET CASH USED IN INVESTING ACTIVITIES</b>		<b>(10,761)</b>	<b>(9,896)</b>	<b>(6,671)</b>



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millions of €

	2014	2013	2012
Proceeds from issue of current financial liabilities	12,785	10,874	22,664
Repayment of current financial liabilities	(17,089)	(18,033)	(29,064)
Proceeds from issue of non-current financial liabilities	4,275	9,334	3,539
Repayment of non-current financial liabilities	(1,042)	(129)	(171)
Dividends	(1,290)	(2,243)	(3,400)
Deutsche Telekom AG share buy-back	-	(2)	-
Repayment of lease liabilities	(164)	(172)	(169)
Stock options of other T-Mobile US shareholders (previous MetroPCS programs)	17	102	-
T-Mobile US capital increase	-	1,313	-
Acquisition of the remaining shares in T-Mobile Czech Republic	(828)	-	-
T-Mobile US share buy-back	(53)	-	-
OTE share buy-back	(69)	-	-
Cash inflows from the assignment of OTE stock options	26	-	-
Other	(2)	(22)	-
<b>NET CASH (USED IN) FROM FINANCING ACTIVITIES</b>	<b>(3,434)</b>	<b>1,022</b>	<b>(6,601)</b>
Effect of exchange rate changes on cash and cash equivalents	323	(167)	(28)
Changes in cash and cash equivalents associated with non-current assets and disposal groups held for sale	32	(32)	-
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>(447)</b>	<b>3,944</b>	<b>277</b>
<b>CASH AND CASH EQUIVALENTS, AT THE BEGINNING OF THE YEAR</b>	<b>7,970</b>	<b>4,026</b>	<b>3,749</b>
<b>CASH AND CASH EQUIVALENTS, AT THE END OF THE YEAR</b>	<b>7,523</b>	<b>7,970</b>	<b>4,026</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## SUMMARY OF ACCOUNTING POLICIES

### GENERAL INFORMATION

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

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

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

The declaration of conformity with the German Corporate Governance Code required pursuant to § 161 of the German Stock Corporation Act (Aktiengesetz – AktG) was released and made available to shareholders. The Declaration of Conformity can be found on the Deutsche Telekom website ([www.telekom.com](http://www.telekom.com)) via the following path: Investor Relations/Corporate Governance/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 Federal Gazette (Bundesanzeiger). The annual report is available upon request from Deutsche Telekom AG, Bonn, Investor Relations, and on Deutsche Telekom's homepage at [www.telekom.com](http://www.telekom.com).

The consolidated financial statements of Deutsche Telekom for the 2014 financial year were released for publication by the Board of Management on February 10, 2015.

### BASIS OF PREPARATION

The consolidated financial statements of Deutsche Telekom have been prepared in accordance with the International Financial Reporting Standards (IFRS) as adopted by the European Union (EU), as well as with the regulations under commercial law as set forth in § 315a (1) of the German Commercial Code (Handelsgesetzbuch – HGB). The term IFRS is consistently used in the following.

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

Presentation in the statement of financial position differentiates between current and non-current assets and liabilities, which 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 2014 financial year, Deutsche Telekom applied the following IASB pronouncements and/or amendments to such pronouncements for the first time:

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Pronouncement	Title
IFRS 10	Consolidated Financial Statements
IFRS 11	Joint Arrangements
IFRS 12	Disclosure of Interests in Other Entities
IAS 28	Investments in Associates and Joint Ventures
IAS 32	Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities
IAS 39	Financial Instruments: Recognition and Measurement – Novation of Derivatives and Continuation of Hedge Accounting

In May 2011, the IASB published three new IFRSs (IFRS 10, IFRS 11, IFRS 12) and one revised standard (IAS 28) that govern the accounting for investments in subsidiaries, joint arrangements, and associates. The European Union endorsed the provisions in December 2012. The provisions are effective for the first time within the European Union for financial years beginning on or after January 1, 2014. The IASB issued further amendments to IFRS 10, IFRS 12, and IAS 27 in November 2012. The amendments relate to the consolidation of investment companies. The European Union endorsed the provisions in November 2013. The adoption of the new and amended IFRSs does not have a material impact on the presentation of Deutsche Telekom's results of operations, financial position, cash flows, or the composition of the Group. The introduction of IFRS 12 results in additional disclosures in Deutsche Telekom's consolidated financial statements. The revised IAS 27 does not have an impact on Deutsche Telekom, because this standard now exclusively relates to annual separate financial statements, but Deutsche Telekom does not prepare separate financial statements under IFRS in application of § 325 (2a) HGB.

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- 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. IFRS 10 replaced 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” replaces 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 – an option Deutsche Telekom has never exercised – is no longer 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 income is directly recognized in the consolidated financial statements and annual financial statements of the joint operator.
- IFRS 12 “Disclosure of Interests in Other Entities” combines all disclosures to be made in the consolidated financial statements regarding subsidiaries, joint arrangements, and associates, as well as consolidated and unconsolidated structured entities.
- The revised IAS 27 “Separate Financial Statements” exclusively governs the accounting for subsidiaries, joint ventures, and associates in the annual (separate) financial statements and the corresponding notes (single-entity financial statements according to § 325 (2a) HGB).
- The revised IAS 28 “Investments in Associates and Joint Ventures” governs the accounting of investments in associates and joint ventures using the equity method.

In December 2011, the IASB published amendments to IAS 32 “Financial Instruments: Presentation” entitled “Offsetting Financial Assets and Financial Liabilities” 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 the gross settlement equivalent to a net settlement. The new requirements were endorsed by the European Union in December 2012 and are effective for the first time retrospectively for financial years beginning on or after January 1, 2014. The amendments do not have a material impact on the presentation of Deutsche Telekom’s results of operations, financial position, or cash flows.

In June 2013, the IASB published narrow-scope amendments to IAS 39 “Financial Instruments: Recognition and Measurement.” Entitled “Novation of Derivatives and Continuation of Hedge Accounting,” the amendments set out that a derivative continues to be designated as a hedging instrument in an existing hedging relationship even if the derivative is novated. The term “novation” indicates that the parties to a derivative agree that a central counterparty replaces their original counterparty to become the new counterparty to each of the parties. A fundamental requirement for this is that a central counterparty be engaged as a result of new laws or regulations. The IASB noted that the urgent changes were prompted by the G20 commitment to improve transparency and regulatory oversight of over-the-counter (OTC) derivatives at international level. As a consequence, all standardized OTC derivatives are to be concluded with a central counterparty. The amendments were endorsed by the European Union in December 2013 and are effective for the first time retrospectively for financial years beginning on or after January 1, 2014. The amendments do not have a material impact on the presentation of Deutsche Telekom’s results of operations, financial position, or cash flows.

#### STANDARDS, INTERPRETATIONS, AND AMENDMENTS ISSUED, BUT NOT YET TO BE APPLIED

In November 2009, the IASB issued IFRS 9 “Financial Instruments.” The issuance is the result of the project to replace IAS 39 “Financial Instruments: Recognition and Measurement” with IFRS 9. IFRS 9 governs the classification and measurement of financial assets. In October 2010, the IASB reissued IFRS 9, carrying over the requirements relating to the recognition and derecognition of financial liabilities as well as most of the requirements for classification and measurement unchanged from IAS 39. In November 2013, IFRS 9 was again revised. The amendments primarily relate to a fundamental revision of the provisions on hedge accounting, extending their scope of application. In addition, changes in the fair value of liabilities due to a change in the entity’s credit risk are no longer to be recognized in profit or loss, but under other comprehensive income. In July 2014, the IASB issued the final version of IFRS 9 as a full standard that combines all previously published provisions with the new provisions on accounting for impairment losses as well as limited changes to the classification and measurement of financial assets. The new provisions shall be applied retrospectively for financial years beginning on or after January 1, 2018 and have not yet been endorsed by the European Union. Deutsche Telekom is currently analyzing the effects on the presentation of its results of operations, financial position, or cash flows.

In May 2013, the IASB issued IFRIC Interpretation 21 “Levies.” The core issue in the Interpretation is the question of when to recognize a liability to pay a levy imposed by a government. The IFRIC clarifies that the obligating event that gives rise to a liability to pay a levy is the activity that triggers the obligation to pay the levy in accordance with the relevant legislation. However, an “economic compulsion” to continue to operate in a future period under the going concern assumption expressly does not constitute an obligating event. The new requirements were endorsed by the European Union in June 2014 and are effective within the European Union retrospectively for financial years beginning on or after June 17, 2014. The amendments do not have a material impact on the presentation of Deutsche Telekom’s results of operations, financial position, or cash flows.

In November 2013, the IASB published narrow-scope amendments to IAS 19 “Employee Benefits” entitled “Defined Benefit Plans: Employee Contributions.” The objective of the amendments is to simplify the accounting for contributions from employees or third parties to a defined benefit plan. The simplified accounting permits such contributions to be recognized as a reduction in the current service cost in the period in which the related service is rendered if the amount of the contributions is independent of the number of years of service. The amendments were endorsed by the European Union in December 2014 and are effective retrospectively for financial years beginning on or after February 1, 2015. The amendments do not have a material impact on the presentation of Deutsche Telekom’s results of operations, financial position, or cash flows.

The IASB issued **Annual Improvements to IFRSs 2010–2012 Cycle** and **Annual Improvements to IFRSs 2011–2013 Cycle** in December 2013 which amended nine standards in detail. The improvements primarily aim to provide clarifications. The amendments were endorsed by the European Union in December 2014 and are effective prospectively for financial years beginning on or after January 1, 2015 (2011–2013 cycle) and February 1, 2015 (2010–2012 cycle), respectively. The amendments do not have a material impact on the presentation of Deutsche Telekom’s results of operations, financial position, or cash flows.

In January 2014, the IASB issued IFRS 14 “Regulatory Deferral Accounts.” This standard only applies to first-time adopters of IFRS and is therefore not relevant for Deutsche Telekom.

In May 2014, the IASB issued amendments to IFRS 11 “Joint Arrangements” entitled “Accounting for Acquisitions of Interests in Joint Operations.” IFRS 11 requires the acquirer of an interest in a joint operation in which the activity constitutes a business, as defined in IFRS 3, to apply all of the principles on business combinations accounting in IFRS 3 and other IFRSs except for those principles that conflict with the guidance in IFRS 11. The amendments shall be applied prospectively in financial years beginning on or after January 1, 2016 and have not yet been endorsed by the European Union. The amendments do not have a material impact on the presentation of Deutsche Telekom’s results of operations, financial position, or cash flows.

In May 2014, the IASB issued amendments to IAS 16 “Property, Plant & Equipment” and IAS 38 “Intangible Assets” entitled “Clarification of Acceptable Methods of Depreciation and Amortisation.” Pursuant to these amendments, a revenue-based depreciation method for property, plant and equipment is not permissible, whereas for intangible assets there is only a refutable assumption that such a method is not appropriate. The amendments shall be applied prospectively in financial years beginning on or after January 1, 2016 and have not yet been endorsed by the European Union. The amendments do not have a material impact on the presentation of Deutsche Telekom’s results of operations, financial position, or cash flows.

In May 2014, the IASB issued IFRS 15 “Revenue from Contracts with Customers.” This standard provides a single, principles-based five-step model for the determination and recognition of revenue to be applied to all contracts with customers. It replaces in particular the existing standards IAS 18 “Revenue” and IAS 11 “Construction Contracts.” When applying IFRS 15 for the first time, an entity shall apply the standard in full for the current period. This includes retrospective application to all contracts that were not complete at the beginning of the reporting period. In respect of prior periods, the transition guidance grants entities an option to either apply IFRS 15 in full to prior periods (with certain limited practical expedients being available) or to retain prior-period figures as reported under the previous standards, recognizing the cumulative effect of applying IFRS 15 as an adjustment to the opening balance of equity at the date of initial application (beginning of current reporting period). The standard has a material effect on the presentation of Deutsche Telekom’s results of operations and financial position. In particular, in many multiple-element arrangements (e.g., a mobile service contract plus mobile handset), the new provisions – depending on the specific business model – result in a larger share of the total compensation being attributable to the element delivered in advance (mobile handset) and thus in earlier recognition of revenue. At the same time, this leads to higher revenue from the sale of goods and merchandise and to lower revenue from the provision of services. Future capitalization and spreading of the expenses for sales commissions over the estimated period of customer retention is also expected to have a material effect. The quantitative effects will be analyzed as part of a Group-wide project for implementing the new standard, though a reliable estimate is not possible until the project has been completed. The new provisions are effective for financial years beginning on or after January 1, 2017 and have not yet been endorsed by the European Union.

In June 2014, the IASB issued amendments to IAS 16 “Property, Plant & Equipment” and IAS 41 “Agriculture” entitled “Bearer Plants.” The amendments are not relevant for Deutsche Telekom.

In August 2014, the IASB issued amendments to IAS 27 “Separate Financial Statements” entitled “Equity Method in Separate Financial Statements.” This standard is not relevant for Deutsche Telekom.

In September 2014, the IASB published narrow-scope amendments to IFRS 10 “Consolidated Financial Statements” and IAS 28 “Investments in Associates and Joint Ventures” entitled “Sale or Contribution of Assets between an Investor and its Associate or Joint Venture.” The amendments affect transactions between an investor and its associate or joint venture and provide for full gain or loss recognition on the loss of control of a business and partial recognition of the gain or loss resulting from the sale or contribution of assets that do not constitute a business, regardless of whether that business is housed in a subsidiary or not. The amendments shall apply prospectively to transactions that occur in financial years beginning on or after January 1, 2016 and have not yet been endorsed by the European Union. Since the amendments concern only future transactions, it is not possible to forecast their impact on the presentation of Deutsche Telekom’s results of operations or financial position.

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In September 2014, the IASB issued the “Annual Improvements to IFRSs 2012–2014 Cycle,” which amended four standards in detail. The improvements primarily aim to provide clarifications. The amendments shall apply to transactions that occur in financial years beginning on or after January 1, 2016 and have not yet been endorsed by the European Union. The amendments do not have a material impact on the presentation of Deutsche Telekom’s results of operations, financial position, or cash flows.

In December 2014, the IASB published narrow-scope amendments to IAS 1 “Presentation of Financial Statements” entitled “Disclosure Initiative.” The amendments are to encourage entities to exercise more judgment in presenting relevant information in the financial statements. They clarify, for example, that materiality assessments are to be applied to the whole of the financial statements and that the inclusion of immaterial information can obscure material information. The amendments shall be applied prospectively in financial years beginning on or after January 1, 2016 and have not yet been endorsed by the European Union. The amendments do not have a material impact on the presentation of Deutsche Telekom’s results of operations, financial position, or cash flows.

In December 2014, the IASB published narrow-scope amendments to IAS 10 “Consolidated Financial Statements,” IFRS 12 “Disclosure of Interests in Other Entities,” and IAS 28 “Investments in Associates and Joint Ventures” entitled “Investment Entities: Applying the Consolidation Exception.” The amendments address issues that have arisen in relation to the exemption from consolidation for investment entities and shall be applied prospectively for financial years beginning on or after January 1, 2016. The amendments which have yet to be endorsed by the European Union, are not expected to have a material 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 that are effective for the first time in the financial year, Deutsche Telekom did not make any major changes in its accounting policies. Deutsche Telekom carried out the following changes in the report structure in the 2014 financial year:

The ICSS/GNF business of the local business units (LBUS), which had been organizationally assigned to the Systems Solutions operating segment until December 31, 2013, was brought together as of January 1, 2014 and is now reported under the Europe operating segment. Furthermore, as of January 1, 2014, the local business customer units of T-Systems Czech Republic, which had previously been managed under the Systems Solutions operating segment, were merged with T-Mobile Czech Republic. In addition to mobile and fixed-network business activities, the company will now also offer ICT solutions for business customers and public administrations. The activities will be disclosed under the Europe operating segment.

The EE joint venture in the United Kingdom, which had previously been assigned to the Europe operating segment, was transferred to the Group Headquarters & Group Services segment as of January 1, 2014.

For further details, please refer to Note 32 “Segment reporting,” PAGE 239 ET SEQ.

### ACCOUNTING POLICIES

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

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

Items of the statement of financial position	Measurement principle
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>	
<b>CURRENT LIABILITIES</b>	
Financial liabilities	
Non-derivative interest-bearing and non-interest-bearing liabilities	Amortized cost
Derivative financial liabilities	Fair value
Trade payables	Amortized cost
Income tax liabilities	Amount expected to be paid to the taxation authorities, using the tax rates that have been enacted or substantively enacted by the end of the reporting period
Other provisions	Present value of the settlement amount
<b>NON-CURRENT LIABILITIES</b>	
Financial liabilities	
Non-derivative interest-bearing and non-interest-bearing liabilities	Amortized cost
Derivative financial liabilities	Fair value
Provisions for pensions and other employee benefits	Actuarial projected unit credit method
Other provisions	Present value of the settlement amount
Deferred tax liabilities	Non-discounted amount measured at the tax rates that are expected to apply to the period when the asset is realized or the liability settled

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

#### INTANGIBLE ASSETS (EXCLUDING GOODWILL)

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

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

Amortization of mobile communications licenses begins as soon as the related network is ready for use. The useful lives of mobile communications licenses are determined based on several factors, including the term of the licenses granted

by the respective regulatory body in each country, the availability and expected cost of renewing the licenses, as well as the development of future technologies.

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

T 063

Mobile communications licenses	Years
FCC licenses	Indefinite
LTE licenses	7 to 25
UMTS licenses	6 to 17
GSM licenses	2 to 15

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

#### GOODWILL

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

#### PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment is carried at cost less straight-line depreciation, and impairment losses, if applicable. The depreciation period is based on the expected useful life. Items of property, plant and equipment are depreciated pro rata temporis in the year of acquisition. The residual values, useful lives, and the depreciation methods of the assets are reviewed at least at each financial year-end and, if expectations differ from previous estimates, the changes are accounted for as changes in accounting estimates in accordance with IAS 8. In addition to directly attributable costs, the costs of internally developed assets include proportionate indirect material and labor costs, as well as administrative expenses relating to production or the provision of services. In addition to the purchase price and costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management, costs also include the estimated costs for dismantling and removing the asset, and restoring the site on which it is located. If an item of property, plant and equipment consists of several components with different estimated useful lives, those components that are significant are depreciated over their individual useful lives. Maintenance and repair costs are expensed as incurred. Public investment grants reduce the cost of the assets for which the grants were made.

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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 064:

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

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

#### BORROWING COSTS

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

#### IMPAIRMENTS OF INTANGIBLE ASSETS (INCLUDING GOODWILL) AND ITEMS OF PROPERTY, PLANT AND EQUIPMENT

Impairments are identified by comparing the carrying amount with the recoverable amount. If individual assets do not generate future cash flows independently of other assets, recoverability is assessed on the basis of the cash-generating unit to which the assets can be allocated. At each reporting date, Deutsche Telekom assesses whether there is any indication that an asset may be impaired. If any such indication exists, the recoverable amount of the asset or cash-generating unit must be determined. In addition, annual impairment tests are carried out for intangible assets with indefinite useful lives (goodwill and FCC licenses) at regular intervals.

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

#### INVENTORIES

Inventories are carried at the lower of net realizable value or cost. Cost comprises all costs of purchase, costs of conversion, and other costs incurred in bringing the inventories to their present location and condition. Cost is measured using the weighted average cost method. Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the necessary estimated selling expenses. Deutsche Telekom sells handsets in connection with service contracts, and separately. In the former case, Deutsche Telekom sometimes also sells such devices at a price below cost, as the handset subsidy is part of the Company's strategy for acquiring new customers. In these cases, the loss on the sale of handsets is recognized at the time of the sale as the difference between cost of sales and the lower revenue generated.

#### NON-CURRENT ASSETS AND DISPOSAL GROUPS HELD FOR SALE

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

## EMPLOYEE BENEFITS

Deutsche Telekom maintains **defined benefit pension plans** in various countries on the basis of the pensionable compensation of its employees and their length of service. Some of these pension plans are financed through external pension funds and some through incorporation in a contractual trust agreement (CTA). Provisions for pensions are actuarially measured using the projected unit credit method for defined benefit pension plans, taking into account not only the pension obligations and vested pension rights known at the reporting date, but also expected future salary and benefit increases. The interest rate used to determine the present value of the obligations is generally set on the basis of the yields on high-quality corporate bonds in the respective currency area. The return on plan assets and interest expenses resulting from the unwinding of the discount are reported in (net) finance costs. Service cost is classified as operating expenses. Past service cost not recognized due to a change in the pension plan shall immediately be recognized in the period in which the change took effect. Gains and losses arising from adjustments and changes in actuarial assumptions are recognized immediately and in full in the period in which they occur outside profit or loss within equity. Some Group entities grant defined contribution plans to their employees in accordance with statutory or contractual requirements, with the payments being made to state or private pension insurance funds. Under defined contribution plans, the employer does not assume any other obligations above and beyond the payment of contributions to an external fund. The amount of the future pension payments will exclusively depend on the contribution made by the employer (and their employees, if applicable) to the external fund, including income from the investment of such contributions. The amounts payable are expensed when the obligation to pay the amounts is established, and classified as expenses.

Up until December 31, 2012, Deutsche Telekom maintained a joint pension fund, **Bundes-Pensions-Service für Post und Telekommunikation e. V., Bonn (Federal Pension Service for Post and Telecommunications – BPS-PT)**, together with Deutsche Post AG and Deutsche Postbank AG for civil servant pension plans. BPS-PT made pension and allowance payments to retired employees and their surviving dependents who are entitled to pension payments as a result of civil-servant status. The German Act on the Reorganization of the Civil Service Pension Fund (Gesetz zur Neuordnung der Postbeamtenversorgungskasse – PVKNeuG) transferred the functions of BPS-PT relating to civil servant pensions (organized within the Civil Service Pension Fund) to the German Federal Posts and Telecommunications Agency effective January 1, 2013. The level of Deutsche Telekom AG's payment obligations to the Civil Service Pension Fund is defined under § 16 of the German Act on the Legal Provisions for the Former Deutsche Bundespost Staff (Postpersonalrechtsgesetz). Since 2000, Deutsche Telekom AG has been legally obliged to make an annual contribution to the special pension fund amounting to 33 percent of the pensionable gross emoluments of active civil servants and the notional pensionable gross emoluments of civil servants on leave of absence.

In the past, Deutsche Telekom AG and its domestic subsidiaries agreed on **partial retirement arrangements** with varying terms and conditions, predominantly based on what is known as the block model. Two types of obligations, both measured at their present value in accordance with actuarial principles, arise and are accounted

for separately. The first type of obligation relates to the cumulative outstanding settlement amount, which is recorded on a pro-rata basis during the active or working phase. The cumulative outstanding settlement amount is based on the difference between the employee's remuneration before entering partial retirement (including the employer's social security contributions) and the remuneration for the part-time service (including the employer's social security contributions, but excluding top-up payments). The second type of obligation relates to the employer's obligation to make top-up payments plus an additional contribution to the statutory pension scheme. Top-up payments are often hybrid in nature, i.e., although the agreement is often considered a form of compensation for terminating the employment relationship at an earlier date, payments to be made at a later date are subject to the performance of work in the future. Despite having the characteristics of severance payments, the top-up payments must be recognized ratably over the vesting period due to their dependency on the performance of work in the future. If the block model is used, the vesting period for top-up payments starts when the employee is granted the entitlement to participate in the partial retirement program and ends upon entry into the passive phase (leave from work).

Obligations arising from the granting of termination benefits are recognized when Deutsche Telekom does not have a realistic possibility of withdrawal from the granting of the corresponding benefits. **Severance payments for employees and obligations arising in connection with early retirement arrangements** in Germany are mainly granted in the form of offers to the employees to leave the Company voluntarily. As a rule, such obligations are not recognized before the employees have accepted an offer from the Company, unless the Company is prevented by legal or other restrictions from withdrawing its offer at an earlier date. Obligations arising from the sole decision by the Company to shed jobs are recognized when the Company has announced a detailed formal plan to terminate employment relationships. If termination benefits are granted in connection with restructuring measures within the meaning of IAS 37, a liability under IAS 19 is recognized at the same time as a restructuring provision. Where termination benefits fall due more than twelve months after the reporting date, the expected amount to be paid is discounted to the reporting date. If the timing or the amount of the payment is still uncertain at the reporting date, the obligations are reported under other provisions.

## OTHER PROVISIONS

**Other provisions** are recognized for current legal or constructive obligations to third parties that are uncertain with regard to their maturities or their amount. Provisions are recognized for these obligations provided they relate to past transactions or events, will probably require an outflow of resources to settle, and this outflow can be reliably measured. Provisions are carried at their expected settlement amount, taking into account all identifiable risks. The settlement amount is calculated on the basis of a best estimate; suitable estimation methods and sources of information are used depending on the characteristics of the obligation. In case of a number of similar obligations, the group of obligations is treated as one single obligation. The expected value method is used as the estimation method. If there is a range of potential events with the same probability of occurrence, the average value is taken. Individual obligations (e.g., legal and litigation risks) are regularly evaluated based on the most probable outcome, provided an exceptional probability distribution does not mean that other estimates would lead to a more appropriate evaluation.



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

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

## FINANCIAL INSTRUMENTS

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

**Financial assets** are measured at fair value on initial recognition. For all financial assets not subsequently remeasured at fair value through profit or loss, the transaction costs directly attributable to the acquisition are taken into account. The fair values recognized in the statement of financial position are generally based

on the market prices of the financial assets. If these are not available, they must be calculated using standard valuation models on the basis of current market parameters. For this calculation, the cash flows already fixed or determined by way of forward rates using the current yield curve are discounted at the measurement date using the discount factors calculated from the yield curve applicable at the reporting date. Middle rates are used.

**Trade and other current receivables** are measured at the carrying amount at which the item is initially recognized less any impairment losses, provided the receivables are due after one year or more using the effective interest rate method. Impairments, which take the form of allowances, make adequate provision for the expected credit risk; concrete cases of default lead to the derecognition of the respective receivables. For allowances, financial assets with a potential need for a write-down are grouped together on the basis of similar credit risk characteristics, tested collectively for impairment, and written down, if necessary. The expected future cash flows of the portfolios are being calculated based on contractually agreed cash flows, taking previous cases of default into consideration. The cash flows are discounted on the basis of the weighted average of the original effective interest rates of the financial assets contained in the relevant portfolio. **Write-offs** of trade receivables are recognized in some cases using allowance accounts. The decision to account for credit risks using an allowance account or by directly reducing the receivable will depend on the reliability of the risk assessment. As there is a variety of operating segments and regional circumstances, this decision is the responsibility of the respective portfolio managers.

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

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

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

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

Non-derivative financial assets that do not fulfill the definition of another category of financial instruments are classified as **available for sale** and generally measured at fair value. The gains and losses arising from fair value measurement are recognized directly in equity, unless the impairment is permanent or significant, or the changes in the fair value of debt instruments resulting from currency fluctuations are recognized in profit or loss. The cumulative gains and losses arising from

fair value measurement are only recognized in profit or loss on disposal of the related financial assets. If the fair value of unquoted equity instruments cannot be measured with sufficient reliability, these instruments are measured at cost (less any impairment losses, if applicable).

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

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

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

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

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

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

Deutsche Telekom uses **derivatives** to hedge the interest rate and currency risks resulting from its operating, financing, and investing activities. The Company does not hold or issue derivatives for speculative trading purposes. Derivatives are carried at their fair value upon initial recognition. The fair values are also relevant for subsequent measurement. The fair value of traded derivatives is equal to their market value, which can be positive or negative. If there is no market value available, the fair value is determined using standard financial valuation models.

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

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

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

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

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

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

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

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

#### CONTINGENCIES (CONTINGENT LIABILITIES AND ASSETS)

Contingencies (contingent liabilities and assets) are potential liabilities or assets arising from past events whose existence will be confirmed by the occurrence or non-occurrence of one or more uncertain future events not entirely within the control of Deutsche Telekom. Contingent liabilities are also present obligations that arise

from past events for which an outflow of resources embodying economic benefits is not probable or for which the amount of the obligation cannot be measured reliably. Contingent liabilities are only recognized at their fair value if they were assumed in the course of a business combination. Contingent liabilities not assumed in the course of a business combination are not recognized. Contingent assets are not recognized. However, when the realization of income is virtually certain, then the related asset is no longer a contingent asset, but it is recognized as an asset. Information on contingent liabilities is disclosed in the notes to the consolidated financial statements, unless the possibility of an outflow of resources embodying economic benefits is remote. The same applies to contingent assets where an inflow of economic benefits is probable.

#### LEASES

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

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

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

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

### SHARE-BASED PAYMENT PROGRAMS

Equity-settled share-based payment transactions are measured at fair value on the grant date. The fair value of the obligation is recognized as personnel costs over the vesting period and offset against capital reserves. For equity-settled share-based payment transactions, the fair value is determined using internationally accepted valuation techniques, such as the Black-Scholes model or the Monte Carlo model. For cash-settled share-based payment transactions, the goods and services acquired and the liability incurred have to be recognized at the fair value of the liability. The fair value of the liability has to be newly determined at each reporting date and at the settlement date, and the changes in the fair value have to be recognized in profit and loss, until the liability is settled.

### NET REVENUE

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

For multiple-element arrangements, revenue recognition for each of the units of accounting (elements) identified must be determined separately. Revenue is recognized on the basis of the fair value (standalone selling prices) 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 standalone selling prices (i.e., based on a ratio of the standalone selling price of each element to the aggregated standalone selling prices of the bundled deliverables). The relative standalone selling price of an individual element and thus the revenue recognized for this unit of accounting, however, is limited by that proportion of the total arrangement consideration to be provided by the customer, the payment of which does not depend on the delivery of additional elements.

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

Revenue recognition at Deutsche Telekom is as follows:

Revenue generated by the **mobile communications business** of the operating segments Germany, United States, and Europe includes revenues from the provision of mobile services, customer activation fees, and sales of mobile handsets and accessories. Mobile service revenue includes monthly service charges, charges for special features, call charges, and roaming charges billed to Deutsche Telekom customers, as well as other mobile operators. Mobile service revenue is recognized based upon minutes of use or other agreed calling plans less credits and adjust-

ments for discounts. The revenue and related expenses associated with the sale of mobile handsets and accessories are recognized when the products are delivered and accepted by the customer.

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 rate plans. Telecommunications equipment is also sold, leased, and serviced. Revenue and expenses associated with the sale of telecommunications equipment and accessories are recognized when the products are delivered, provided there are no unfulfilled company obligations that affect the customer's final acceptance of the arrangement. Revenue from 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.

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

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

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## INCOME TAXES

Income taxes include current income taxes as well as deferred taxes. Current and deferred tax shall be recognized as income or expense and included in profit or loss for the period, except to the extent that the tax arises from a transaction which is recognized, in the same or a different period, outside profit and loss, either in other comprehensive income or directly in equity. Tax liabilities/tax receivables mainly comprise liabilities/receivables relating to domestic and foreign income taxes. They include liabilities/receivables for the current period as well as for prior periods. The liabilities/receivables are measured based on the applicable tax law in the countries Deutsche Telekom operates in.

Deferred taxes are recognized for temporary differences between the carrying amounts in the consolidated statement of financial position and the tax base, as well as for tax loss carryforwards and tax credits. By way of derogation from this principle, a deferred tax liability is not recognized for temporary differences if the deferred tax liability arises from the initial recognition of an asset or a liability in a transaction which is not a business combination and, at the time of the transaction, affects neither accounting profit nor taxable profit/tax loss. A deferred tax liability is not recognized either for temporary differences arising from the initial recognition of goodwill. A deferred tax asset is recognized only when it is probable that a taxable profit will be available against which the deductible temporary differences, loss carryforwards, and tax credits can be utilized. A deferred tax liability is generally recognized for temporary differences associated with investments in subsidiaries and associates unless Deutsche Telekom is able to control the timing of the reversal of the temporary difference and it is probable that the temporary differences will not reverse in the foreseeable future. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates and other tax laws that have been enacted or substantively enacted by the end of the reporting period. Deferred tax assets and deferred tax liabilities are offset in the statement of financial position if Deutsche Telekom has a legally enforceable right to set off current tax assets against current tax liabilities, and the deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same taxation authority.

## JUDGMENTS AND ESTIMATES

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

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

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

The determination of the **recoverable amount of a cash-generating unit** involves the use of estimates by management. Methods used to calculate the recoverable amount include discounted cash flow-based methods and methods that use market prices as a basis. The measurements on the basis of discounted cash flows are founded on projections that are based on financial plans that have been approved by management and are also used for internal purposes. The planning horizon selected reflects the assumptions for short- to medium-term market developments and is selected to achieve a steady state in the business outlook that is necessary for calculating the perpetual annuity. This steady state is only reached based on the planning horizon selected, in particular due to the sometimes long investment cycles in the telecommunications industry and the investments planned and expected in the long run to acquire and extend the rights of spectrum use. Cash flows beyond the internal mid-term planning are extrapolated using appropriate growth rates. The key assumptions on which management has based its calculation of the recoverable amount include the following assumptions that were primarily derived from internal sources and are based on past experience and extended to include internal expectations, and that are underscored by external market data and estimates: development of revenue, customer acquisition and retention costs, churn rates, capital expenditure, market share, and growth rates. Discount rates are determined on the basis of external figures derived from the market, taking account of the risks associated with the cash-generating unit. Any future changes in the aforementioned assumptions could have a significant impact on the fair values of the cash-generating units.

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

**Income taxes** must be estimated for each of the jurisdictions in which the Group operates, involving a specific calculation of the expected actual income tax exposure for each tax object and an assessment of temporary differences resulting from the different treatment of certain items for IFRS consolidated financial and tax reporting purposes. Any temporary differences will generally result in the recognition of deferred tax assets and liabilities in the consolidated financial statements. Management judgment is required for the calculation of 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 results of operations, operational plans, loss carryforward periods, and tax planning strategies. The period used for the assessment of the recoverability depends on the circumstances at the respective Group company and typically is in a range of 5 to 10 years. If actual results differ from these estimates or if these estimates must be adjusted in future periods, results of operations, the financial position, and cash flows may be negatively affected. In the event that the assessment of future utilization of deferred tax assets changes, the recognized deferred tax assets must be reduced in profit or loss or directly in equity, or the impairment loss of impaired deferred tax assets must be reversed and recognized in profit or loss, or directly in equity, depending on how the deferred tax assets were originally recognized.

**Pension obligations for benefits to non-civil servants** are generally satisfied by defined benefit plans. Pension benefit costs for non-civil servants are determined in accordance with actuarial valuations, which rely on assumptions regarding the discount rate, the expected salary increase rate, the expected pension trend, and life expectancy. In the event that changes in the assumptions regarding these parameters are required, the future amounts of the pension benefit costs may be affected materially.

Deutsche Telekom is obligated, under the German Federal Posts and Telecommunications Agency Reorganization Act (Gesetz zur Reorganisation der Bundesanstalt für Post und Telekommunikation Deutsche Bundespost), to pay for its share of any operating cost shortfalls between the income of the **Civil Service Health Insurance Fund** (Postbeamtenkrankenkasse) and benefits paid. The Civil Service Health Insurance Fund provides services mainly in cases of illness, birth, or death

for its members, who are civil servants employed by or retired from Deutsche Telekom AG, Deutsche Post AG, and Deutsche Postbank AG, and their relatives. When Postreform II came into effect, participation in the Civil Service Health Insurance Fund was closed to new members. The insurance premiums collected by the Civil Service Health Insurance Fund may not exceed the insurance premiums imposed by alternative private health insurance enterprises for comparable insurance benefits, and, therefore, do not reflect the changing age distribution of the participants in the fund. Deutsche Telekom recognizes provisions in the amount of the actuarially determined present value of Deutsche Telekom's share in the fund's future deficit, using a discount rate and making assumptions about life expectancies and projections for contributions and future increases in general health care costs in Germany. Since the calculation of these provisions involves long-term projections over periods of more than 50 years, the present value of the liability may be highly sensitive even to small variations in the underlying assumptions.

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

## REVENUE RECOGNITION

**Customer activation fees that are not part of a multiple-element arrangement** are deferred and recognized as revenue over the estimated average period of customer retention. The estimation of the expected average duration of the relationship is based on historical customer turnover. If management's estimates are revised, material differences may result in the amount and timing of revenue for any period.

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

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## CONSOLIDATION METHODS

### SUBSIDIARIES

Subsidiaries are companies that are directly or indirectly controlled by Deutsche Telekom. Control only exists if an investor has the power over the investee, is exposed to variable returns, and is able to use power to affect its amount of variable returns. The existence and effect of substantive potential voting rights that are currently exercisable or convertible, including potential voting rights held by other Group companies, are considered when assessing whether an entity is controlled.

All subsidiaries are included in the consolidated financial statements, unless an operating segment or the Group considers them to be insignificant based on the following criterion: The sum of all unconsolidated subsidiaries must not account for more than 1 percent of the Group's total assets, revenue, profit/loss for the year, contingent assets/liabilities, and other financial obligations. If the 1 percent limit is exceeded, Deutsche Telekom determines which companies are to be included in the consolidated financial statements, taking the long-term development of the investment and consolidation effects into account. Aside from the quantitative criteria, qualitative criteria will also be used to assess the materiality of an entity for the consolidated group. Excluding a subsidiary must not significantly change the segment result or the Group's profit/loss for the year, nor may other significant trends be ignored.

Income and expenses of a subsidiary are included in the consolidated financial statements from the acquisition date. Income and expenses of a subsidiary remain included in the consolidated financial statements until the date on which the parent ceases to control the subsidiary. If necessary, the subsidiaries' accounting principles are aligned with the uniform accounting principles applied by the Deutsche Telekom Group. Intercompany income and expenses, receivables and liabilities, and profits or losses are eliminated.

Upon loss of control, a gain or loss from the disposal of the subsidiary is recognized in the consolidated income statement in the amount of the difference between the (i) proceeds from the disposal of the subsidiary, the fair value of the remaining shares, the carrying amount of the non-controlling interests, and the cumulative amounts of other comprehensive income attributable to the subsidiary, and (ii) the carrying amount of the subsidiary's net assets to be disposed of.

### JOINT OPERATIONS, JOINT VENTURES AND ASSOCIATES

Joint arrangements, in which two or more parties have joint control over an activity, must be classified as either joint operations or joint ventures.

A **joint operation** is characterized by the fact that the parties that have joint control of the arrangement (joint operators) have rights to the assets, and obligations for the liabilities, relating to the arrangement. A joint operator shall account for the assets,

liabilities, revenues and expenses relating to its interest in the joint operation as well as its share of the joint assets, liabilities, revenues and expenses.

In a **joint venture**, on the other hand, the parties that have joint control of the arrangements (partners) have rights to the net assets of the entity. **Associates** are companies on which Deutsche Telekom has a significant influence, and that are neither subsidiaries nor joint ventures. As with joint ventures, associates are accounted for using the **equity method**.

Investments in joint ventures and associates that are included in the consolidated financial statements using the equity method are recognized at cost at the time of acquisition. The carrying amount of the investment may include goodwill as the positive difference between the cost of the investment and Deutsche Telekom's proportionate share in the fair values of the entity's identifiable assets and liabilities. If necessary, the accounting principles of joint ventures and associates are aligned with the uniform accounting principles applied by the Deutsche Telekom Group. The carrying amount of the investment accounted for using the equity method is tested for impairment provided there are indications of impairment. If the carrying amount of the investment exceeds its recoverable amount, an impairment loss must be recognized in the amount of the difference. The recoverable amount is measured at the higher of fair value less costs of disposal and value in use.

Upon loss of significant influence, a gain or loss from the disposal of the joint venture/associate is recognized in the amount of the difference between the (i) proceeds from the disposal of the shares, the fair value of the remaining shares, and the cumulative amounts of other comprehensive income attributable to the joint venture or associate, and (ii) the carrying amount of the investment to be disposed of.

The materiality assessment for jointly controlled entities and associates is generally performed using the same methods as for subsidiaries, but is limited to the criteria of profit/loss for the year, contingent assets and liabilities, and other financial obligations.

### BUSINESS COMBINATIONS

A business combination exists when Deutsche Telekom obtains control of another entity. All business combinations must be accounted for using the acquisition method. The cost of an acquired subsidiary is measured at the fair value of the consideration transferred, i.e., the sum of the assets transferred, liabilities assumed, and equity instruments issued. Transaction costs are generally recognized as expense. The acquisition cost is allocated to the acquired assets, liabilities, and contingent liabilities. The identifiable assets acquired and the liabilities and contingent liabilities assumed are recognized in full at their fair values at the acquisition date, regardless of the level of the investment held by Deutsche Telekom.

Goodwill arising in a business combination is measured as the excess of the aggregate of the cost of acquisition, the amount of any non-controlling interest in the acquiree, and, in a business combination achieved in stages, the fair value of the equity interest held by Deutsche Telekom in the acquiree prior to the acquisition date over the net of the amounts of the identifiable assets acquired and liabilities assumed. Any difference arising on the revaluation of equity interests previously held by Deutsche Telekom is recognized in profit or loss.

For all business combinations there is an option in relation to the measurement of the non-controlling interests. These can be recognized either directly at their fair value (i.e., the non-controlling interest in the enterprise value of the acquiree) or at the non-controlling interest in the fair value of the net assets recognized for the acquiree. As a result, in the first case, the non-controlling interests also have a share in the goodwill arising from the business combination, while in the second case the non-controlling interest is limited to the revalued assets and liabilities and the goodwill is therefore recognized only as the residual amount attributable to Deutsche Telekom.

Transactions relating to the further acquisition or sale of equity interests with other shareholders that do not affect Deutsche Telekom's controlling interest do not lead to any change in goodwill. The difference between the fair value of the consideration transferred or received (i.e., the purchase price of the interests) and the carrying amount of the equity attributable to the non-controlling interests must be offset directly against consolidated shareholders' equity in capital reserves.

#### CHANGES IN THE COMPOSITION OF THE GROUP AND TRANSACTIONS WITH OWNERS

In the 2014 financial year, Deutsche Telekom conducted the following transactions, which had an impact on the composition of the Group. Other changes to the composition of the Group not shown here were of no material significance for Deutsche Telekom's consolidated financial statements.

##### Acquisition of the GTS Central Europe group

The agreement concluded in early November 2013 with a consortium of international private equity investors for the takeover of 100 percent of the shares in Consortium 1 S.à.r.l. (Luxembourg) and, as a result, in the GTS Central Europe group (GTS) was consummated on May 30, 2014. The responsible authorities had already approved the acquisition by April 15, 2014. GTS is a leading infrastructure-based provider of telecommunications services in Central and Eastern Europe and owns an extensive fiber-optic network as well as several data centers. On this basis, GTS' offering includes voice and data services, virtual private networks, and cloud services. With this acquisition, Deutsche Telekom intends to strengthen and further develop the local and pan-European B2B business, including international wholesale customers, within the Europe operating segment.

The cash consideration for the acquisition of GTS transferred at the acquisition date amounts to EUR 301 million. Payments in connection with the acquisition were made in the amount of EUR 539 million (see TABLE 149 "Net cash used in investing activities" in the notes to the consolidated statement of cash flows, PAGE 238). The difference mainly resulted from the repayment of loans by GTS to third parties that were not included in the consideration transferred to the seller. The bases for the measurement of the capitalized customer bases as well as property, plant and equipment have been adjusted compared with May 30, 2014. The goodwill recognized was thus reduced by EUR 18 million to EUR 135 million as a result of the ongoing purchase price allocation. The purchase price allocation was completed on December 31, 2014.

The fair values of GTS' acquired assets and liabilities recognized at the acquisition date are presented in TABLE 065.

T 065

millions of €

	Fair value at the acquisition date
<b>CURRENT ASSETS</b>	<b>138</b>
Cash and cash equivalents	24
Trade and other receivables	41
Other current assets	9
Non-current assets and disposal groups held for sale	64
<b>NON-CURRENT ASSETS</b>	<b>598</b>
Intangible assets	350
Of which: goodwill	135
Of which: customer base	201
Of which: other	14
Property, plant and equipment	223
Other non-current assets	25
<b>ASSETS</b>	<b>736</b>
<b>CURRENT LIABILITIES</b>	<b>387</b>
Financial liabilities	222
Trade and other payables	27
Other liabilities	54
Other current liabilities	20
Liabilities directly associated with non-current assets and disposal groups held for sale	64
<b>NON-CURRENT LIABILITIES</b>	<b>48</b>
Deferred tax liabilities	44
Other non-current liabilities	4
<b>LIABILITIES</b>	<b>435</b>



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The measurement of the capitalized customer bases is based on the multi-period excess earnings method which is the most decisive factor influencing the measurement of the expected customer retention period. A useful life of seven years was assumed for the customer bases of GTS' local and pan-European B2B operations. International Wholesale customer bases are deemed to have a useful life of 17 years. Property, plant and equipment were measured using recent estimates of replacement costs, including a deduction for wear and tear (indirect cost method). The acquired current receivables of GTS are not expected to give rise to significant bad debt losses in the future. The current receivables acquired therefore largely correspond to the gross amounts of the contractual receivables.

The figures included in the two items "non-current assets and disposal groups held for sale" and "liabilities directly associated with non-current assets and disposal groups held for sale" relate to the Slovakian part of GTS. The gain from the disposal and income from divestitures were not material. The transaction was completed on June 2, 2014.

The acquired goodwill of EUR 0.1 billion to be recognized in Deutsche Telekom's consolidated statement of financial position is calculated as follows:

T 066

millions of €

	<b>Fair value at the acquisition date</b>
Consideration transferred	301
Assets acquired for 100% of the shares	(601)
Liabilities acquired for 100% of the shares	435
<b>GOODWILL</b>	<b>135</b>

Goodwill is influenced by synergy effects as a result of the acquisition, which are attributable to future business potential on account of GTS' position as an integrated provider of telecommunications services in Central and Eastern Europe. Goodwill developed as follows between the closing date and December 31, 2014:

T 067

millions of €

	<b>Development of goodwill</b>
Goodwill on May 30, 2014	135
Exchange rate effects	(2)
<b>GOODWILL ON DECEMBER 31, 2014</b>	<b>133</b>

Goodwill resulting from the business combination will not be recognized in accordance with local tax law and is thus not tax-deductible. Purchase price allocation did not result in deferred taxes on goodwill, nor will it in future.

Deutsche Telekom's net revenue in the reporting period increased by EUR 172 million on account of the acquisition of GTS. Had the business combination already occurred on January 1, 2014, revenue of the Group would have been a further EUR 133 million higher. Deutsche Telekom's profit/loss for the current reporting period includes a loss from GTS of EUR 3 million. Had the business combination already occurred on January 1, 2014, the profit of the Deutsche Telekom Group would have been a further EUR 31 million lower.

No material transaction-based costs were incurred by December 31, 2014.

#### Sale of Scout24 Holding GmbH and Scout24 International Management AG

On February 12, 2014, Deutsche Telekom consummated the sale of 70 percent of the shares in Scout24 Holding GmbH to Hellman & Friedman LLC (H&F). As a result, the shares in the Scout24 group were deconsolidated and the remaining approximately 30 percent of the shares retained directly and indirectly by Deutsche Telekom were recognized in the consolidated statement of financial position as of the date of first-time inclusion under investments accounted for using the equity method at a fair value of EUR 0.3 billion. In addition, by acquiring 100 percent of the shares in Scout24 International Management AG (now operating under the name Classifieds Business Beteiligungs- und Verwaltungs AG), effective January 24, 2014, Ringier Digital AG took over the 57.6 percent stake in Scout24 Schweiz AG that had been held indirectly by Scout24 Holding GmbH. The two transactions, taking into account the inclusion of the approximately 30 percent of shares in the Scout24 group accounted for using the equity method, gave rise to income from divestitures of EUR 1.7 billion, which was recognized under other operating income. In particular intangible assets of EUR 0.2 billion and cash and cash equivalents of EUR 40 million were deconsolidated. The cash flows from both transactions amounted to EUR 1.6 billion in total. Both entities were part of the Group Headquarters & Group Services segment. The remaining investment in the Scout24 group accounted for using the equity method continues to be part of this segment.

#### First-time consolidation of four structured leasing special-purpose entities (SPEs)

As of March 25, 2014, Deutsche Telekom consolidated for the first time four leasing SPEs for real estate as well as operating and office equipment at two sites for the operation of data centers in Germany. The two data centers were built under the management of an external leasing company and are operated by T-Systems International GmbH. Assets totaling EUR 0.2 billion (real estate of EUR 0.1 billion and other equipment, operating and office equipment of EUR 0.1 billion) and liabilities to banks totaling EUR 0.2 billion were recognized in Deutsche Telekom's consolidated statement of financial position in this context. Apart from the contractual obligations to make lease payments to the leasing SPEs, Deutsche Telekom has no obligation to give them further financial support.

### Presentation of the quantitative effects on the composition of the Group

Deutsche Telekom acquired and disposed of entities in the current and prior financial years. This imposes certain limits on the comparability of the consolidated financial statements and the disclosures under segment reporting.

In the prior year, this primarily included MetroPCS Communications, Inc., Dallas, United States, acquired as of May 1, 2013 in the United States operating segment. Furthermore, in the Europe operating segment, the entities Cosmo Bulgaria Mobile EAD (Globul) and Germanos Telecom Bulgaria AD (Germanos) were sold in the prior year as of July 31, 2013 and the shares in Hellas Sat S.A. as of March 31, 2013.

Effective January 2, 2014, Deutsche Telekom sold Euronet Communications B.V., The Hague, Netherlands, which up to that date had been part of the Europe operating segment. The gain from the disposal and income from divestitures were not material.

The presented effects in the Group Headquarters & Group Services segment result from the sale of the shares in the Scout24 group.

TABLE 068 shows the effects of the aforementioned changes in the composition of the Group on the consolidated income statement and segment reporting for the 2014 financial year.

T 068

millions of €

	Germany	United States	Europe	Systems Solutions	Group Headquarters & Group Services	Reconciliation	Total
Net revenue	(8)	1,278	(86)	(38)	(331)	0	815
Cost of sales	5	(809)	39	55	55	0	(655)
<b>GROSS PROFIT (LOSS)</b>	<b>(3)</b>	<b>469</b>	<b>(47)</b>	<b>17</b>	<b>(276)</b>	<b>0</b>	<b>160</b>
Selling expenses	0	(265)	89	2	156	0	(18)
General and administrative expenses	1	(27)	(18)	7	42	0	5
Other operating income	0	2	(184)	0	(4)	0	(186)
Other operating expenses	5	0	(53)	0	0	(3)	(51)
<b>PROFIT (LOSS) FROM OPERATIONS</b>	<b>3</b>	<b>179</b>	<b>(213)</b>	<b>26</b>	<b>(82)</b>	<b>(3)</b>	<b>(90)</b>
Finance costs	0	(77)	3	0	1	0	(73)
Share of profit (loss) of associates and joint ventures accounted for using the equity method	0	0	0	0	4	0	4
Other financial income (expense)	25	(23)	36	(5)	(1)	0	32
<b>PROFIT (LOSS) FROM FINANCIAL ACTIVITIES</b>	<b>25</b>	<b>(100)</b>	<b>39</b>	<b>(5)</b>	<b>4</b>	<b>0</b>	<b>(37)</b>
<b>PROFIT (LOSS) BEFORE INCOME TAXES</b>	<b>28</b>	<b>79</b>	<b>(174)</b>	<b>21</b>	<b>(78)</b>	<b>(3)</b>	<b>(127)</b>
Income taxes	0	0	9	0	3	1	13
<b>PROFIT (LOSS)</b>	<b>28</b>	<b>79</b>	<b>(165)</b>	<b>21</b>	<b>(75)</b>	<b>(2)</b>	<b>(114)</b>

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### Changes in the composition of the Group

The composition of the Deutsche Telekom Group changed as follows in the 2014 financial year:

T 069

	Domestic	International	Total
<b>CONSOLIDATED SUBSIDIARIES</b>			
January 1, 2014	67	177	244
Additions	2	34	36
Disposals (including mergers)	13	14	27
<b>DECEMBER 31, 2014</b>	<b>56</b>	<b>197</b>	<b>253</b>
<b>ASSOCIATES ACCOUNTED FOR USING THE EQUITY METHOD</b>			
January 1, 2014	4	9	13
Additions	1	1	2
Disposals	-	2	2
<b>DECEMBER 31, 2014</b>	<b>5</b>	<b>8</b>	<b>13</b>
<b>JOINT VENTURES ACCOUNTED FOR USING THE EQUITY METHOD</b>			
January 1, 2014	3	6	9
Additions	-	1	1
Disposals	-	4	4
<b>DECEMBER 31, 2014</b>	<b>3</b>	<b>3</b>	<b>6</b>
<b>TOTAL</b>			
January 1, 2014	74	192	266
Additions	3	36	39
Disposals (including mergers)	13	20	33
<b>DECEMBER 31, 2014</b>	<b>64</b>	<b>208</b>	<b>272</b>

### Other transactions that had no effect on the composition of the Group

#### Acquisition of the remaining shares in T-Mobile Czech Republic

On February 25, 2014, Deutsche Telekom acquired the 39.23-percent stake in T-Mobile Czech Republic that it did not previously hold for a purchase price of EUR 0.8 billion. The acquisition of these remaining shares make it possible to simplify the financial and governance structure at T-Mobile Czech Republic. In addition, the transaction results in reduced dividend payments to non-controlling interests. For the effects on shareholders' equity, please refer to Note 15, PAGES 227 and 228.

## PRINCIPAL SUBSIDIARIES

The Group's principal subsidiaries are presented in TABLE 070:

T 070

Name and registered office		Deutsche Telekom share %	Net revenue <sup>c</sup> millions of €	Profit (loss) from operations <sup>c</sup> millions of €	Shareholders' equity <sup>c</sup> millions of €	Average number of employees	Segment allocation
Telekom Deutschland GmbH, Bonn, Germany	<b>Dec. 31, 2014/2014</b>	100.00	21,760	4,597	4,223	12,423	Germany
	Dec. 31, 2013/2013	100.00	21,990	4,562	4,671	12,834	
T-Mobile US, Inc., Bellevue, Washington, United States <sup>a,b</sup>	<b>Dec. 31, 2014/2014</b>	66.29	22,408	1,405	14,060	37,858	United States
	Dec. 31, 2013/2013	66.75	18,556	1,404	11,942	32,962	
T-Systems International GmbH, Frankfurt/Main, Germany	<b>Dec. 31, 2014/2014</b>	100.00	6,472	(517)	997	21,590	Systems Solutions
	Dec. 31, 2013/2013	100.00	6,730	(265)	1,275	22,347	
Hellenic Telecommunications Organization S.A. (OTE), Athens, Greece <sup>a</sup>	<b>Dec. 31, 2014/2014</b>	40.00	3,918	365	3,591	21,903	Europe
	Dec. 31, 2013/2013	40.00	4,244	315	3,597	25,325	
Magyar Telekom Public Limited Company, Budapest, Hungary <sup>a,b</sup>	<b>Dec. 31, 2014/2014</b>	59.23	2,013	262	2,137	14,559	Europe
	Dec. 31, 2013/2013	59.23	2,145	193	2,151	14,493	
T-Mobile Netherlands Holding B.V., The Hague, Netherlands <sup>a,b</sup>	<b>Dec. 31, 2014/2014</b>	100.00	1,551	360	2,508	1,439	Europe
	Dec. 31, 2013/2013	100.00	1,666	181	2,252	1,658	
T-Mobile Polska S.A., Warsaw, Poland <sup>b</sup>	<b>Dec. 31, 2014/2014</b>	100.00	1,492	328	2,395	4,641	Europe
	Dec. 31, 2013/2013	100.00	1,584	348	2,199	4,721	
T-Mobile Czech Republic a.s., Prague, Czech Republic <sup>a,b</sup>	<b>Dec. 31, 2014/2014</b>	100.00	874	228	1,588	3,419	Europe
	Dec. 31, 2013/2013	60.77	988	271	1,540	3,360	
Hrvatski Telekom d.d., Zagreb, Croatia <sup>a,b</sup>	<b>Dec. 31, 2014/2014</b>	51.00	905	148	1,964	5,359	Europe
	Dec. 31, 2013/2013	51.00	929	202	1,920	5,606	
T-Mobile Austria Holding GmbH, Vienna, Austria <sup>a,b</sup>	<b>Dec. 31, 2014/2014</b>	100.00	815	59	973	1,113	Europe
	Dec. 31, 2013/2013	100.00	828	(510)	921	1,207	
Slovak Telekom a.s., Bratislava, Slovakia <sup>a,b</sup>	<b>Dec. 31, 2014/2014</b>	51.00	768	98	1,956	3,752	Europe
	Dec. 31, 2013/2013	51.00	828	69	1,903	3,811	

<sup>a</sup> Consolidated subgroup.

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

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

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TABLE 071 shows the principal subsidiaries with non-controlling interests:

T 071

Name and registered office		Percentage of shareholding for non-controlling interests %	Percentage of voting rights for non-controlling interests %	Cumulative non-controlling interests <sup>c</sup> millions of €	Dividends paid out to non-controlling interests millions of €
T-Mobile US, Inc., Bellevue, Washington, United States <sup>a,b</sup>	<b>Dec. 31, 2014/2014</b>	33.71	33.71	4,516	-
	Dec. 31, 2013/2013	33.25	33.25	3,782	-
Hellenic Telecommunications Organization S.A. (OTE), Athens, Greece <sup>a</sup>	<b>Dec. 31, 2014/2014</b>	60.00	50.00	1,966	-
	Dec. 31, 2013/2013	60.00	50.00	1,961	-
Magyar Telekom Public Limited Company, Budapest, Hungary <sup>a,b</sup>	<b>Dec. 31, 2014/2014</b>	40.77	40.77	618	22
	Dec. 31, 2013/2013	40.77	40.77	610	77
T-Mobile Czech Republic a.s., Prague, Czech Republic <sup>a,b</sup>	<b>Dec. 31, 2014/2014</b>	0.00	0.00	-	-
	Dec. 31, 2013/2013	39.23	39.23	361	90
Hrvatski Telekom d.d., Zagreb, Croatia <sup>a,b</sup>	<b>Dec. 31, 2014/2014</b>	49.00	49.00	745	48
	Dec. 31, 2013/2013	49.00	49.00	714	110
Slovak Telekom a.s., Bratislava, Slovakia <sup>a,b</sup>	<b>Dec. 31, 2014/2014</b>	49.00	49.00	782	9
	Dec. 31, 2013/2013	49.00	49.00	756	35

<sup>a</sup> Consolidated subgroup.

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

<sup>c</sup> IFRS figures at the level of the consolidated financial statements of Deutsche Telekom.

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

Furthermore, the statement of investment holdings includes a full list of all subsidiaries that exercise simplification options in accordance with § 264 (3) HGB or disclosure simplification options in accordance with § 264 b HGB.

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

Summarized financial information for subsidiaries with significant non-controlling interests:

T 072

millions of €

Name and registered office		Current assets <sup>c</sup>	Non-current assets <sup>c</sup>	Current liabilities <sup>c</sup>	Non-current liabilities <sup>c</sup>	Profit (loss) <sup>c</sup>	Total comprehensive income <sup>c</sup>
T-Mobile US, Inc., Bellevue, Washington, United States <sup>a,b</sup>	<b>Dec. 31, 2014/2014</b>	12,387	37,398	7,499	28,226	344	1,994
	Dec. 31, 2013/2013	9,239	29,591	4,126	22,762	627	73
Hellenic Telecommunications Organization S.A. (OTE), Athens, Greece <sup>a</sup>	<b>Dec. 31, 2014/2014</b>	2,493	6,104	2,436	3,063	85	85
	Dec. 31, 2013/2013	2,531	6,368	2,443	3,376	39	34
Magyar Telekom Public Limited Company, Budapest, Hungary <sup>a,b</sup>	<b>Dec. 31, 2014/2014</b>	662	3,460	1,046	1,089	100	39
	Dec. 31, 2013/2013	681	3,325	1,033	1,012	50	41
T-Mobile Czech Republic a.s., Prague, Czech Republic <sup>a,b</sup>	<b>Dec. 31, 2014/2014</b>	-	-	-	-	-	-
	Dec. 31, 2013/2013	489	739	190	56	227	146
Hrvatski Telekom d.d., Zagreb, Croatia <sup>a,b</sup>	<b>Dec. 31, 2014/2014</b>	723	1,140	251	107	133	126
	Dec. 31, 2013/2013	672	1,084	247	51	162	152
Slovak Telekom a.s., Bratislava, Slovakia <sup>a,b</sup>	<b>Dec. 31, 2014/2014</b>	789	1,254	249	154	73	64
	Dec. 31, 2013/2013	617	1,467	339	157	49	33

<sup>a</sup> Consolidated subgroup.

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

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

T 073

millions of €

Name and registered office		Net cash from operating activities <sup>c</sup>	Net cash (used in) from investing activities <sup>c</sup>	Net cash (used in) from financing activities <sup>c</sup>
T-Mobile US, Inc., Bellevue, Washington, United States <sup>a,b</sup>	2014	3,246	(3,582)	1,952
	2013	2,727	(973)	2,728
Hellenic Telecommunications Organization S.A. (OTE), Athens, Greece <sup>a</sup>	2014	1,135	(442)	(438)
	2013	1,290	297	(976)
Magyar Telekom Public Limited Company, Budapest, Hungary <sup>a,b</sup>	2014	482	(219)	(50)
	2013	471	(234)	(64)
T-Mobile Czech Republic a.s., Prague, Czech Republic <sup>a,b</sup>	2014	-	-	-
	2013	343	(246)	(267)
Hrvatski Telekom d.d., Zagreb, Croatia <sup>a,b</sup>	2014	320	(163)	(122)
	2013	315	(196)	(223)
Slovak Telekom a.s., Bratislava, Slovakia <sup>a,b</sup>	2014	275	(319)	(25)
	2013	297	(362)	(71)

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

## STRUCTURED ENTITIES

Deutsche Telekom processes factoring transactions by means of structured entities (see Note 37 "Financial instruments and risk management," PAGE 248 ET SEQ.).

T-Mobile USA Tower LLC and T-Mobile West Tower LLC, which are included in Deutsche Telekom's consolidated statement of financial position as investments accounted for using the equity method, are also structured entities (see Note 7 "Investments accounted for using the equity method," PAGE 211 ET SEQ.).

## JOINT OPERATIONS

On the basis of a contractual arrangement concluded by T-Mobile Polska S.A., Poland, Deutsche Telekom combined the activities for the planning, building, and operation of the Polish mobile communications network with a partner in 2011 to generate savings. Deutsche Telekom discloses the corresponding assets in line with the economic substance allocable to its share (50 percent) in the consolidated statement of financial position.

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## CURRENCY TRANSLATION

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

The assets and liabilities of Group entities whose functional currency is not the euro are translated into euros from the local currency using the middle rates at the reporting date. The middle rates are the monthly average of the bid and ask rates. The income statements and corresponding profit or loss of foreign-currency denominated Group entities are translated at 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 074

€	Annual average rate			Rate at the reporting date	
	2014	2013	2012	Dec. 31, 2014	Dec. 31, 2013
100 Czech korunas (CZK)	3.63124	3.85018	3.97740	3.60844	3.64929
1 Pound sterling (GBP)	1.24035	1.17714	1.23292	1.28428	1.20086
100 Croatian kuna (HRK)	13.09950	13.19720	13.29600	13.06000	13.12490
1,000 Hungarian forints (HUF)	3.23940	3.36771	3.45820	3.17153	3.36594
100 Macedonian denars (MKD)	1.62380	1.61831	1.62376	1.62669	1.62712
100 Polish zlotys (PLN)	23.89430	23.82270	23.89580	23.35810	24.08060
1 U.S. dollar (USD)	0.75241	0.75289	0.77820	0.82300	0.72597

## 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 486 million (December 31, 2013: EUR 40 million) on the basis of collateral contracts as surety for potential credit risks arising from derivative transactions.

In the reporting period, cash and cash equivalents decreased by EUR 0.4 billion to EUR 7.5 billion. For further details, please refer to the consolidated statement of cash flows in Note 31, PAGES 238 and 239.

As of December 31, 2014, Deutsche Telekom reported cash and cash equivalents of EUR 32 million held by subsidiaries in the F.Y.R.O. Macedonia (December 31, 2013: EUR 23 million). These subsidiaries are subject to foreign exchange controls or other legal restrictions. As a result, the cash balances are not fully available for use by the parent or other Group companies.

### 2 TRADE AND OTHER RECEIVABLES

T 075

millions of €

	Dec. 31, 2014	Dec. 31, 2013
Trade receivables	10,262	7,580
Other receivables	192	132
	<b>10,454</b>	<b>7,712</b>

Of the total of trade and other receivables, EUR 8,897 million (December 31, 2013: EUR 6,735 million) is due within one year.

The development in receivables is largely attributable to customer growth and an increased percentage of terminal equipment sold under installment plans in the United States operating segment. This results from the strategy pursued by T-Mobile US to no longer sell terminal equipment at a subsidized price, but on the basis of installment plans, for example.

TABLE 076 shows the maturity structure of the trade receivables that are not impaired at the reporting date:

T 076

Trade receivables	Of which: neither impaired nor past due on the reporting date	Of which: not impaired on the reporting date and past due in the following periods					
		Less than 30 days	Between 30 and 60 days	Between 61 and 90 days	Between 91 and 180 days	Between 181 and 360 days	More than 360 days
<b>As of Dec. 31, 2014</b>	3,226	421	116	64	73	63	46
As of Dec. 31, 2013	2,816	661	82	51	75	106	77

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 077

	2014	2013
<b>ALLOWANCES AS OF JANUARY 1</b>	<b>1,344</b>	<b>1,316</b>
Currency translation adjustments	15	(15)
Additions (allowances recognized as expense)	641	642
Use	(410)	(479)
Reversal	(222)	(120)
<b>ALLOWANCES AS OF DECEMBER 31</b>	<b>1,368</b>	<b>1,344</b>

TABLE 078 presents expenses for the full write-off of trade receivables as well as income from recoveries on trade receivables written off:

T 078

	2014	2013	2012
Expenses for full write-off of receivables	352	129	138
Income from recoveries on receivables written off	254	46	103

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

### 3 INVENTORIES

T 079

	Dec. 31, 2014	Dec. 31, 2013
Raw materials and supplies	65	75
Work in process	24	40
Finished goods and merchandise	1,414	947
	<b>1,503</b>	<b>1,062</b>

Of the inventories reported as of December 31, 2014, write-downs of EUR 57 million (2013: EUR 46 million, 2012: EUR 58 million) on the net realizable value were recognized in profit or loss.

The carrying amount of inventories recognized as expense amounted to EUR 8,237 million (2013: EUR 6,470 million, 2012: EUR 5,519 million).

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

### 4 NON-CURRENT ASSETS AND DISPOSAL GROUPS HELD FOR SALE AND LIABILITIES DIRECTLY ASSOCIATED WITH NON-CURRENT ASSETS AND DISPOSAL GROUPS HELD FOR SALE

As of December 31, 2014, current assets recognized in the consolidated statement of financial position included EUR 5.9 billion in non-current assets and disposal groups held for sale. The increase of EUR 4.8 billion compared with December 31, 2013 results primarily from the following effect:

Since December 2014, Deutsche Telekom and Orange S.A., Paris, France, have been conducting negotiations with BT Group PLC, London, United Kingdom, for the sale of their respective 50-percent stakes in the EE joint venture. The sale agreement was signed on February 5, 2015. The transaction is yet to be approved by BT's shareholders and the responsible authorities. The transaction is expected to be closed before the end of March 2016. The EE joint venture had previously been included in the consolidated financial statements of Deutsche Telekom and accounted for using the equity method. It is reported in the Group Headquarters & Group Services segment.



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By contrast, non-current assets and disposal groups held for sale as of December 31, 2014 no longer included T-Mobile US spectrum licenses in the amount of EUR 0.6 billion and assets of the Scout24 group in the amount of EUR 0.3 billion. Both of these transactions were completed in the 2014 financial year.

Reversals of impairments of the carrying amounts of the non-current assets and disposal groups held for sale were not material.

T 080

millions of €

	Dec. 31, 2014			Total
	EE	Deutsche Telekom AG real estate	Other	
<b>NON-CURRENT ASSETS AND DISPOSAL GROUPS HELD FOR SALE</b>				
Other current assets	-	-	5	5
Intangible assets	-	-	39	39
Property, plant and equipment	-	95	12	107
Investments accounted for using the equity method	5,727	-	-	5,727
<b>TOTAL</b>	<b>5,727</b>	<b>95</b>	<b>56</b>	<b>5,878</b>

The decrease of EUR 0.1 billion in liabilities directly associated with non-current assets and disposal groups held for sale is a result of the completion of the sale of the Scout24 group.

In accordance with IFRS 5, the following assets and disposal groups were no longer recognized at their carrying amounts, but at their fair value less costs of disposal as of December 31, 2014.

T 081

millions of €

	Dec. 31, 2014			Total
	Level 1 Inputs as prices in active markets	Level 2 Other inputs that are directly or indirectly observable	Level 3 Inputs that are unobservable	
<b>NON-CURRENT ASSETS AND DISPOSAL GROUPS HELD FOR SALE</b>				
Deutsche Telekom AG real estate	-	-	75	75

Deutsche Telekom AG's real estate held for sale relates to sites no longer considered to be necessary for operations. The fair values are determined by means of external expert opinions. The fair value is measured on a regular basis using the earnings value method, taking into account local market estimates and specific characteristics of the property, including input parameters that cannot be observed in the market. The expected costs of disposal (currently usually around 10 percent of the fair value) are subtracted. The property is recognized at the lower of the carrying amount and fair value less costs of disposal. The real estate was written down by EUR 0.1 billion to the fair value less costs of disposal. The expense was recognized under other operating expenses.

## 5 INTANGIBLE ASSETS

T 082

millions of €

	Internally generated intangible assets	Acquired intangible assets		
		Total	Acquired concessions, industrial and similar rights and assets	LTE licenses
<b>COST</b>				
<b>AT DECEMBER 31, 2012</b>	<b>3,602</b>	<b>46,913</b>	<b>839</b>	<b>1,355</b>
Currency translation	(83)	(1,310)	(12)	0
Changes in the composition of the Group	0	3,654	104	0
Other changes	0	0	0	0
Additions	112	1,262	214	20
Disposals	456	1,151	30	0
Change from non-current assets and disposal groups held for sale	(18)	(1,165)	(119)	0
Reclassifications	961	2,268	10	1,075
<b>AT DECEMBER 31, 2013</b>	<b>4,118</b>	<b>50,471</b>	<b>1,006</b>	<b>2,450</b>
Currency translation	272	3,714	22	(19)
Changes in the composition of the Group	3	248	12	0
Other changes	0	0	0	0
Additions	93	4,577	117	320
Disposals	551	1,249	43	1
Change from non-current assets and disposal groups held for sale	(1)	(856)	0	0
Reclassifications	851	1,919	24	918
<b>AT DECEMBER 31, 2014</b>	<b>4,785</b>	<b>58,824</b>	<b>1,138</b>	<b>3,668</b>
<b>ACCUMULATED AMORTIZATION AND IMPAIRMENT LOSSES</b>				
<b>AT DECEMBER 31, 2012</b>	<b>2,352</b>	<b>22,173</b>	<b>614</b>	<b>158</b>
Currency translation	(63)	(432)	(2)	0
Changes in the composition of the Group	0	(331)	(71)	0
Additions (amortization)	995	2,460	52	146
Additions (impairment)	0	116	1	0
Disposals	454	1,131	29	0
Change from non-current assets and disposal groups held for sale	(11)	(438)	0	0
Reclassifications	1	16	2	10
<b>AT DECEMBER 31, 2013</b>	<b>2,820</b>	<b>22,433</b>	<b>567</b>	<b>314</b>
Currency translation	206	965	1	(1)
Changes in the composition of the Group	0	(14)	0	0
Additions (amortization)	842	2,956	87	216
Additions (impairment)	3	11	0	0
Disposals	551	1,215	42	1
Change from non-current assets and disposal groups held for sale	(1)	(47)	0	0
Reclassifications	(226)	231	6	14
Reversal of impairment losses	0	(4)	0	0
<b>AT DECEMBER 31, 2014</b>	<b>3,093</b>	<b>25,316</b>	<b>619</b>	<b>542</b>
<b>NET CARRYING AMOUNTS</b>				
At December 31, 2013	1,298	28,038	439	2,136
<b>AT DECEMBER 31, 2014</b>	<b>1,692</b>	<b>33,508</b>	<b>519</b>	<b>3,126</b>

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Acquired intangible assets				Goodwill	Advance payments and intangible assets under development		Total
UMTS licenses	GSM licenses	FCC licenses (T-Mobile US)	Other acquired intangible assets				
10,048	1,777	20,045	12,849	27,494	1,417	79,426	
(18)	(19)	(1,012)	(249)	(565)	(13)	(1,971)	
(16)	(85)	2,920	731	1	(6)	3,649	
0	0	0	0	0	0	0	
13	174	271	570	984	3,859	6,217	
32	365	0	724	2	63	1,672	
0	0	(940)	(106)	(298)	(14)	(1,495)	
(7)	(32)	0	1,222	0	(3,111)	118	
9,988	1,450	21,284	14,293	27,614	2,069	84,272	
(10)	(14)	3,272	463	1,196	22	5,204	
0	0	0	236	0	3	254	
0	0	0	0	0	0	0	
0	0	3,551	589	176	2,319	7,165	
0	52	0	1,153	0	20	1,820	
0	0	(854)	(2)	0	0	(857)	
(49)	(93)	0	1,119	0	(2,705)	65	
9,929	1,291	27,253	15,545	28,986	1,688	94,283	
5,196	1,211	5,694	9,300	13,054	0	37,579	
(7)	(17)	(245)	(161)	(410)	0	(905)	
3	(29)	0	(234)	0	0	(331)	
603	105	0	1,554	0	0	3,455	
0	0	104	11	605	0	721	
32	351	0	719	0	0	1,585	
0	0	(343)	(95)	(197)	0	(646)	
(5)	(10)	0	19	0	0	17	
5,758	909	5,210	9,675	13,052	0	38,305	
(5)	(5)	696	279	1,206	0	2,377	
0	0	0	(14)	0	0	(14)	
597	76	0	1,980	0	0	3,798	
0	0	10	1	51	0	65	
0	52	0	1,120	0	0	1,766	
0	0	(44)	(3)	0	0	(48)	
(8)	(4)	0	223	0	0	5	
0	0	(4)	0	0	0	(4)	
6,342	924	5,868	11,021	14,309	0	42,718	
4,230	541	16,074	4,618	14,562	2,069	45,967	
3,587	367	21,385	4,524	14,677	1,688	51,565	

The net carrying amount of the UMTS licenses of EUR 3.6 billion mainly relates to the Germany operating segment. T-Mobile US acquired and exchanged mobile licenses in the 2014 financial year. These transactions primarily comprise the acquisition of licenses from and the exchange of licenses with Verizon Communications totaling EUR 3.3 billion, both completed in April 2014. These licenses were included in additions (see also Note 20 "Other operating income," PAGE 230).

Deutsche Telekom had commitments for the acquisition of intangible assets in the amount of EUR 1.0 billion (December 31, 2013: EUR 0.7 billion) as of the reporting date. The increase is mainly attributable to an obligation for T-Mobile US to buy mobile licenses.

The carrying amount of goodwill is allocated to the operating segments, the Group Headquarters & Group Services segment and cash-generating units as follows:

T 083

millions of €

	Dec. 31, 2014	Dec. 31, 2013 <sup>a</sup>
<b>GERMANY</b>	3,978	3,977
<b>UNITED STATES</b>	1,028	907
<b>EUROPE</b>	6,580	6,576
Of which: Poland	1,578	1,573
Netherlands	1,312	1,312
Hungary	994	1,055
Czech Republic	707	674
Croatia	493	484
Slovakia	428	428
Greece – Mobile communications	422	422
Austria	324	324
Romania – Mobile communications	122	144
F.Y.R.O. Macedonia	52	52
International Carrier Sales & Solutions	102	62
Other	46	46
<b>SYSTEMS SOLUTIONS</b>	3,091	3,074
<b>GROUP HEADQUARTERS &amp; GROUP SERVICES</b>	0	28
Of which: Digital Business Unit	0	28
	14,677	14,562

<sup>a</sup> The prior-year comparatives were adjusted retrospectively due to the change in disclosure of local business units.

In the 2014 financial year, the main changes in the carrying amounts of goodwill at cash-generating units were as follows:

**United States.** The increase in goodwill of EUR 0.1 billion compared with December 31, 2013 results from exchange rate effects.

**Europe.** Goodwill from the acquisition of the GTS Central Europe group was assigned to the cash-generating units as follows: Poland accounts for EUR 54 million, the Czech Republic for EUR 41 million, and International Carrier Sales & Solutions for EUR 40 million. The following effects also had an impact: In Poland the increase attributable to the acquisition of GTS was offset by exchange rate effects. The decline in Hungary is due to exchange rate effects.

**Disclosures on annual impairment tests.** Deutsche Telekom performed its annual impairment tests for the goodwill assigned to the cash-generating units as of December 31, 2014. A need for impairment of EUR 51 million in total was identified at the cash-generating units Digital Business Unit in the Group Headquarters & Group Services segment (EUR 29 million) and Romania – Mobile communications (EUR 22 million) as of December 31, 2014 on the basis of information available at the reporting date and expectations with respect to the future development of the market and competitive environment. The impairment loss recognized on goodwill at the cash-generating unit Digital Business Unit is attributable to a restructuring initiative resulting in lower cash flows with a higher risk involved. The Romania – Mobile communications cash-generating unit was affected in particular by intensified competition and a generally difficult market situation.

The recoverable amounts to be identified for the impairment test were determined on the basis of the fair values less costs of disposal. These values were calculated using the net present value method. The main parameters are shown in the TABLES 084 and 085. The recoverable amount (prior to the deduction of net debt) for Romania – Mobile communications was EUR 782 million, whereas the recoverable amount for Group Headquarters & Group Services was EUR 164 million. The values were calculated according to IFRS 13 using Level 3 input parameters (i.e., unobservable input parameters).

The recoverable amount used for the impairment tests carried out at a cash-generating unit in the 2014 financial year is generally its fair value less costs of disposal. The recoverable amount at the Croatia cash-generating unit, by contrast, was determined on the basis of the value in use, since, in this case, it is higher than the fair value. The market price of an active and liquid market (share price) of T-Mobile US was used to determine the fair value less costs of disposal in the case of the United States cash-generating unit. The measurements of all other cash-generating units are generally founded on projections that are based on financial plans that have been approved by management and are also used for internal purposes. The planning horizon selected reflects the assumptions for short- to medium-term market developments and is selected to achieve a steady state in the business outlook that is necessary for calculating the perpetual annuity. This steady state can only be established based on this planning horizon, in particular due to the sometimes long investment cycles in the telecommunications industry and the investments planned and expected in the long run to acquire and extend the rights of spectrum use. Cash flows beyond the internal mid-term planning are extrapolated using appropriate growth rates. The key assumptions on which management has based its determination of the recoverable amount include the following assumptions that were primarily derived from internal sources and are based on past experience and extended to include internal expectations, and that are underscored by external market data and estimates: development of revenue, customer acquisition and retention costs, churn rates, capital expenditure, market share, and growth rates. Discount rates are determined on the basis of external figures derived from the market, taking account of the market risks associated with the cash-generating unit. Any significant future changes in the aforementioned assumptions would have an impact on the fair values of the cash-generating units. Any changes in the assumptions may have a negative impact, as a result of the future macroeconomic trends, continued intense competition, further possible legislation changes (e.g., as part of national austerity programs), and regulatory intervention.

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The following TABLES 084 and 085 provide an overview of the period for the cash flow projections, the growth rates used for cash flow projections, the discount rates applied to the cash flow projections, and the classification of the input parameters (levels) allocated to the recoverable amounts in accordance with IFRS 13. They show the most significant cash-generating units to which goodwill has been allocated.

T 084

Parameters as of December 31, 2014				
	Projection period (years)	Growth rates %	Discount rates %	Level allocation of input parameters
<b>GERMANY</b>	<b>10</b>	<b>1.0</b>	<b>6.14</b>	<b>3</b>
<b>UNITED STATES</b>	-	-	-	<b>1</b>
<b>EUROPE</b>				
Poland	10	2.0	7.54	3
Netherlands	10	2.0	6.47	3
Hungary	10	2.0	6.81	3
Czech Republic	10	2.0	7.52	3
Croatia	10	2.0	8.63 <sup>a</sup>	-
Slovakia	10	2.0	6.88	3
Greece – Mobile communications	10	2.0	9.50	3
Austria	10	2.0	6.50	3
Romania – Mobile communications	10	2.0	9.52	3
F.Y.R.O. Macedonia	10	2.0	9.29	3
International Carrier Sales & Solutions	10	2.0	5.68	3
Other cash-generating units	10	1.5–2.0	8.85–9.71	3
<b>SYSTEMS SOLUTIONS</b>	<b>10</b>	<b>1.5</b>	<b>7.80</b>	<b>3</b>
<b>GROUP HEAD-QUARTERS &amp; GROUP SERVICES</b>				
Digital Business Unit	10	0.5	9.84	3

<sup>a</sup> Discount rate before taxes due to the determination of the value in use. The discount rate after taxes is 6.97 percent.

T 085

Parameters as of December 31, 2013				
	Projection period (years)	Growth rates %	Discount rates %	Level allocation of input parameters
<b>GERMANY</b>	<b>10</b>	<b>1.0</b>	<b>6.23</b>	<b>3</b>
<b>UNITED STATES</b>	-	-	-	<b>1</b>
<b>EUROPE</b>				
Poland	10	2.0	7.75	3
Netherlands	10	2.0	6.76	3
Hungary	10	2.0	7.15	3
Czech Republic	10	2.0	7.73	3
Croatia	10	2.0	8.78 <sup>a</sup>	-
Slovakia	10	2.0	7.11	3
Greece – Mobile communications	10	2.0	10.48	3
Austria	10	2.0	6.86	3
Romania – Mobile communications	10	2.0	9.70	3
F.Y.R.O. Macedonia	10	2.0	9.79	3
International Carrier Sales & Solutions	10	2.0	5.82	3
Other cash-generating units	10	1.5–2.0	9.14–10.18	3
<b>SYSTEMS SOLUTIONS</b>	<b>10</b>	<b>1.5</b>	<b>7.97</b>	<b>3</b>
<b>GROUP HEAD-QUARTERS &amp; GROUP SERVICES</b>				
Digital Business Unit	10	0.5	9.48	3

<sup>a</sup> Discount rate before taxes due to the determination of the value in use. The discount rate after taxes is 7.27 percent.

If the net cash flows, discount rates, or growth rates used for impairment testing had been 0.5 percentage points higher or lower for the projection period, this would not have resulted in significantly higher or lower impairment losses, respectively.

## 6 PROPERTY, PLANT AND EQUIPMENT

T 086

millions of €

	Land and equivalent rights, and buildings including buildings on land owned by third parties	Technical equipment and machinery	Other equipment, operating and office equipment	Advance payments and construction in progress	Total
<b>COST</b>					
<b>AT DECEMBER 31, 2012</b>	<b>19,134</b>	<b>102,496</b>	<b>7,711</b>	<b>2,857</b>	<b>132,198</b>
Currency translation	(133)	(879)	(103)	(51)	(1,166)
Changes in the composition of the Group	(394)	188	313	49	156
Additions	199	2,483	462	3,999	7,143
Disposals	353	3,684	720	76	4,833
Change from non-current assets and disposal groups held for sale	(304)	(117)	(52)	(2)	(475)
Reclassifications	281	3,706	248	(4,353)	(118)
<b>AT DECEMBER 31, 2013</b>	<b>18,430</b>	<b>104,193</b>	<b>7,859</b>	<b>2,423</b>	<b>132,905</b>
Currency translation	176	1,997	167	123	2,463
Changes in the composition of the Group	84	324	95	19	522
Additions	153	2,895	475	4,393	7,916
Disposals	148	3,544	590	72	4,354
Change from non-current assets and disposal groups held for sale	(326)	(32)	(4)	(2)	(364)
Reclassifications	275	3,210	330	(3,880)	(65)
<b>AT DECEMBER 31, 2014</b>	<b>18,644</b>	<b>109,043</b>	<b>8,332</b>	<b>3,004</b>	<b>139,023</b>
<b>ACCUMULATED DEPRECIATION AND IMPAIRMENT LOSSES</b>					
<b>AT DECEMBER 31, 2012</b>	<b>10,129</b>	<b>79,000</b>	<b>5,635</b>	<b>27</b>	<b>94,791</b>
Currency translation	(77)	(560)	(78)	0	(715)
Changes in the composition of the Group	(211)	(454)	121	0	(544)
Additions (depreciation)	700	5,189	722	0	6,611
Additions (impairment)	96	12	6	2	116
Disposals	245	3,484	636	1	4,366
Change from non-current assets and disposal groups held for sale	(240)	(100)	(37)	(1)	(378)
Reclassifications	48	(42)	(23)	0	(17)
Reversal of impairment losses	(20)	0	0	0	(20)
<b>AT DECEMBER 31, 2013</b>	<b>10,180</b>	<b>79,561</b>	<b>5,710</b>	<b>27</b>	<b>95,478</b>
Currency translation	135	1,220	124	1	1,480
Changes in the composition of the Group	0	102	(1)	0	101
Additions (depreciation)	683	5,265	685	0	6,633
Additions (impairment)	59	13	1	2	75
Disposals	90	3,435	518	1	4,044
Change from non-current assets and disposal groups held for sale	(254)	(33)	(3)	(2)	(292)
Reclassifications	(1)	(17)	13	0	(5)
Reversal of impairment losses	(18)	(1)	0	0	(19)
<b>AT DECEMBER 31, 2014</b>	<b>10,694</b>	<b>82,675</b>	<b>6,011</b>	<b>27</b>	<b>99,407</b>
<b>NET CARRYING AMOUNTS</b>					
At December 31, 2013	8,250	24,632	2,149	2,396	37,427
<b>AT DECEMBER 31, 2014</b>	<b>7,950</b>	<b>26,368</b>	<b>2,321</b>	<b>2,977</b>	<b>39,616</b>

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For further details on depreciation, amortization and impairment losses, please refer to Note 30 "Depreciation, amortization and impairment losses," PAGE 237.

Restoration obligations of EUR 0.2 billion were recognized as of December 31, 2014 (December 31, 2013: EUR 0.3 billion). Deutsche Telekom had commitments for the acquisition of property, plant and equipment in the amount of EUR 2.1 billion

(December 31, 2013: EUR 1.1 billion) as of the reporting date. The increase is mainly attributable to the build-out of the mobile network in the United States operating segment (EUR 0.6 billion) and in the Germany operating segment (EUR 0.2 billion).

## 7 INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

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

T 087

Name and registered office	Deutsche Telekom share		Percentage of voting rights		Assigned to segment	Fair value of the investment, if a listed market price is available	
	Dec. 31, 2014 %	Dec. 31, 2013 %	Dec. 31, 2014 %	Dec. 31, 2013 %		Dec. 31, 2014 millions of €	Dec. 31, 2013 millions of €
Asa NewCo GmbH, Munich, Germany <sup>a</sup>	28.24	-	28.24	-	Group Headquarters & Group Services	-	-
Hrvatske telekomunikacije d.d. Mostar, Mostar, Bosnia-Herzegovina <sup>b</sup>	39.10	39.10	39.10	39.10	Europe	38	41
T-Mobile USA Tower LLC, Wilmington, United States <sup>c</sup>	100.00	100.00	100.00	100.00	United States	-	-
T-Mobile West Tower LLC, Wilmington, United States <sup>c</sup>	100.00	100.00	100.00	100.00	United States	-	-
Toll Collect GmbH, Berlin, Germany	45.00	45.00	45.00	45.00	Systems Solutions	-	-

<sup>a</sup> Further shares totaling 1.76% in Scout24 Holding GmbH, which was sold in the reporting year, are held indirectly via Scout Lux Management Equity Co S.a.r.l.

<sup>b</sup> Indirect shareholding via Hrvatski Telekom d.d., Croatia (Deutsche Telekom AG's share: 51.00%).

<sup>c</sup> Indirect shareholding via T-Mobile US, Inc., United States (Deutsche Telekom AG's share: 66.29%).

All entities are accounted for using the equity method.

### Description of the nature of the activities of the joint arrangement or associate

Following the sale of the stake in Scout24 Holding GmbH in the 2014 financial year, Deutsche Telekom's remaining shares are held by Asa NewCo GmbH.

Hrvatske telekomunikacije d.d. provides mobile and fixed-network communications services in Bosnia-Herzegovina.

T-Mobile USA Tower LLC and T-Mobile West Tower LLC are structured entities founded by T-Mobile US in each of which it holds a 100-percent stake for the purpose of contributing cell sites in accordance with a framework agreement signed in 2012 between T-Mobile US and Crown Castle International Corp., Houston, United States concerning the leasing and use of the cell sites. The sole right to continue to use and lease out these sites was transferred to Crown Castle. T-Mobile US will continue to operate its mobile equipment on these cell towers and, to this end, lease back the required capacity from Crown Castle. Previously unused infrastructure is thus available for Crown Castle to lease to third parties. In return, the owners of the land on which the cell towers are built will no longer receive lease payments from T-Mobile US for those cell towers which were contributed to the two associates and those that were disposed of. Both entities were deconsolidated as of the date of the closing of the transaction in 2012, because Crown Castle independently operates the cell sites, generates revenues from the lease out of the sites for an average of

28 years and determines the finance and business activities of both entities that are relevant for consolidation purposes. It is expected that the leasing tower space allows Crown Castle to generate sufficient ongoing profits and cash flows to be able to meet its contractual obligations. The majority of voting rights is therefore not the relevant criterion for establishing control. As a result, it was determined that Deutsche Telekom has only significant influence and these entities have been included in Deutsche Telekom's consolidated group as associates. Under certain conditions, T-Mobile US will continue to be held liable for any default in the lease payment by Crown Castle to the owners of the underlying land of the cell sites. The agreement includes a considerably low maximum guarantee amount for Deutsche Telekom, since in the unlikely event that this case occurs, T-Mobile US could take over the further use of the relevant cell sites or alternatively terminate the contracts with the owners of the cell site land at short notice. At closing T-Mobile US established an immaterial cash reserve in the entities sufficient to fund the payment of ongoing administrative expenses not payable by Crown Castle. Aside from the guarantee and the payment of administrative expenses there is no other funding obligation by T-Mobile US.

Toll Collect GmbH operates the highway toll system in Germany.

The following TABLES 088 and 089 provide summarized financial information on the main companies included in the consolidated financial statements and accounted for using the equity method. The data is not based on the portions attributable to the Deutsche Telekom Group, but represents the shareholdings on a 100-percent basis.

### Summarized financial information on significant joint ventures accounted for using the equity method

T 088

millions of €

	HT Mostar d.d.		Toll Collect GmbH	
	Dec. 31, 2014/2014	Dec. 31, 2013/2013	Dec. 31, 2014/2014	Dec. 31, 2013/2013
Current assets	41	38	557	557
Of which: cash and cash equivalents	1	1	76	54
Non-current assets	171	186	136	53
Current liabilities	34	42	805	523
Of which: financial liabilities	2	5	20	0
Non-current liabilities	6	10	2	62
Of which: financial liabilities	1	3	0	60
Net revenue	119	120	433	410
Interest income	0	2	5	8
Interest expense	0	(1)	(5)	(6)
Income taxes	0	1	(33)	21
Profit (loss)	5	7	(139)	2
Other comprehensive income	0	0	0	0
Total comprehensive income	5	7	(139)	2
Depreciation and amortization	(250)	(31)	(2)	(2)
Dividends paid to Deutsche Telekom	2	3	0	0

### Summarized financial information on significant associates accounted for using the equity method

T 089

millions of €

	Asa NewCo GmbH		T-Mobile USA Tower LLC		T-Mobile West Tower LLC	
	Dec. 31, 2014/2014	Dec. 31, 2013/2013	Dec. 31, 2014/2014	Dec. 31, 2013/2013	Dec. 31, 2014/2014	Dec. 31, 2013/2013
Current assets	63	-	0	0	0	0
Non-current assets	2,127	-	60	75	91	86
Current liabilities	94	-	0	0	0	0
Non-current liabilities	1,037	-	0	0	0	0
Net revenue	306	-	0	0	0	0
Profit (loss)	(39)	-	0	0	0	0
Other comprehensive income	2	-	0	0	0	0
Total comprehensive income	(37)	-	0	0	0	0
Dividends paid to Deutsche Telekom	0	-	38	0	79	0



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### Reconciliation to the carrying amount included in Deutsche Telekom's consolidated statement of financial position as of December 31, 2014

T 090

millions of €

	HT Mostar d.d.		Toll Collect GmbH	
	2014	2013	2014	2013
<b>NET ASSETS AS OF JANUARY 1</b>	<b>172</b>	<b>172</b>	<b>25</b>	<b>23</b>
Profit (loss)	5	7	(139)	2
Other comprehensive income	0	0	0	0
Dividends paid	(5)	(7)	0	0
Exchange rate effects	0	0	0	0
<b>NET ASSETS AS OF DECEMBER 31</b>	<b>172</b>	<b>172</b>	<b>(114)</b>	<b>25</b>
<b>SHARE OF NET ASSETS ATTRIBUTABLE TO DEUTSCHE TELEKOM AS OF DECEMBER 31</b>	<b>66</b>	<b>67</b>	<b>(57)</b>	<b>13</b>
Adjustment of carrying amount	0	0	57	0
Other reconciliation effects	(15)	(15)	0	0
<b>CARRYING AMOUNT AS OF DECEMBER 31</b>	<b>51</b>	<b>52</b>	<b>0</b>	<b>13</b>

T 091

millions of €

	Asa NewCo GmbH		T-Mobile USA Tower LLC		T-Mobile West Tower LLC	
	2014 <sup>a</sup>	2013	2014	2013	2014	2013
<b>NET ASSETS AS OF JANUARY 1</b>	<b>1,096</b>	<b>-</b>	<b>75</b>	<b>79</b>	<b>86</b>	<b>90</b>
Profit (loss)	(39)	-	0	0	0	0
Other comprehensive income	2	-	0	0	0	0
Dividends paid	0	-	(38)	0	(79)	0
Capital increase	0	-	13	0	73	0
Exchange rate effects	0	-	10	(4)	11	(4)
<b>NET ASSETS AS OF DECEMBER 31</b>	<b>1,059</b>	<b>-</b>	<b>60</b>	<b>75</b>	<b>91</b>	<b>86</b>
<b>SHARE OF NET ASSETS ATTRIBUTABLE TO DEUTSCHE TELEKOM AS OF DECEMBER 31</b>	<b>309</b>	<b>-</b>	<b>60</b>	<b>75</b>	<b>91</b>	<b>86</b>
Adjustment of carrying amount	0	-	0	0	0	0
Other reconciliation effects	0	-	0	0	0	0
<b>CARRYING AMOUNT AS OF DECEMBER 31</b>	<b>309</b>	<b>-</b>	<b>60</b>	<b>75</b>	<b>91</b>	<b>86</b>

<sup>a</sup> Asa NewCo GmbH has been included in the consolidated statement of financial position since February 12, 2014 as an investment accounted for using the equity method.

Dividends paid by T-Mobile USA Tower LLC of EUR 38 million and by T-Mobile West Tower LLC of EUR 79 million to T-Mobile US in the 2014 financial year were based on contractual agreements from 2012. These dividend payments are directly related to the contribution of further T-Mobile US cell towers to both companies. The contribution is disclosed as a capital increase.

Deutsche Telekom did not report losses in connection with investments accounted for using the equity method of EUR 57 million (2013: EUR 0 million) because it has no obligation to offset these losses.

### Summarized aggregate financial information on non-significant investments accounted for using the equity method

The figures relate to the interests attributable to Deutsche Telekom.

T 092

millions of €	Joint ventures		Associates	
	Dec. 31, 2014/ 2014	Dec. 31, 2013/ 2013	Dec. 31, 2014/ 2014	Dec. 31, 2013/ 2013
	Total carrying amounts	14	24	92
Total interests				
Profit (loss)	(1)	1	(30)	(28)
Other comprehensive income	0	0	0	0
<b>TOTAL COMPREHENSIVE INCOME</b>	<b>(1)</b>	<b>1</b>	<b>(30)</b>	<b>(28)</b>

T 094

millions of €	Of which: neither impaired nor past due on the reporting date	Of which: not impaired on the reporting date and past due in the following periods					
		Less than 30 days	Between 30 and 60 days	Between 61 and 90 days	Between 91 and 180 days	Between 181 and 360 days	More than 360 days
		<b>As of Dec. 31, 2014</b>					
Due within one year	1,836	53	29	33	37	1	1
Due after more than one year	590	-	-	-	-	-	1
<b>As of Dec. 31, 2013</b>							
Due within one year	2,283	9	3	3	0	1	2
Due after more than one year	324	-	-	-	-	-	1

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

Receivables of EUR 527 million (December 31, 2013: EUR 941 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

### 8 OTHER FINANCIAL ASSETS

T 093

millions of €

	Dec. 31, 2014		Dec. 31, 2013	
	Total	Of which: current	Total	Of which: current
Originated loans and receivables	3,224	2,632	2,672	2,347
Available-for-sale financial assets	683	224	652	110
Derivative financial assets	1,343	117	771	283
Held-to-maturity investments	10	3	12	5
	<b>5,260</b>	<b>2,976</b>	<b>4,107</b>	<b>2,745</b>

therefore recognized at cost in the amount of EUR 122 million as of December 31, 2014 (December 31, 2013: EUR 280 million). No plans existed as of the reporting date to sell these instruments.

### 9 OTHER ASSETS

Other assets mainly include deferred expenses of EUR 1.1 billion (December 31, 2013: EUR 1.1 billion).

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## 10 FINANCIAL LIABILITIES

T 095

millions of €

	Dec. 31, 2014				Dec. 31, 2013			
	Total	Due within 1 year	Due >1 year ≤ 5 years	Due > 5 years	Total	Due within 1 year	Due >1 year ≤ 5 years	Due > 5 years
Bonds and other securitized liabilities	44,219	5,425	13,890	24,904	40,535	3,315	13,676	23,544
Of which: bonds	32,751	3,250	9,333	20,168	28,211	545	9,531	18,135
Of which: commercial paper, medium-term notes and similar liabilities	11,468	2,175	4,557	4,736	12,324	2,770	4,145	5,409
Liabilities to banks	3,676	1,369	1,934	373	4,105	1,721	2,185	199
Of which: promissory notes	520	140	193	187	1,689	1,227	332	130
Of which: loans from the European Investment Bank	2,110	493	1,617	-	1,760	10	1,750	-
Of which: other loans	1,046	736	124	186	656	484	103	69
	47,895	6,794	15,824	25,277	44,640	5,036	15,861	23,743
Finance lease liabilities	1,461	180	570	711	1,446	162	550	734
Liabilities to non-banks from promissory notes	946	40	647	259	1,072	127	529	416
Other interest-bearing liabilities	1,775	1,196	392	187	891	577	210	104
Other non-interest-bearing liabilities	2,055	1,942	110	3	1,967	1,855	109	3
Derivative financial liabilities	1,095	406	442	247	1,583	134	594	855
	7,332	3,764	2,161	1,407	6,959	2,855	1,992	2,112
<b>FINANCIAL LIABILITIES</b>	<b>55,227</b>	<b>10,558</b>	<b>17,985</b>	<b>26,684</b>	<b>51,599</b>	<b>7,891</b>	<b>17,853</b>	<b>25,855</b>

Financial liabilities increased year-on-year by EUR 3.6 billion to a total of EUR 55.2 billion.

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

In addition to the reported liabilities to banks, Deutsche Telekom had standardized bilateral credit agreements with 21 banks for a total of EUR 12.3 billion at

December 31, 2014. EUR 0.2 billion of these had been utilized by December 31, 2014. Pursuant to the credit agreements, the terms and conditions depend on Deutsche Telekom's rating. The bilateral credit agreements have an original maturity of 36 months and can, after each period of twelve months, be extended by a further twelve months to renew the maturity of 36 months. From today's perspective, access to the international debt capital markets is not jeopardized. In the 2014 financial year, T-Mobile US issued bonds with a total volume of USD 3 billion. One bond with a value of USD 1 billion was repaid ahead of time. In December 2014, T-Mobile US issued Mandatory Convertible Preferred Stock with a volume of USD 1 billion, which after three years will be converted into T-Mobile US shares. The nominal volume of the Mandatory Convertible Preferred Stock is shown under bonds.

TABLES 096 and 097 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 096

millions of €

	Carrying amounts Dec. 31, 2014	Cash flows in 2015		
		Fixed interest rate	Variable interest rate	Repayment
<b>NON-DERIVATIVE FINANCIAL LIABILITIES</b>				
Bonds, other securitized liabilities, liabilities to banks and liabilities to non-banks from promissory notes and similar liabilities	(48,841)	(1,317)	(14)	(7,087)
Finance lease liabilities	(1,461)	(102)		(183)
Other interest-bearing liabilities	(1,775)	(80)	(6)	(1,197)
Other non-interest-bearing liabilities	(2,055)			(1,942)
<b>DERIVATIVE FINANCIAL LIABILITIES AND ASSETS</b>				
Derivative financial liabilities:				
Currency derivatives without a hedging relationship	(229)			(233)
Currency derivatives in connection with cash flow hedges	(9)			(10)
Currency derivatives in connection with net investment hedges	0			
Other derivatives without a hedging relationship	(15)			(6)
Interest rate derivatives without a hedging relationship	(420)	(131)	(8)	(68)
Interest rate derivatives in connection with fair value hedges	(8)	5	(1)	
Interest rate derivatives in connection with cash flow hedges	(414)	(37)	4	
Derivative financial assets:				
Currency derivatives without a hedging relationship	67			63
Currency derivatives in connection with cash flow hedges	4			4
Interest rate derivatives without a hedging relationship	584	24	26	20
Interest rate derivatives in connection with fair value hedges	222	218	(116)	
Interest rate derivatives in connection with cash flow hedges	282	22		
<b>FINANCIAL GUARANTEES AND LOAN COMMITMENTS<sup>a</sup></b>	(1)			(339)

<sup>a</sup> For more detailed information, please refer to Note 37 "Financial instruments and risk management," PAGE 248 ET SEQ. In each case, the maximum payment at the earliest possible date of utilization is shown.

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Cash flows in 2016			Cash flows in 2017–2019			Cash flows in 2020–2024			Cash flows in 2025 and thereafter		
Fixed interest rate	Variable interest rate	Repayment	Fixed interest rate	Variable interest rate	Repayment	Fixed interest rate	Variable interest rate	Repayment	Fixed interest rate	Variable interest rate	Repayment
(2,146)	(13)	(4,812)	(5,307)	(13)	(9,794)	(5,116)		(17,379)	(3,563)		(8,929)
(99)		(173)	(208)		(394)	(222)		(416)	(94)		(295)
(12)		(255)	(53)		(137)	(73)		(106)	(21)		(81)
		(107)			(3)			(2)			(1)
		(4)			(6)						
(47)	(3)		(31)	(26)	(25)	49	(49)		55	(73)	17
5	(1)		5		(16)						
(57)	5		(27)	4		148			110		137
(8)	27	64	(19)	53	228	(12)	37		6	83	183
214	(114)		472	(224)		477	(128)		1,017	(363)	
22		42	72		47	80		129	47		72

T 097

millions of €

	Carrying amounts Dec. 31, 2013	Cash flows in				
		2014	2015	2016–2018	2019–2023	2024 and thereafter
<b>NON-DERIVATIVE FINANCIAL LIABILITIES</b>						
Bonds, other securitized liabilities, liabilities to banks and liabilities to non-banks from promissory notes and similar liabilities	(45,712)	(7,284)	(6,991)	(16,550)	(20,933)	(12,142)
Finance lease liabilities	(1,446)	(267)	(260)	(604)	(632)	(448)
Other interest-bearing liabilities	(891)	(581)	(117)	(109)	(128)	(35)
Other non-interest-bearing liabilities	(1,967)	(1,856)	(35)	(73)	(3)	
<b>DERIVATIVE FINANCIAL LIABILITIES AND ASSETS</b>						
Derivative financial liabilities:						
Currency derivatives without a hedging relationship	(39)	(43)				
Currency derivatives in connection with cash flow hedges	(3)	(1)	(1)			
Currency derivatives in connection with net investment hedges	-					
Interest rate derivatives without a hedging relationship	(542)	(138)	(68)	(100)	(2)	(97)
Interest rate derivatives in connection with fair value hedges	(276)	66	66	173	309	644
Interest rate derivatives in connection with cash flow hedges	(723)	(12)	(91)	(237)	70	(57)
Derivative financial assets:						
Currency derivatives without a hedging relationship	26	25				
Currency derivatives in connection with cash flow hedges	24	24				
Interest rate derivatives without a hedging relationship	412	218	115	3		32
Interest rate derivatives in connection with fair value hedges	62	43	48	57		
Interest rate derivatives in connection with cash flow hedges	89	10	10	69	140	55
<b>FINANCIAL GUARANTEES AND LOAN COMMITMENTS<sup>a</sup></b>	(1)	(340)				

<sup>a</sup> For more detailed information, please refer to Note 37 "Financial instruments and risk management," PAGE 248 ET SEQ. In each case, the maximum payment at the earliest possible date of utilization is shown.

All instruments held at December 31, 2014 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, 2014. Financial liabilities that can be repaid at any time are always assigned to the earliest possible time period. In accordance with § 2 (4) of the German Act on the Transformation of the Deutsche Bundespost Enterprises into the Legal Structure of Stock Corporation (Stock Corporation Transformation Act - Postumwandlungsgesetz), the Federal Republic is guarantor of all Deutsche Telekom AG's liabilities that were already outstanding as at January 1, 1995. At December 31, 2014, this figure was a nominal EUR 2.0 billion (December 31, 2013: EUR 2.1 billion). The Mandatory Convertible Preferred Stock issued by T-Mobile US in December 2014 (nominal volume of USD 1 billion, interest rate of 5.5 percent, term until 2017) is not included in the table above since T-Mobile US has the contractually agreed right to pay all interest in the form of shares. The repayment in the form of shares is mandatory.

## 11 TRADE AND OTHER PAYABLES

T 098

millions of €

	Dec. 31, 2014	Dec. 31, 2013
Trade payables	9,631	7,231
Other liabilities	50	28
	<b>9,681</b>	<b>7,259</b>

Of the total of trade and other payables, EUR 9,679 million (December 31, 2013: EUR 7,253 million) is due within one year.

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## 12 PROVISIONS FOR PENSIONS AND OTHER EMPLOYEE BENEFITS

### DEFINED BENEFIT PLANS

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

Deutsche Telekom's pension obligations are as follows:

T 099

millions of €

	Dec. 31, 2014	Dec. 31, 2013
<b>DEFINED BENEFIT LIABILITY</b>	<b>8,465</b>	<b>7,006</b>
Defined benefit asset	(18)	(14)
<b>NET DEFINED BENEFIT LIABILITY (ASSET)</b>	<b>8,447</b>	<b>6,992</b>
Of which: provisions for direct commitments	8,023	6,698
Of which: provisions for indirect commitments	423	292
Of which: provisions for obligations in accordance with Article 131 GG	1	2

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

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

T 100

millions of €

	Dec. 31, 2014	Dec. 31, 2013
Present value of the obligations fully or partially funded by plan assets	7,854	6,487
Plan assets at fair value	(2,498)	(1,973)
<b>DEFINED BENEFIT OBLIGATIONS IN EXCESS OF PLAN ASSETS</b>	<b>5,356</b>	<b>4,514</b>
Present value of the unfunded obligations	3,086	2,478
<b>DEFINED BENEFIT LIABILITY (ASSET) ACCORDING TO IAS 19.63</b>	<b>8,442</b>	<b>6,992</b>
Effect of asset ceiling (according to IAS 19.64)	5	-
<b>NET DEFINED BENEFIT LIABILITY (ASSET)</b>	<b>8,447</b>	<b>6,992</b>

T 101

millions of €

	2014	2013
<b>NET DEFINED BENEFIT LIABILITY (ASSET) AS OF JANUARY 1</b>	<b>6,992</b>	<b>7,295</b>
Service cost	220	160
Net interest expense (income) on the net defined benefit liability (asset)	225	228
Remeasurement effects	1,581	(48)
Pension benefits paid directly by the employer	(298)	(366)
Employer contributions to plan assets	(266)	(269)
Changes attributable to business combinations/transfers of operation/acquisitions and disposals	(8)	(7)
Administration costs actually incurred (paid from plan assets)	0	0
Exchange rate fluctuations for plans in foreign currency	1	(1)
<b>NET DEFINED BENEFIT LIABILITY (ASSET) AS OF DECEMBER 31</b>	<b>8,447</b>	<b>6,992</b>

Key assumptions for the measurement of the defined benefit obligations are the discount rate, the salary increase rate, the pension increase rate, and longevity. TABLE 102 shows the assumptions on which the measurement of defined benefit obligations as of December 31 are based. The assumptions made as of December 31 of the respective prior year are used to measure the expected pension expense (defined benefit cost) of a given financial year.

From 2014, the following figures for the plans in Switzerland relate to T-Systems Schweiz AG and T-Systems Data Migration Consulting AG (previously only T-Systems Schweiz AG).

### Assumptions for the measurement of defined benefit obligations as of December 31:

T 102

%

		2014	2013	2012
Discount rate	Germany	1.89	3.29	3.26
	Switzerland	1.14	2.34	1.78
	Greece (OTE S.A.)	1.83 <sup>a</sup> /1.09 <sup>b</sup>	3.25 <sup>a</sup> /2.53 <sup>b</sup>	2.86 <sup>a</sup> /2.26 <sup>b</sup>
Salary increase rate	Germany	2.50	2.75	2.75
	Switzerland	1.25	1.50	1.50
	Greece (OTE S.A.)	1.00 <sup>c</sup>	1.00 <sup>d</sup>	1.00 <sup>e</sup>
Pension increase rate	Germany (general)	1.50	1.50	1.50
	Germany (according to articles of association)	1.00	1.00	1.00
	Switzerland	0.30	0.30	0.30
	Greece (OTE S.A.)	n. a.	n. a.	n. a.

<sup>a</sup> The discount rate relates to the plans for staff retirement indemnities and for phone credits (see the plan description, PAGE 223).

<sup>b</sup> The discount rate relates to the plan for youth accounts (see the plan description, PAGE 223).

<sup>c</sup> The following assumptions were made in 2014 concerning the salary increase rate in subsequent years: 2015: -1.00 percent, 2016: 0.00 percent, 2017: 0.00 percent, 2018: 11.00 percent. An increase of 1.00 percent is assumed for the years from 2019 onward.

<sup>d</sup> The following assumptions were made in 2013 concerning the salary increase rate in subsequent years: 2014: 0.97 percent, 2015: 9.69 percent, 2016: 0.00 percent. An increase of 1.00 percent was assumed for the years from 2017 onward.

<sup>e</sup> The following assumptions were made in 2012 concerning the salary increase rate for subsequent years: 2013: 0.97 percent, 2014: 0.97 percent, 2015: 9.69 percent, 2016: 0.00 percent. An increase of 1.00 percent was assumed for the years from 2017 onward.

T 103

Years

		Dec. 31, 2014	Dec. 31, 2013
Duration	Germany	14.5	13.7
	Switzerland	18.6	17.1
	Greece (OTE S.A.)	13.8 <sup>a</sup> /6.3 <sup>b</sup>	13.0 <sup>a</sup> /7.0 <sup>b</sup>

<sup>a</sup> The duration relates to the plans for staff retirement indemnities and for phone credits (see the plan description, PAGE 223).

<sup>b</sup> The duration relates to the plan for youth accounts (see the plan description, PAGE 223).

The following biometric assumptions were essential for the measurement of pension obligations:

Germany: Heubeck 2005G, Switzerland: BVG 2010 Generational, Greece (OTE S.A.): EVK2000.

The aforementioned discount rates were used as of December 31, 2014 when calculating the present value of defined benefit obligations, taking into account future salary increases. These discount rates were set in line with the average weighted duration of the respective obligation.

In the eurozone, the discount rate is determined based on the yields of high-quality European corporate bonds with AA rating, mapped in a yield curve showing the corresponding spot rates. In Switzerland, the discount rate was determined based upon swap yields for bonds with AAA rating. Such swaps that are of different durations are traded in higher volumes than Swiss government bonds. The yield curve derived from these swap yields comprises a credit risk that is too low for accounting purposes. So a further adjustment is made in the form of a risk premium on the yield curve (credit spread), which is derived from the limited volume of Swiss corporate bonds with AA rating.



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## Development of defined benefit obligations in the reporting year:

T 104

millions of €

	2014	2013
<b>DEFINED BENEFIT OBLIGATIONS AS OF JANUARY 1</b>	<b>8,965</b>	<b>8,973</b>
Current service cost	228	219
Interest cost	290	282
Remeasurement effects	1,783	(33)
Of which: experience-based adjustments	(6)	27
Of which: adjusted financial assumptions	1,789	(57)
Of which: adjusted demographic assumptions	-	(3)
Total benefits actually paid	(328)	(408)
Contributions by plan participants	5	5
Changes attributable to business combinations/ transfers of operation/acquisitions and disposals	(8)	(8)
Past service cost (due to plan amendments)	(3)	(64)
Past service cost (due to curtailments)	(8)	(8)
Settlements	3	13
Taxes to be paid as part of pensions	-	-
Exchange rate fluctuations for plans in foreign currency	13	(6)
<b>DEFINED BENEFIT OBLIGATIONS AS OF DECEMBER 31</b>	<b>10,940</b>	<b>8,965</b>
Of which: active plan participants	5,070	4,080
Of which: plan participants with vested pension rights who left the Group	1,980	1,528
Of which: benefit recipients	3,890	3,357

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

## Distribution of obligations relating to Deutsche Telekom's most significant plans as of December 31, 2014:

T 105

millions of €

	Germany	Switzerland	Greece (OTE S.A.)	Other plans
Defined benefit obligations	10,082	227	292	339
Plan assets at fair value	(2,078)	(171)	-	(249)
Effect of asset ceiling	-	-	-	5
<b>NET DEFINED BENEFIT LIABILITY (ASSET)</b>	<b>8,004</b>	<b>56</b>	<b>292</b>	<b>95</b>

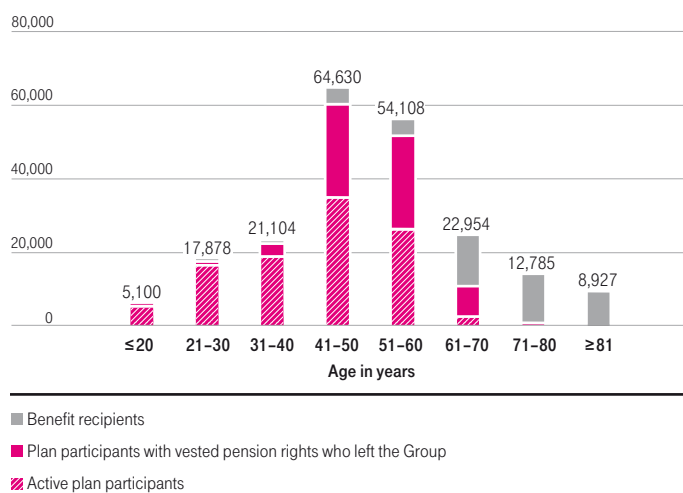
The following analyses in terms of age structure and sensitivity analysis, as well as descriptions of plans and the risks associated with them relate to Germany, Switzerland, and Greece (OTE S.A.).

## Age structure:

Deutsche Telekom's most significant plans are subject to the following status-related age structure.

G 57

### Age structure of plan participants in the most significant pension plans at Deutsche Telekom<sup>a</sup>



<sup>a</sup>Figures relating to Greece (OTE S.A.) include the staff retirement indemnities plan only.

## Sensitivity analysis for the defined benefit obligations:

The following sensitivity analysis describes the effects of possible adjustments in the material actuarial assumptions for measurement on the defined benefit obligations determined as of December 31, 2014. A change in the measurement assumptions to the extent described below, with otherwise unchanged assumptions, would have impacted the defined benefit obligations as of December 31, 2014 as follows:

T 106

millions of €

	Increase (decrease) of the defined benefit obligations as of Dec. 31, 2014		
	Germany	Switzerland	Greece (OTE S.A.)
Increase of discount rate by 100 basis points	(1,239)	(29)	(30)
Decrease of discount rate by 100 basis points	1,530	37	36
Increase of salary increase rate by 50 basis points	7	4	18
Decrease of salary increase rate by 50 basis points	(6)	(4)	(15)
Increase of pension increase rate by 25 basis points	7	6	0
Decrease of pension increase rate by 25 basis points	(6)	(6)	0
Life expectancy increase by 1 year	262	6	1
Life expectancy decrease by 1 year	(271)	(7)	(1)

T 107

millions of €

	Increase (decrease) of the defined benefit obligations as of Dec. 31, 2013		
	Germany	Switzerland	Greece (OTE S.A.)
Increase of discount rate by 100 basis points	(950)	(21)	(25)
Decrease of discount rate by 100 basis points	1,160	26	30
Increase of salary increase rate by 50 basis points	7	3	15
Decrease of salary increase rate by 50 basis points	(6)	(3)	(13)
Increase of pension increase rate by 25 basis points	5	5	0
Decrease of pension increase rate by 25 basis points	(5)	(4)	0
Life expectancy increase by 1 year	185	4	1
Life expectancy decrease by 1 year	(191)	(4)	(1)

Separate sensitivity analyses were carried out for the discount rate, the salary increase rate, and the pension increase rate. For this purpose, further actuarial evaluations were made for both the increase and the decrease of the assumptions. The variations used in the assumptions were selected in such a way that the probability that the respective assumption will not move beyond the analysis range within one year is 60 to 90 percent. It can be assumed that the life expectancy of the plan members will not change significantly within a year. Nevertheless, the effect of a change in life expectancy on the obligations was additionally determined from a risk perspective. Evaluations were carried out based on the assumption that the life expectancy of the plan member aged 65 would increase or decrease by one year (age shift method). The age shift was applied to the remaining plan members accordingly. Variations in the assumed retirement age or turnover rates would only have an immaterial effect, especially in Germany.

#### Global pension policy and description of the plans:

Deutsche Telekom manages its pension commitments based on the Group-wide Global Pension Policy. It ensures on a worldwide basis that Group minimum standards regarding the granting and management of company pension benefits are complied with, plans are harmonized, and other risks to the core business are avoided or reduced. In addition, the policy provides guidelines for the implementation and management of pension commitments and defines requirements for the launch, adjustment, and closure of corresponding plans. The regulations and provisions laid down in this Group policy take into account the national differences in state pension and other commitments under labor, tax, and social law and the common business practices in the area of pension commitments.

Defined benefit plans based on final salaries in the Group have largely been replaced by plans with contribution-based promises to minimize the risks involved. In addition, a corporate CTA (Deutsche Telekom Trust e.V.) was established in Germany in 2011 to allow for additional funding of pension obligations. A CTA is a legally structured trust agreement to cover unfunded pension commitments with plan assets, and to provide greater protection against insolvency for these obligations.

The worldwide obligations and the existing plan assets at fair value are regularly tested for risk-reducing measures, for example by executing asset liability studies and regular benefit audits.

In **Germany** there are commitments for pension and disability benefits for a majority of employees as well as pension benefits for their surviving dependents. As part of a reorganization of the company pension plan, a capital account plan was introduced across Germany in 1997 for active employees. Furthermore, in subsequent years, commitments acquired through company acquisitions were also transferred to the capital account plan scheme. The capital account plan is an employer-financed, contribution-based benefit promise. The salary-linked contributions granted annually are charged interest in advance for each year of provision up to age 60, calculated using age-based factors, converting the contribution into a guaranteed insured amount. The advance interest rate currently stands at 3.75 percent p. a. (target interest rate for the capital account plan).

Deutsche Telekom reduced the granted interest on the future contributions in its capital account plan from 5 percent p. a. to the current level of 3.75 percent p. a. by changing the plan in the 2013 financial year. This change was not related to the application of IAS 19 (amended) in the 2013 financial year. The option of changing the target interest rate makes it possible to achieve a yield on the contributions to the capital account that is in line with the capital market. As market interest rates had fallen sharply, the return was no longer in line with the market.

The period for providing contributions is initially limited to ten future contribution years. The contribution period will be extended automatically every year by a further year, unless terminated. The insured amounts accumulated over the period of active service are paid out if an insured event arises, primarily in the form of a lump sum. Hence there is only a limited longevity risk for these commitments. Based on the payment guidelines and the structure of the capital account plan, the employer can plan for this, and there is only a small risk inherent in the plan with regard to the volatility of remuneration dynamics.

In addition, in Germany there are various closed legacy commitments, which generally provide for old-age and disability benefits as well as benefits for surviving dependents in the form of life-long pensions. The commitments predominantly comprise the overall pension of the supplementary retirement pensions institution (Versorgungsanstalt der Deutschen Bundespost – VAP) that takes into account the statutory pension. Most of the plan members of these commitments are former employees with vested rights and retirees for whom the amount of benefits has already been determined. So the VAP overall pension scheme continues to apply to former employees who were already retired or who had left with vested claims in 1997.

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

As a change in life expectancy mainly impacts on the obligations from legacy pension commitments and, since 1997, commitments have been granted in the form of capital, the risk resulting from the change in life expectancy is expected to decline in significance for the Group over subsequent years.

To cover pension obligations over the long term, Deutsche Telekom has transferred funds to a company CTA and a company special pension fund (Unterstützungskasse).

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As part of the company pension scheme (second pillar) in Switzerland for T-Systems Schweiz AG, there is a contribution-based benefit plan financed by employer and employee contributions, which is managed by the legally independent T-Systems pension fund. Following a restructuring of the Swiss companies and harmonization of the pension fund commitments as of January 1, 2014, T-Systems Data Migration Consulting AG has also since been included in the pension fund of T-Systems Schweiz AG. As is often the case in Switzerland, both companies grant higher benefits than legally required. The Swiss Federal Law on Occupational Retirement, Surviving Dependents' and Disability Pension (Bundesgesetz über die berufliche Alters-, Hinterlassenen- und Invalidenvorsorge – BVG) sets out minimum requirements for the pay to be insured, the age-based contributions, and a minimum annuity factor for the obligatory portion of the accrued retirement assets to be annuitized. In addition, the Swiss Federal Council defines a minimum interest rate for the obligatory retirement assets (2014: 1.75 percent, 2015: 1.75 percent).

The foundation board (Stiftungsrat) presides over the Swiss pension fund. It ensures the day-to-day running of the pension fund and decides on fundamental aspects, such as the amount and the structure of the pension benefits and the investment strategy for the fund. The foundation board is equally comprised of employer and employee representatives. According to information provided by the pension fund, the average annual yield of the fund in the past amounted to approximately 2.0 to 2.5 percent.

Due to the minimum yield for the obligatory retirement assets, a risk exists for the plans in Switzerland that additional resources would have to be allocated to the pension fund if it were to be underfinanced. The pension fund offers the plan members the option to choose a life-long pension instead of a one-time payment. This option gives rise to longevity and investment risks, since at the time of retirement, assumptions must be made regarding life expectancy and return on assets.

In Greece (OTE S.A.), mandatory staff retirement indemnities are due in cases of premature termination by the employer and, to a lesser extent, upon retirement by the employee. These are paid out as a lump sum and can amount to several times the employee's last monthly pay (including cap), depending on the employee's length of service. Due to a change in the law in 2012, the lump sum is capped at a maximum of 12 monthly salaries. The company also makes a voluntary top-up payment. Payments in the scope made in the 2012 and 2013 financial years as part of restructuring programs were not made in 2014.

OTE S.A. is also obliged to make a one-time payment for the employees' children when they reach the age of 25 (youth accounts). The benefit plan, which had previously been based on the level of the employee's final monthly salary, was changed in November 2011 to a plan with a contribution-based promise financed by contributions by the employee and corresponding limited matching contributions by the employer.

The benefits granted by the staff retirement indemnities and youth accounts plans are paid out as a lump sum, i.e., there is no longevity risk. According to the new collective wage agreement concluded at the end of 2014, the salary increases of around 10 percent originally planned for 2015 have been deferred until 2018.

Employees and retirees are also entitled to phone credits. OTE S.A.'s payment obligation therefore depends on the price of the telephone unit and the level of credit utilization by those entitled to them. The volume of the obligation (credit) is capped. Measured against the total amount of pension benefits paid by OTE S.A., the scope of these obligations is relatively small.

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

T 108

millions of €

	2014	2013
<b>PLAN ASSETS AT FAIR VALUE AS OF JANUARY 1</b>	<b>1,973</b>	<b>1,680</b>
Changes attributable to business combinations/transfers of operation/acquisitions and disposals	0	(1)
Interest income on plan assets (calculated using the discount rate)	65	54
Amount by which the actual return exceeds (falls short of) the interest income on plan assets (remeasurement)	207	13
Contributions by employer	266	269
Contributions by plan participants	5	5
Benefits actually paid from plan assets	(30)	(42)
Settlements	-	0
Administration costs	0	0
Tax payments	-	-
Exchange rate fluctuations for plans in foreign currency	12	(5)
<b>PLAN ASSETS AT FAIR VALUE AS OF DECEMBER 31</b>	<b>2,498</b>	<b>1,973</b>

Contributions by employer as of December 31, 2014 include a payment of EUR 250 million (December 31, 2013: EUR 250 million) to a corporate CTA in Germany. The contributions by employer are usually allocated at year-end. A large share of actual income from 2014 is attributable to the growth of assets in Germany on the back of rising prices on the bond markets as a consequence of falling capital market returns.

#### Breakdown of plan assets at fair value by investment category:

T 109

millions of €

	Dec. 31, 2014	Of which: price in an active market	Of which: price without an active market
Equity securities	521	521	0
Debt securities	1,688	1,688	0
Real estate	45	45	0
Derivatives	9	9	0
Investment funds	0	0	0
Asset-backed securities	0	0	0
Structured debt instruments	0	0	0
Cash and cash equivalents	181	181	0
Other	54	12	42
<b>PLAN ASSETS AT FAIR VALUE</b>	<b>2,498</b>	<b>2,456</b>	<b>42</b>

T 110

millions of €

	Dec. 31, 2013	Of which: price in an active market	Of which: price without an active market
Equity securities	419	419	0
Debt securities	1,298	1,298	0
Real estate	44	44	0
Derivatives	5	5	0
Investment funds	0	0	0
Asset-backed securities	0	0	0
Structured debt instruments	0	0	0
Cash and cash equivalents	142	142	0
Other	65	32	33
<b>PLAN ASSETS AT FAIR VALUE</b>	<b>1,973</b>	<b>1,940</b>	<b>33</b>

The investment policy and risk management is set in line with the risk and development characteristics of the pension obligations. On the basis of a systematic, integrated asset/liability management (ALM) analysis, potential results from different investment portfolios, which can cover a large number of asset classes, are compared with the stochastically simulated development of the pension obligations, thereby explicitly considering the relative development of plan assets against the pension obligations. The investment philosophy is mainly characterized by the objective of satisfying future obligations from granted pension commitments on time by systematically setting up and professionally managing a suitable portfolio for the plan assets. The investment strategy is derived from this with direct reference to the characteristics of the underlying pension obligations. This liability-driven investment (LDI) strategy aims to establish a widely diversified investment portfolio that generates a risk profile appropriate to the overall objective, by means of corresponding risk factors and diversification. The management of investments is subject to continuous monitoring to ensure active risk management. Cost-efficient investment management is effected by means of professional portfolio management involving external service providers.

At the reporting date, the plan assets at fair value include shares issued by Deutsche Telekom AG amounting to EUR 736 thousand (December 31, 2013: shares totaling EUR 600 thousand). No other own financial instruments were included in the years shown.

#### Development of the effect of the asset ceiling:

T 111

millions of €

	2014	2013
<b>EFFECT OF ASSET CEILING AS OF JANUARY 1</b>	<b>0</b>	<b>2</b>
Interest expense on asset ceiling (recognized in the income statement)	0	0
Changes in asset ceiling ((gains) losses recognized in equity)	5	(2)
Currency gain (loss)	0	0
<b>EFFECT OF ASSET CEILING AS OF DECEMBER 31</b>	<b>5</b>	<b>0</b>

The defined benefit cost for each period is composed of the following items and reported in the indicated accounts of the income statement:

T 112

millions of €

	Presentation in the income statement	2014	2013	2012
Current service cost	Functional costs <sup>a</sup>	228	219	185
Past service cost (due to plan amendments)	Functional costs <sup>a</sup>	(3)	(64)	16
Past service cost (due to curtailments)	Functional costs <sup>a</sup>	(8)	(8)	(6)
Settlements	Functional costs <sup>a</sup>	3	13	2
<b>SERVICE COST</b>		<b>220</b>	<b>160</b>	<b>197</b>
Interest cost	Other financial income (expense)	290	282	353
Interest income on plan assets (calculated using the discount rate)	Other financial income (expense)	(65)	(54)	(40)
Interest expense on the effect of the asset ceiling	Other financial income (expense)	0	0	0
<b>NET INTEREST EXPENSE (INCOME) ON NET DEFINED BENEFIT LIABILITY (ASSET)</b>		<b>225</b>	<b>228</b>	<b>313</b>
<b>DEFINED BENEFIT COST</b>		<b>445</b>	<b>388</b>	<b>510</b>
Administration costs actually incurred (paid from plan assets)	General and administrative expenses	0	0	0
<b>TOTAL AMOUNTS RECOGNIZED IN PROFIT OR LOSS</b>		<b>445</b>	<b>388</b>	<b>510</b>

<sup>a</sup> Including other operating expenses.

The consolidated statement of comprehensive income contains the following amounts:

T 113

millions of €

	2014	2013	2012
<b>REMEASUREMENT ((GAIN) LOSS RECOGNIZED IN OTHER COMPREHENSIVE INCOME IN THE FINANCIAL YEAR)</b>	<b>1,581</b>	<b>(48)</b>	<b>1,822</b>
Of which: remeasurement due to a change in defined benefit obligations	1,783	(33)	1,868
Of which: remeasurement due to a change in plan assets	(207)	(13)	(45)
Of which: remeasurement due to changes in the effect of asset ceiling (according to IAS 19.64)	5	(2)	(1)

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### Total benefit payments expected:

T 114

millions of €

	2015	2016	2017	2018	2019
Benefits paid from pension provisions	314	361	385	362	411
Benefits paid from plan assets	29	29	31	32	33
<b>TOTAL BENEFITS EXPECTED</b>	<b>343</b>	<b>390</b>	<b>416</b>	<b>394</b>	<b>444</b>

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

In Germany, an amount of EUR 250 million will be allocated to the CTA in 2015 to increase the plan assets. EUR 266 million is expected to be allocated to plan assets for 2015 at Group level.

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

T 115

millions of €

	Dec. 31, 2014	Dec. 31, 2013	Dec. 31, 2012	Dec. 31, 2011	Dec. 31, 2010 <sup>a</sup>
Defined benefit obligations	10,940	8,965	8,973	6,966	7,017
Plan assets at fair value	(2,498)	(1,973)	(1,680)	(860)	(629)
<b>DEFINED BENEFIT OBLIGATIONS IN EXCESS OF PLAN ASSETS</b>	<b>8,442</b>	<b>6,992</b>	<b>7,293</b>	<b>6,106</b>	<b>6,388</b>

<sup>a</sup> The figures for the 2010 period presented were adjusted to apply the amended IAS 19 in the opening balances as of January 1, 2011 in shareholders' equity in retained earnings including carryforwards.

T 116

%

Adjustments	2014	2013	2012	2011	2010 <sup>a</sup>
Experience-based increase (decrease) of defined benefit obligations	(0.1)	0.3	(0.2)	(0.3)	0.1
Experience-based increase (decrease) of plan assets	8.3	0.7	2.6	(1.2)	1.1

<sup>a</sup> The figures for the 2010 period presented were not adjusted to account for the amended IAS 19, since the standard was applied retrospectively from January 1, 2011.

### DEFINED CONTRIBUTION PLANS

The employer's contribution paid to the statutory pension scheme (Deutsche Rentenversicherung) in Germany in the 2014 financial year totaled EUR 0.4 billion (2013: EUR 0.4 billion). Group-wide, EUR 88 million (2013: EUR 103 million, 2012: EUR 99 million) from current contributions for additional defined contribution plans was recognized in the consolidated income statement in 2014.

### CIVIL-SERVANT RETIREMENT ARRANGEMENTS AT DEUTSCHE TELEKOM

An expense of EUR 552 million was recognized in the 2014 financial year (2013: EUR 567 million, 2012: EUR 592 million) for the annual contribution to the Civil Service Pension Fund amounting to 33 percent of the pensionable gross emoluments of active civil servants and the notional pensionable gross emoluments of civil servants on leave of absence. The present value of future payment obligations was EUR 5.1 billion (December 31, 2013: EUR 5.0 billion) at the reporting date and is shown under other financial obligations (please refer to Note 35 "Other financial obligations," PAGE 247).

## 13 OTHER PROVISIONS

T 117

millions of €

	Provisions for termination benefits	Other provisions for personnel costs	Provisions for restoration obligations	Provisions for litigation risks	Provisions for sales and procurement support	Miscellaneous other provisions	Total
<b>AT DECEMBER 31, 2012</b>	<b>78</b>	<b>1,871</b>	<b>1,035</b>	<b>342</b>	<b>448</b>	<b>968</b>	<b>4,742</b>
Of which: current	65	1,373	44	320	448	635	2,885
Changes in the composition of the Group	(1)	52	151	7	2	(3)	208
Currency translation adjustments	(2)	(22)	(10)	(2)	(7)	(3)	(46)
Addition	361	1,712	136	111	339	386	3,045
Use	(138)	(1,581)	(29)	(117)	(394)	(199)	(2,458)
Reversal	(10)	(86)	(31)	(48)	(21)	(128)	(324)
Interest effect	0	42	(5)	(2)	0	3	38
Other changes	(6)	(7)	0	(2)	0	1	(14)
<b>AT DECEMBER 31, 2013</b>	<b>282</b>	<b>1,981</b>	<b>1,247</b>	<b>289</b>	<b>367</b>	<b>1,025</b>	<b>5,191</b>
Of which: current	279	1,434	46	281	367	713	3,120
Changes in the composition of the Group	0	4	0	0	0	4	8
Currency translation adjustments	0	43	37	3	14	26	123
Addition	60	1,881	140	239	430	695	3,445
Use	(152)	(1,677)	(49)	(91)	(347)	(247)	(2,563)
Reversal	(7)	(106)	(57)	(27)	(42)	(115)	(354)
Interest effect	0	49	60	0	0	11	120
Other changes	0	(63)	0	2	0	(19)	(80)
<b>AT DECEMBER 31, 2014</b>	<b>183</b>	<b>2,112</b>	<b>1,378</b>	<b>415</b>	<b>422</b>	<b>1,380</b>	<b>5,890</b>
Of which: current	181	1,467	175	408	422	864	3,517

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

T 118

millions of €

	Jan. 1, 2014	Addition	Use	Reversal	Other changes	Dec. 31, 2014
Severance and voluntary redundancy models	282	60	(152)	(7)	-	183
Partial retirement	133	301	(215)	-	(43)	176
	<b>415</b>	<b>361</b>	<b>(367)</b>	<b>(7)</b>	<b>(43)</b>	<b>359</b>
Of which: current	347					272

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 are recognized for dealer commissions, subsidies for advertising expenses, and reimbursements.

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

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## 14 OTHER LIABILITIES

T 119

millions of €

	Dec. 31, 2014	Of which: current	Dec. 31, 2013	Of which: current
Early retirement	1,669	566	2,053	629
Deferred revenue	1,512	1,286	1,733	1,232
Liabilities from straight-line leases	1,801	-	1,434	-
Liabilities from other taxes	1,173	1,167	1,105	1,099
Other deferred revenue	969	490	474	295
Liabilities from severance payments	144	135	106	106
Miscellaneous other liabilities	769	516	788	444
	<b>8,037</b>	<b>4,160</b>	<b>7,693</b>	<b>3,805</b>

The legal basis for early retirement is the Act for the Improvement of the Staff Structure at the Residual Special Asset of the Federal Railways and the Successor Companies of the Former Deutsche Bundespost. For civil servants employed at Deutsche Telekom, the law provides the opportunity under certain conditions to retire early from the age of 55. When the German Act on the Reorganization of the Civil Service Pension Fund (Gesetz zur Neuordnung der Postbeamtenversorgungskasse) came into effect, the provisions for early retirement for civil servants were extended until December 31, 2016. The Board of Management resolved to make use of these provisions for the years 2014 and 2015.

## 15 SHAREHOLDERS' EQUITY

### ISSUED CAPITAL

As of December 31, 2014, the share capital of Deutsche Telekom totaled EUR 11,611 million. The share capital is divided into 4,535,571,247 no par value registered shares.

T 120

	2014	
	thousands	%
Federal Republic of Germany – Berlin, Germany	646,575	14.3
KfW Bankengruppe – Frankfurt/Main, Germany	791,176	17.4
Free float	3,097,820	68.3
Of which: BlackRock, New York, NY, United States <sup>a</sup>	226,636	
	<b>4,535,571</b>	<b>100.0</b>

<sup>a</sup> On December 5, 2014, the shareholding in Deutsche Telekom was 4.997 percent. According to the last notification from BlackRock dated December 9, 2014, the shareholding fell below the reporting threshold of 5 percent of the voting rights.

**Treasury shares.** The shareholders' meeting resolved on May 24, 2012 to authorize the Board of Management to purchase shares in the Company by May 23, 2017, with the amount of share capital accounted for by these shares totaling up to EUR 1,106,257,715.20, provided the shares to be purchased on the basis of this authorization in conjunction with the other shares of the Company that the Company has already purchased and still possesses or are to be assigned to it under § 71d and § 71e AktG do not at any time account for more than 10 percent of the Company's share capital. Moreover, the requirements under § 71 (2) sentences 2 and 3 AktG must be complied with. Shares shall not be purchased for the purpose of trading in treasury shares. This authorization may be exercised in full or in part. The purchase can be carried out in partial tranches spread over various purchase dates within the authorization period until the maximum purchase volume is reached. Dependent Group companies of Deutsche Telekom AG within the meaning of § 17 AktG or third parties acting for the account of Deutsche Telekom AG or for the account of dependent Group companies of Deutsche Telekom AG within the meaning of § 17 AktG are also entitled to purchase the shares. The shares are purchased through the stock exchange in adherence to the principle of equal treatment (§ 53a AktG). Shares can instead also be purchased by means of a public purchase or share exchange offer addressed to all shareholders, which, subject to a subsequently approved exclusion of the right to offer shares, must also comply with the principle of equal treatment.

The shares may be used for one or several of the purposes permitted by the authorization granted by the shareholders' meeting on May 24, 2012 under item 7 on the agenda. The shares may also be used for purposes involving an exclusion of subscription rights. They may also be sold on the stock market or by way of an offer to all shareholders, or withdrawn. The shares may also be used to fulfill the rights of Board of Management members to receive shares in Deutsche Telekom AG, which the Supervisory Board has granted to these members as part of the arrangements governing the compensation of the Board of Management, on the basis of a decision by the Supervisory Board to this effect.

Under the resolution of the shareholders' meeting on May 24, 2012, the Board of Management is also authorized to acquire the shares through the use of equity derivatives.

On the basis of the above authorization by the shareholders' meeting on May 24, 2012 and a corresponding authorization by the shareholders' meeting on May 12, 2011, 110 thousand shares were acquired in June 2011, 206 thousand shares in September 2011, and 268 thousand shares in January 2013. The total volumes amounted to EUR 2,762 thousand in the 2011 financial year, and EUR 2,394 thousand in the 2013 financial year (excluding transaction costs). This increased the number of treasury shares by 316 thousand and 268 thousand, respectively. As part of the Share Matching Plan, a total of 2 thousand shares were transferred free of charge to the depots of eligible participants in the 2012 and 2013 financial years.

Furthermore, a total of 90 thousand shares were reallocated in April, June and December 2014 and transferred free of charge to the depots of eligible participants of the Share Matching Plan.

As part of the acquisition of VoiceStream Wireless Corp., Bellevue, and Powertel, Inc., Bellevue, in 2001 Deutsche Telekom issued new shares from authorized capital to a trustee, for the benefit of holders of warrants, options, and conversion rights, among others. These options or conversion rights fully expired in the 2013 financial year. As a result, the trustee no longer has any obligation to fulfill any claims in accordance with the purpose of the deposit. The 18,517 thousand deposited shares are accounted for in the same way as treasury shares in accordance with both § 272 (1a) HGB and IFRS.

**Voting rights. Each share entitles the holder to one vote.** These voting rights are restricted, however, in relation to treasury shares and shares allocable to Deutsche Telekom in the same way as treasury shares (at December 31, 2014: around 21 million in total). The "trust" shares, as they are known, (at December 31, 2014: around 19 million) relate to the acquisition of VoiceStream and Powertel (now T-Mobile US) in 2001 and are allocable to Deutsche Telekom at December 31, 2014 in the same way as treasury shares. As regards the shares issued to trusts, the trustee waived voting rights and subscription rights and, in general, dividend rights for the duration of the trusts' existence.

**Authorized capital and contingent capital.** Authorized capital and contingent capital comprised the following components as of December 31, 2014:

T 121

	Amount millions of €	No par value shares thousands	Purpose
2013 Authorized capital <sup>a</sup>	1,960	765,604	Capital increase against cash contribution/ contribution in kind (until May 15, 2018)
2014 Contingent capital	1,100	429,688	Servicing convertible bonds and/or bonds with warrants issued on or before May 14, 2019

<sup>a</sup> The Supervisory Board's approval is required.

**Capital increase in connection with the dividend in kind.** The resolution on the dividend payout of EUR 0.50 per share for the 2013 financial year gave shareholders the choice between payment in cash or having their dividend entitlement converted into Deutsche Telekom AG shares. Dividend entitlements of Deutsche Telekom AG shareholders amounting to EUR 1.0 billion for shares from authorized capital (2013 authorized capital) were contributed in June 2014 and thus did not have an impact on cash flows. Deutsche Telekom AG carried out an increase in issued capital of EUR 0.2 billion against contribution of dividend entitlements for this purpose in June 2014. This increased capital reserves by EUR 0.8 billion. The number of shares increased by 84.4 million. The transaction costs were not material.

## TRANSACTIONS WITH OWNERS

The amounts shown under transactions with owners primarily result from the acquisition of the remaining shares in T-Mobile Czech Republic. TABLE 122 shows the most significant effects included in Deutsche Telekom's consolidated statement of changes in equity (see PAGES 178 and 179) as of December 31, 2014.

T 122

millions of €

	Issued capital and reserves attributable to owners of the parent	Non-controlling interests	Total shareholders' equity
<b>Changes in the composition of the Group</b>	<b>0</b>	<b>1</b>	<b>1</b>
Other effects	0	1	1
<b>Transactions with owners</b>	<b>(506)</b>	<b>(324)</b>	<b>(830)</b>
Acquisition of the remaining shares in T-Mobile Czech Republic	(455)	(373)	(828)
Other effects	(51)	49	(2)

For further information, please refer to the section "Changes in the composition of the Group and transactions with owners," PAGE 196 ET SEQ.

## NON-CONTROLLING INTERESTS:

### TOTAL OTHER COMPREHENSIVE INCOME

Total other comprehensive income of non-controlling interests primarily comprises remeasurement effects as part of the acquisition of the OTE group (business combination achieved in stages) totaling EUR 0.8 billion (December 31, 2013: EUR 1.0 billion) which are offset in part by currency translation effects of EUR 0.2 billion (December 31, 2013: EUR 0.7 billion).

## NOTES TO THE CONSOLIDATED INCOME STATEMENT

For detailed information on special factors, please refer to the combined management report in the section "Development of business in the Group," PAGE 82 ET SEQ.

## 16 NET REVENUE

Net revenue breaks down into the following revenue categories:

T 123

millions of €

	2014	2013	2012
Revenue from the rendering of services	54,108	52,863	53,734
Revenue from the sale of goods and merchandise	8,206	6,676	3,859
Revenue from the use of entity assets by others	344	593	576
	<b>62,658</b>	<b>60,132</b>	<b>58,169</b>

For details of changes in net revenue, please refer to the section "Development of business in the Group" in the combined management report, PAGE 82 ET SEQ.



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## 17 COST OF SALES

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

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

T 124

millions of €

	2014	2013	2012
Cost of sales from fixed-network and mobile communications	32,904	30,287	28,150
Cost of sales from the Systems Solutions operating segment	5,045	5,251	5,314
Other cost of sales	590	717	792
	<b>38,539</b>	<b>36,255</b>	<b>34,256</b>

Cost of sales increased by EUR 2.3 billion year-on-year, in particular due to the development of business in the United States operating segment. This increase was driven, among other factors, by the inclusion of MetroPCS, with the contributions to earnings only taken into account from the second quarter of 2013, higher expenditure with regard to the equipment sales, and expenses from the decommissioning of the MetroPCS CDMA network. Lower cost of sales as a consequence of declining revenue in the Europe operating segment essentially had an offsetting effect.

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 239 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 125

millions of €

	2014	2013	2012
Costs of operational sales	9,527	9,309	9,395
Marketing costs	2,465	2,386	2,373
Order management costs	234	268	254
Costs of accounts receivable management	737	794	1,010
Other selling expenses	935	1,040	1,043
	<b>13,898</b>	<b>13,797</b>	<b>14,075</b>

Selling expenses were EUR 0.1 billion higher than in the prior year. This increase was mainly attributable to higher marketing costs at T-Mobile US as a result of the inclusion of MetroPCS for the first time for a full year and stronger business with new customers.

## 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 126

millions of €

	2014	2013	2012
General and administrative expenses incurred by the operating segments	3,319	3,103	3,268
General and administrative expenses incurred by the Group Headquarters & Group Services segment	1,402	1,415	1,587
	<b>4,721</b>	<b>4,518</b>	<b>4,855</b>

General and administrative expenses were EUR 0.2 billion higher than in the prior year. Higher expenditure in connection with staff increases in the United States operating segment following the business combination with MetroPCS impacted on general and administrative expenses. In addition, they included higher expenses from additions to provisions for litigation risks recognized as part of the accounting treatment of risks.

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 239 ET SEQ.

## 20 OTHER OPERATING INCOME

T 127

millions of €

	2014	2013	2012
Income from reimbursements	451	452	408
Income from the reversal of impairment losses on non-current financial assets in accordance with IFRS 5	24	20	15
Income from the disposal of non-current assets	567	113	1,702
Income from insurance compensation	79	79	55
Income from divestitures	1,716	184	6
Miscellaneous other operating income	394	478	782
	<b>3,231</b>	<b>1,326</b>	<b>2,968</b>

Other operating income increased by EUR 1.9 billion year-on-year. The EUR 0.4 billion increase in income from the disposal of non-current assets mainly results from a transaction between T-Mobile US and Verizon Communications consummated in April 2014 concerning the acquisition and exchange of A-Block spectrum for around EUR 0.4 billion. Income from divestitures increased year-on-year by EUR 1.5 billion, due to the sale of 70 percent of the shares in the Scout24 group totaling EUR 1.7 billion. The portion of income attributable to the recognition of the shares remaining at Deutsche Telekom at their fair value at the date when control is lost, amounts to EUR 0.5 billion. The prior year had included income from the disposal of the investments in Hellas Sat totaling EUR 0.1 billion and in Cosmo Bulgaria Mobile (Globul) and Germanos Telecom Bulgaria (Germanos), also totaling EUR 0.1 billion. Miscellaneous other operating income includes a large number of smaller items.

## 21 OTHER OPERATING EXPENSES

T 128

millions of €

	2014	2013	2012
Impairment losses from the year-end impairment test	51	600	360
Impairment loss in connection with the agreed business combination of T-Mobile USA and MetroPCS	-	-	10,589
Other impairment losses	92	238	159
	<b>143</b>	<b>838</b>	<b>11,108</b>
Losses on the disposal of non-current assets	138	251	177
Losses from divestitures	41	53	-
Miscellaneous other operating expenses	1,162	816	628
	<b>1,341</b>	<b>1,120</b>	<b>805</b>
	<b>1,484</b>	<b>1,958</b>	<b>11,913</b>

Other operating expenses decreased year-on-year by EUR 0.5 billion, primarily due to an impairment loss of EUR 0.5 billion recognized in the prior year on the goodwill of the Austria cash-generating unit.

Miscellaneous other operating expenses include expenses of EUR 0.2 billion incurred in connection with existing financial factoring agreements and a large number of individual items accounting for marginal amounts.

Other operating expenses in 2014 included expense of EUR 0.2 billion (2013: EUR 0.5 billion, 2012: EUR 8.2 billion) from impairment losses recognized on intangible assets (excluding goodwill) and property, plant and equipment, as well as from the disposal of non-current assets. These expenses would predominantly have been allocable to the cost of sales.

## 22 FINANCE COSTS

T 129

millions of €

	2014	2013	2012
Interest income	325	228	306
Interest expense	(2,665)	(2,390)	(2,339)
	<b>(2,340)</b>	<b>(2,162)</b>	<b>(2,033)</b>
Of which: from financial instruments relating to categories in accordance with IAS 39			
Loans and receivables (LaR)	16	20	51
Held-to-maturity investments (HtM)	-	-	2
Available-for-sale financial assets (AFS)	6	9	48
Financial liabilities measured at amortized cost (FLAC) <sup>a</sup>	(2,290)	(2,160)	(2,036)

<sup>a</sup> Interest expense calculated according to the effective interest method and adjusted for accrued interest from derivatives recognized in the reporting period that were used as hedging instruments against interest rate-based changes in the fair values of financial liabilities measured at amortized cost in the reporting period for hedge accounting in accordance with IAS 39 (2014: interest income of EUR 263 million and interest expense of EUR 107 million, 2013: interest income of EUR 119 million and interest expense of EUR 31 million, 2012: interest income of EUR 156 million and interest expense of EUR 36 million).

EUR 95 million (2013: EUR 51 million, 2012: EUR 27 million) was capitalized as part of acquisition costs in the financial year. The amount was calculated on the basis of an interest rate in the average range between 4.6 and 4.7 percent (2013: between 4.6 and 5.0 percent) applied across the Group.

Interest payments (including capitalized interest) of EUR 3.5 billion (2013: EUR 3.0 billion, 2012: EUR 3.1 billion) were made in the financial year.

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

Deutsche Telekom AG benefited from reduced interest rates in the 2014 financial year. The increase in finance costs is mainly attributable to the significant increase in T-Mobile US' self-financing in 2014.

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

T 130

millions of €

	2014	2013	2012
Share of profit (loss) of joint ventures	(152)	(38)	(129)
Share of profit (loss) of associates	(46)	(33)	(25)
	<b>(198)</b>	<b>(71)</b>	<b>(154)</b>

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 year-on-year higher proportion of loss from the EE joint venture of EUR –137 million (2013: EUR –44 million, 2012: EUR –118 million). It is included in the share of profit/loss of joint ventures.

### 24 OTHER FINANCIAL INCOME/EXPENSE

T 131

millions of €

	2014	2013	2012
Income from investments	1	1	16
Gains (losses) from financial instruments	(14)	(278)	251
Interest component from measurement of provisions and liabilities	(346)	(292)	(492)
	<b>(359)</b>	<b>(569)</b>	<b>(225)</b>

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

Gains/losses from financial instruments comprise currency translation effects including gains/losses from derivatives used as hedges in hedge accounting in foreign currency of EUR –387 million (2013: EUR 174 million, 2012: EUR 86 million) and gains from other derivatives as well as measurements of equity investments of EUR 373 million (2013: EUR –452 million, 2012: EUR 165 million).

## 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.

The following table provides a breakdown of income taxes in Germany and internationally:

T 132

millions of €

	2014	2013	2012
<b>CURRENT TAXES</b>	<b>599</b>	<b>487</b>	<b>596</b>
Germany	234	56	172
International	365	431	424
<b>DEFERRED TAXES</b>	<b>507</b>	<b>437</b>	<b>(2,112)</b>
Germany	587	(41)	81
International	(80)	478	(2,193)
	<b>1,106</b>	<b>924</b>	<b>(1,516)</b>

Deutsche Telekom's combined income tax rate for 2014 amounted to 30.7 percent. It consists of corporate income tax at a rate of 15 percent, the solidarity surcharge of 5.5 percent on corporate income tax, and trade tax at an average multiplier of 425 percent (2013: 425 percent, 2012: 425 percent). The combined income tax rate for 2013 and 2012 also amounted to 30.7 percent.

**Reconciliation of the effective tax rate.** Income taxes of EUR –1,106 million (as expense) in the reporting year (2013: EUR –924 million (as expense), 2012: EUR 1,516 million (as benefit)) 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 133

millions of €

	2014	2013	2012
<b>PROFIT (LOSS) BEFORE INCOME TAXES</b>	<b>4,350</b>	<b>2,128</b>	<b>(6,374)</b>
Expected income tax expense (benefit) (income tax rate applicable to Deutsche Telekom AG: 2014: 30.7%, 2013: 30.7%, 2012: 30.7%)	1,335	653	(1,957)
<b>ADJUSTMENTS TO EXPECTED TAX EXPENSE (BENEFIT)</b>			
Effect of changes in statutory tax rates	1	48	8
Tax effects from prior years	(78)	(61)	(11)
Tax effects from other income taxes	68	51	45
Non-taxable income	(456)	(36)	(29)
Tax effects from equity investments	(43)	20	39
Non-deductible expenses	85	120	101
Permanent differences	88	(89)	(62)
Goodwill impairment losses	3	166	856
Tax effects from loss carryforwards	57	136	76
Tax effects from additions to and reductions of local taxes	81	66	55
Adjustment of taxes to different foreign tax rates	(37)	(152)	(641)
Other tax effects	2	2	4
<b>INCOME TAX EXPENSE (BENEFIT) ACCORDING TO THE CONSOLIDATED INCOME STATEMENT</b>	<b>1,106</b>	<b>924</b>	<b>(1,516)</b>
Effective income tax rate %	25	43	24

### Current income taxes in the consolidated income statement

TABLE 134 provides a breakdown of current income taxes:

T 134

millions of €

	2014	2013	2012
<b>CURRENT INCOME TAXES</b>	<b>599</b>	<b>487</b>	<b>596</b>
Of which: Current tax expense	598	559	594
Prior-period tax expense	1	(72)	2

### Deferred taxes in the consolidated income statement

Deferred taxes developed as follows:

T 135

millions of €

	2014	2013	2012
<b>DEFERRED TAX EXPENSE (BENEFIT)</b>	<b>507</b>	<b>437</b>	<b>(2,112)</b>
Of which: From temporary differences	(252)	391	(2,651)
From loss carryforwards	780	34	543
From tax credits	(21)	12	(4)

In the 2014 financial year, a tax expense of EUR 1.1 billion was recorded. The comparatively low tax rate of just 25 percent is a consequence of the low tax burden with regard to the income from the sale of the shares in the Scout24 group. The tax expense in the prior year had totaled EUR 0.9 billion. This lower tax expense primarily resulted from lower profit/loss before income tax. In addition, the tax rate had been higher in the 2013 financial year as a result, in particular, of impairment losses recognized on goodwill in Europe that had no tax effect and thus did not lower the tax expense.

### INCOME TAXES IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Current income taxes in the consolidated statement of financial position:

T 136

millions of €

	Dec. 31, 2014	Dec. 31, 2013
Recoverable taxes	84	98
Tax liabilities	(276)	(308)
Current taxes recognized in other comprehensive income:		
Hedging instruments	54	54

Deferred taxes in the consolidated statement of financial position:

T 137

millions of €

	Dec. 31, 2014	Dec. 31, 2013
Deferred tax assets	5,169	4,960
Deferred tax liabilities	(7,712)	(6,916)
	<b>(2,543)</b>	<b>(1,956)</b>
Of which: recognized in other comprehensive income:		
Gain (loss) from the remeasurement of defined benefit plans	1,150	680
Revaluation surplus	1	-
Hedging instruments	(161)	(163)
Financial assets available for sale	-	-
<b>RECOGNIZED IN OTHER COMPREHENSIVE INCOME BEFORE NON-CONTROLLING INTERESTS</b>	<b>990</b>	<b>517</b>
Non-controlling interests	(6)	(13)
	<b>984</b>	<b>504</b>

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## Development of deferred taxes:

T 138

millions of €

	Dec. 31, 2014	Dec. 31, 2013
Deferred taxes recognized in the statement of financial position	(2,543)	(1,956)
Difference to prior year	(587)	(680)
Of which: Recognized in income statement	(507)	(437)
Recognized in other comprehensive income	480	(21)
Recognized in capital reserves	6	47
Acquisitions (disposals) (including assets and disposal groups held for sale)	(40)	(418)
Currency translation adjustments	(526)	149

## Development of deferred taxes on loss carryforwards:

T 139

millions of €

	Dec. 31, 2014	Dec. 31, 2013
Deferred taxes on loss carryforwards before allowances	3,288	3,786
Difference to prior year	(498)	647
Of which: Recognition (derecognition)	(786)	452
Acquisitions (disposals) (including assets and disposal groups held for sale)	17	268
Currency translation adjustments	271	(73)

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

T 140

millions of €

	Dec. 31, 2014		Dec. 31, 2013	
	Deferred tax assets	Deferred tax liabilities	Deferred tax assets	Deferred tax liabilities
<b>CURRENT ASSETS</b>	<b>1,529</b>	<b>(270)</b>	<b>1,147</b>	<b>(488)</b>
Trade and other receivables	551	-	368	(8)
Inventories	130	-	108	-
Other assets	848	(270)	671	(480)
<b>NON-CURRENT ASSETS</b>	<b>2,828</b>	<b>(12,347)</b>	<b>2,738</b>	<b>(10,807)</b>
Intangible assets	807	(7,213)	756	(6,097)
Property, plant and equipment	787	(3,620)	683	(3,648)
Other financial assets	1,234	(1,514)	1,299	(1,062)
<b>CURRENT LIABILITIES</b>	<b>711</b>	<b>(847)</b>	<b>699</b>	<b>(625)</b>
Financial liabilities	306	(670)	282	(412)
Trade and other payables	48	(4)	37	(17)
Other provisions	120	(35)	136	(61)
Other liabilities	237	(138)	244	(135)
<b>NON-CURRENT LIABILITIES</b>	<b>5,159</b>	<b>(1,303)</b>	<b>4,069</b>	<b>(1,256)</b>
Financial liabilities	2,816	(126)	2,438	(344)
Provisions for pensions and other employee benefits	1,531	(1,044)	1,001	(787)
Other provisions	606	(118)	367	(99)
Other liabilities	206	(15)	263	(26)
<b>TAX CREDITS</b>	<b>296</b>	<b>-</b>	<b>237</b>	<b>-</b>
<b>LOSS CARRYFORWARDS</b>	<b>3,288</b>	<b>-</b>	<b>3,786</b>	<b>-</b>
<b>INTEREST CARRYFORWARDS</b>	<b>55</b>	<b>-</b>	<b>43</b>	<b>-</b>
<b>TOTAL</b>	<b>13,866</b>	<b>(14,767)</b>	<b>12,719</b>	<b>(13,176)</b>
Of which: non-current	11,599	(14,027)	11,122	(12,664)
Allowance	(1,642)	-	(1,499)	-
Netting	(7,055)	7,055	(6,260)	6,260
<b>RECOGNITION</b>	<b>5,169</b>	<b>(7,712)</b>	<b>4,960</b>	<b>(6,916)</b>

The allowances relate primarily to loss carryforwards.

**The loss carryforwards amount to:**

T 141

millions of €

	Dec. 31, 2014	Dec. 31, 2013
<b>LOSS CARRYFORWARDS FOR CORPORATE INCOME TAX PURPOSES</b>	<b>8,208</b>	<b>9,991</b>
Expiry within		
1 year	22	21
2 years	77	34
3 years	108	14
4 years	269	114
5 years	125	189
After 5 years	4,277	4,899
Unlimited carryforward period	3,330	4,720

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

T 142

millions of €

	Dec. 31, 2014	Dec. 31, 2013
<b>LOSS CARRYFORWARDS FOR CORPORATE INCOME TAX PURPOSES</b>	<b>2,420</b>	<b>2,369</b>
Expiry within		
1 year	22	14
2 years	77	29
3 years	108	11
4 years	44	102
5 years	55	14
After 5 years	209	257
Unlimited carryforward period	1,905	1,942
<b>TEMPORARY DIFFERENCES IN CORPORATE INCOME TAX</b>	<b>424</b>	<b>406</b>

In addition, no deferred taxes are recognized on trade tax loss carryforwards of EUR 100 million (December 31, 2013: EUR 126 million) and on temporary differences for trade tax purposes in the amount of EUR 8 million (December 31, 2013: EUR 19 million). Furthermore, apart from corporate income tax loss carryforwards, no deferred taxes amounting to EUR 796 million (December 31, 2013: EUR 730 million) were recognized for other foreign income tax loss carryforwards and, apart from temporary differences for trade tax purposes, no deferred taxes in the amount of EUR 50 million (December 31, 2013: EUR 0 million) were recognized for other foreign income taxes.

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

A positive tax effect in the amount of EUR 17 million (2013: EUR 14 million, 2012: EUR 7 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 175 million (December 31, 2013: EUR 107 million) as it is unlikely that these differences will be reversed in the near future.

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### Disclosure of tax effects relating to each component of other comprehensive income:

T 143

millions of €

	2014			2013			2012		
	Before tax amount	Tax (expense) benefit	Net of tax amount	Before tax amount	Tax (expense) benefit	Net of tax amount	Before tax amount	Tax (expense) benefit	Net of tax amount
<b>Items not reclassified to the income statement retrospectively</b>									
Gain (loss) from the remeasurement of defined benefit plans	(1,581)	477	(1,104)	48	(16)	32	(1,822)	556	(1,266)
Share of profit (loss) of investments accounted for using the equity method	(29)	0	(29)	(17)	0	(17)	0	0	0
	<b>(1,610)</b>	<b>477</b>	<b>(1,133)</b>	<b>31</b>	<b>(16)</b>	<b>15</b>	<b>(1,822)</b>	<b>556</b>	<b>(1,266)</b>
<b>Items reclassified to the income statement retrospectively, if certain reasons are given</b>									
Exchange differences on translating foreign operations									
Recognition of other comprehensive income in income statement	(4)	0	(4)	0	0	0	4	0	4
Change in other comprehensive income (not recognized in income statement)	1,849	0	1,849	(901)	0	(901)	318	0	318
Available-for-sale financial assets									
Recognition of other comprehensive income in income statement	(1)	0	(1)	0	0	0	(227)	14	(213)
Change in other comprehensive income (not recognized in income statement)	41	1	42	(4)	1	(3)	33	0	33
Gains (losses) from hedging instruments									
Recognition of other comprehensive income in income statement	(267)	82	(185)	178	(55)	123	9	(3)	6
Change in other comprehensive income (not recognized in income statement)	265	(80)	185	(162)	49	(113)	(219)	66	(153)
Share of profit (loss) of investments accounted for using the equity method									
Recognition of other comprehensive income in income statement	0	0	0	0	0	0	0	0	0
Change in other comprehensive income (not recognized in income statement)	0	0	0	(37)	0	(37)	22	0	22
	<b>1,883</b>	<b>3</b>	<b>1,886</b>	<b>(926)</b>	<b>(5)</b>	<b>(931)</b>	<b>(60)</b>	<b>77</b>	<b>17</b>
<b>OTHER COMPREHENSIVE INCOME</b>	<b>273</b>	<b>480</b>	<b>753</b>	<b>(895)</b>	<b>(21)</b>	<b>(916)</b>	<b>(1,882)</b>	<b>633</b>	<b>(1,249)</b>
Profit (loss)			3,244			1,204			(4,858)
<b>TOTAL COMPREHENSIVE INCOME</b>			<b>3,997</b>			<b>288</b>			<b>(6,107)</b>

## 26 PROFIT/LOSS ATTRIBUTABLE TO NON-CONTROLLING INTERESTS

T 144

millions of €

	2014	2013	2012
T-Mobile US	115	18	-
Hrvatski Telekom	65	79	105
Hellenic Telecommunications Organization (OTE)	48	24	144
Magyar Telekom	47	43	31
Slovak Telekom	36	25	31
T-Mobile Czech Republic	11	91	112
Other	(2)	(6)	72
	<b>320</b>	<b>274</b>	<b>495</b>

## 27 EARNINGS PER SHARE

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

T 145

millions of €

	2014	2013	2012
Profit attributable to the owners of the parent (net profit (loss))	2,924	930	(5,353)
Adjustment	-	-	-
<b>ADJUSTED BASIC/DILUTED NET PROFIT (LOSS)</b>	<b>2,924</b>	<b>930</b>	<b>(5,353)</b>
Number of ordinary shares issued millions	4,497	4,391	4,321
Treasury shares millions	(21)	(5)	(2)
Shares reserved for outstanding options millions	-	(16)	(19)
<b>ADJUSTED WEIGHTED AVERAGE NUMBER OF ORDINARY SHARES OUTSTANDING (BASIC/DILUTED)</b> millions	<b>4,476</b>	<b>4,370</b>	<b>4,300</b>
<b>BASIC/DILUTED EARNINGS PER SHARE</b> €	<b>0.65</b>	<b>0.21</b>	<b>(1.24)</b>

The calculation of basic earnings per share is based on the time-weighted number of all ordinary shares outstanding. Furthermore, the weighted average number of ordinary shares outstanding is determined by deducting the weighted average number of treasury shares held by Deutsche Telekom AG. As part of the issue of new shares in the course of the acquisition of T-Mobile USA (VoiceStream/PowerTel), the options and conversion rights existing in the previous years were held in a trust depot for later issue and subsequent trading as registered shares and fully expired in the 2013 financial year. They have since been accounted for as treasury shares and were still included pro rata temporis in the average portfolio for the 2013 financial year. There are currently no diluting shares.

## 28 DIVIDEND PER SHARE

For the 2014 financial year, the Board of Management proposes a dividend of EUR 0.50 for each no par value share carrying dividend rights. On the basis of this payout volume, total dividends in the amount of EUR 2,257 million would be appropriated to the no par value shares carrying dividend rights at February 10, 2015. The final amount of the total dividend payment depends on the number of no par value shares carrying dividend rights as of the date of the resolution on the appropriation of net income as adopted on the day of the shareholders' meeting.

A dividend of EUR 0.50 for the 2013 financial year for each no par value share carrying dividend rights was paid out in 2014. The shareholders had the choice between payment in cash or, alternatively, the conversion of their dividend entitlement into Deutsche Telekom AG shares (dividend in kind). In June 2014, dividend entitlements of EUR 1.0 billion were thus substituted by shares from authorized capital and thus did not have an effect on cash flows (see Note 15 "Shareholders' equity," PAGES 227 and 228).

## 29 AVERAGE NUMBER OF EMPLOYEES AND PERSONNEL COSTS

### Average number of employees

T 146

	2014	2013	2012
<b>GROUP (TOTAL)</b>	<b>228,248</b>	<b>229,704</b>	<b>232,342</b>
Domestic	116,067	117,995	120,614
International	112,181	111,709	111,728
Non-civil servants	207,855	208,422	209,422
Civil servants (domestic, active service relationship)	20,393	21,282	22,920
Trainees and students on cooperative degree courses	8,098	8,145	8,402
<b>PERSONNEL COSTS</b> millions of €	<b>14,683</b>	<b>15,144</b>	<b>14,726</b>

The average headcount decreased by 0.6 percent compared with the prior year. This trend is largely attributable to a lower domestic headcount, which was down by 1.6 percent. Staff restructuring measures in the Systems Solutions operating segment and, in particular, the deconsolidation of the Scout24 group in the Group Headquarters & Group Services segment contributed to this trend. In the Germany operating segment, by contrast, the headcount increased for the build-out and upgrade of the networks.

The average international headcount grew by 0.4 percent, due in particular to the higher staff levels in the United States operating segment as a result of the enhanced customer base. The increased headcount in the Europe operating segment following the inclusion of the GTS Central Europe group and as a result of recruitments as part of staff restructuring in Greece also contributed to this trend. Staff restructuring and downsizing in the Europe operating segment due to efficiency enhancement measures in Romania, Croatia, and Hungary as well as the disposal of the stakes in Euronet Communications in the Netherlands, however, had an offsetting effect. The net average headcount in the Europe operating segment thus declined.



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Personnel costs decreased year-on-year by 3.0 percent, in particular as a result of lower restructuring expenses. In contrast to the 2013 financial year, no major staff restructuring measures were launched in the Germany operating segment and in our Europe operating segment, in particular in Greece. By contrast, restructuring expenses at the Systems Solutions operating segment increased as part of the realignment of the business model initiated in 2014. Higher domestic personnel costs, primarily due to the collectively agreed salary increase, were partly offset by a lower average headcount. Increased staff levels in the United States operating segment resulted in higher personnel costs.

### 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 147

millions of €			
	2014	2013	2012
<b>AMORTIZATION AND IMPAIRMENT OF INTANGIBLE ASSETS</b>	<b>3,863</b>	<b>4,176</b>	<b>12,259</b>
Of which: Goodwill impairment losses	51	605	2,965
Amortization of mobile licenses	889	854	831
Impairment losses on mobile licenses	10	104	5,822
<b>DEPRECIATION AND IMPAIRMENT OF PROPERTY, PLANT AND EQUIPMENT</b>	<b>6,711</b>	<b>6,728</b>	<b>9,698</b>
Of which: Impairment losses recognized on property, plant and equipment	78	117	2,020
	<b>10,574</b>	<b>10,904</b>	<b>21,957</b>

Impairment losses break down as follows:

T 148

millions of €			
	2014	2013	2012
<b>INTANGIBLE ASSETS</b>	<b>65</b>	<b>721</b>	<b>9,088</b>
Of which: Goodwill from the year-end impairment test	51	600	360
Goodwill in connection with the business combination of T-Mobile USA and MetroPCS	-	-	2,605
FCC licenses	10	104	-
Intangible assets (excluding goodwill) in connection with the business combination of T-Mobile USA and MetroPCS	-	-	6,094
<b>PROPERTY, PLANT AND EQUIPMENT</b>	<b>78</b>	<b>117</b>	<b>2,020</b>
Of which: From the year-end impairment test	-	-	-
In connection with the business combination of T-Mobile USA and MetroPCS	-	-	1,890
	<b>143</b>	<b>838</b>	<b>11,108</b>

Depreciation, amortization and impairment losses decreased by EUR 0.3 billion year-on-year.

This marked decrease was primarily due to an impairment loss of EUR 0.5 billion recognized in the prior year on goodwill of the Austria cash-generating unit.

In the reporting year, impairment losses of EUR 51 million were recognized on goodwill following scheduled impairment testing at the cash-generating units. For further details, please refer to Note 5 "Intangible assets," PAGE 206 ET SEQ.

Impairment losses on property, plant and equipment related mainly to land and buildings.

In total, depreciation and amortization was EUR 0.4 billion higher than the prior-year figure. This was primarily due to the inclusion of MetroPCS for the first time for a full year and the roll-out of the LTE network as part of T-Mobile US' network modernization program. The reduction in useful lives with regard to the decommissioning of the CDMA mobile network of MetroPCS (EUR 0.2 billion), which had been taken over in the previous year, also increased depreciation and amortization.

## OTHER DISCLOSURES

### 31 NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

#### NET CASH FROM OPERATING ACTIVITIES

Dividend payments received from the EE joint venture, which were EUR 0.1 billion higher than in the prior year, had a positive effect on net cash from operating activities. In the reporting period, financing options were chosen which extended the period of payment for trade accounts payable by involving banks in the process and, when payment is made, are shown in net cash used in/from financing activities. This results in a positive total effect on net cash from operating activities of EUR 0.4 billion. Net cash from operating activities in the previous year had included total cash outflows of EUR 0.2 billion in connection with the AT&T and MetroPCS transactions, and EUR 0.3 billion higher cash outflows for severance and early retirement payments. By contrast, net cash from operating activities was reduced by a EUR 0.4 billion increase in net interest payments. In the previous year, this item had included EUR 0.2 billion higher cash inflows from entering into, canceling or changing the terms and conditions of interest rate derivatives.

T 149

#### Net cash used in investing activities

millions of €

	2014	2013	2012
<b>Cash capex</b>			
Germany operating segment	(3,807)	(3,411)	(3,418)
United States operating segment	(5,072)	(3,279)	(2,560)
Europe operating segment	(2,101)	(3,661)	(1,739)
Systems Solutions operating segment	(1,171)	(1,066)	(1,171)
Group Headquarters & Group Services	(381)	(411)	(379)
Reconciliation	688	760	835
	<b>(11,844)</b>	<b>(11,068)</b>	<b>(8,432)</b>
Net cash flows for collateral deposited for hedging transactions	606	(776)	(339)
Allocation under contractual trust agreement on pension commitments	(250)	(250)	(750)
Acquisition/sale of government bonds, net	11	(159)	319
Net change in cash and cash equivalents due to the first-time inclusion of MetroPCS	-	1,641	-
Proceeds from the loss of control of subsidiaries and associates <sup>a</sup>	1,540	650	2,199
Proceeds from the disposal of property, plant and equipment	265	245	187
Cash flows from the bond issued by the EE joint venture	-	-	218
Acquisition of the GTS Central Europe group	(539)	-	-
Other	(550)	(179)	(73)
	<b>(10,761)</b>	<b>(9,896)</b>	<b>(6,671)</b>

<sup>a</sup> Cash inflows of EUR 1.6 billion from the sale of 70 percent of the shares in the Scout24 group are included in the 2014 financial year. Cash inflows of EUR 0.6 billion from the sale of Globul and Germanos and of EUR 0.2 billion from the sale of Hellas Sat are included in the 2013 financial year. Cash inflows of EUR 1.8 billion from the disposal of cell sites in the United States and EUR 0.4 billion from the sale of Telekom Srbija are included in the 2012 financial year.

Cash capex increased by EUR 0.8 billion to EUR 11.8 billion. In the Germany operating segment, the increase was mainly attributable to the investments as part of the integrated network strategy in the fiber-optic cable roll-out as well as in the IP transformation and the LTE infrastructure. In the 2014 financial year, mobile licenses were acquired for a total of EUR 2.3 billion, primarily in the United States operating segment, in Hungary, the Czech Republic, Poland, and Slovakia. A similar amount of EUR 2.2 billion had been spent on mobile licenses in the previous year, mainly in the Netherlands, Austria, and Romania, as well as in the United States operating segment.

Interest payments (including capitalized interest) of EUR 3.5 billion (2013: EUR 3.0 billion, 2012: EUR 3.1 billion) were made in the financial year. Capitalized interest was reported within cash capex in net cash used in investing activities, together with the associated assets.

T 150

#### Net cash used in/from financing activities

millions of €

	2014	2013	2012
Issuance of bonds	3,816	9,051	3,076
T-Mobile US capital increase	-	1,313	-
T-Mobile US stock options	17	102	-
Repayment of bonds	(4,677)	(4,748)	(3,597)
Dividends (including to non-controlling interests)	(1,290)	(2,243)	(3,400)
OTE credit line, net	(45)	(704)	(757)
Net cash flows for collateral deposited for hedging transactions	170	(537)	90
Repayment of financial liabilities to Sireo	-	(534)	-
Promissory notes, net	(1,293)	(309)	-
Cash deposits from the EE joint venture, net	3	(195)	280
Repayment of lease liabilities	(164)	(172)	(169)
Repayment of EIB loans	-	(32)	(532)
Deutsche Telekom AG share buy-back	-	(2)	-
Loans taken out with the EIB	400	-	300
Commercial paper, net	1,561	-	(1,657)
Cash inflows from the assignment of OTE stock options	26	-	-
Acquisition of the remaining shares in T-Mobile Czech Republic	(828)	-	-
Repayment of financial liabilities from financed capex and opex	(760)	-	-
OTE share buy-back	(69)	-	-
Other	(301)	32	(235)
	<b>(3,434)</b>	<b>1,022</b>	<b>(6,601)</b>

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## NON-CASH TRANSACTIONS IN THE CONSOLIDATED STATEMENT OF CASH FLOWS

In June 2014, dividend entitlements of Deutsche Telekom AG shareholders in the amount of EUR 1.0 billion did not have an effect on net cash used in/from financing activities when fulfilled; rather, they were substituted by shares from authorized capital (see Note 15 "Shareholders' equity," PAGES 227 and 228). The dividend entitlements of Deutsche Telekom AG shareholders having an effect on cash flows totaled EUR 1.2 billion. In the previous year, dividend entitlements of Deutsche Telekom AG shareholders amounting to EUR 1.1 billion did not have an impact on cash flows, while dividend entitlements of EUR 1.9 billion did have an effect on cash flows.

In the 2014 financial year, Deutsche Telekom chose financing options totaling EUR 0.6 billion under which the payments for trade payables from operating and investing activities become due at a later point in time by involving banks in the process. These payables are now shown under financial liabilities in the statement of financial position. As soon as the payments have been made, they are disclosed under net cash used in/from financing activities.

Consideration for the acquisition of broadcasting rights will be paid by Deutsche Telekom in accordance with the terms of the contract on its conclusion or spread over the term of the contract. Financial liabilities of EUR 0.2 billion were recognized in the 2014 financial year for future consideration for acquired broadcasting rights. As soon as the payments have been made, they are disclosed under net cash used in/from financing activities.

## 32 SEGMENT REPORTING

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

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

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

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

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

The **Group Headquarters & Group Services** segment comprises Service Headquarters and those subsidiaries of Deutsche Telekom AG that are not allocated to the operating segments, and the EE joint venture in the United Kingdom. As of December 31, 2014, the EE joint venture is reported under non-current assets and disposal groups held for sale (see Note 4, PAGES 204 and 205).

The business segments shown are reviewed at regular intervals by the Deutsche Telekom Board of Management in terms of the allocation of resources and their earning performance.

The segments structure was changed as follows in the 2014 financial year:

The ICSS/GNF business of the local business units (LBUS), which had been organizationally assigned to the Systems Solutions operating segment until December 31, 2013, was brought together as of January 1, 2014 and is now reported under the Europe operating segment. These are units in and outside of Europe (excluding Germany) that predominantly perform wholesale telecommunications services for ICSS (International Carrier Sales & Solutions) as part of the Europe operating segment and for third parties. Furthermore, as of January 1, 2014, the local business customer units of T-Systems Czech Republic, which had previously been managed under the Systems Solutions operating segment, were merged with T-Mobile Czech Republic. In addition to mobile and fixed-network business activities, the company will now also offer ICT solutions for business customers and public administrations. The activities will be disclosed under the Europe operating segment. The change was made to improve the way in which these units can be managed.

The EE joint venture in the United Kingdom, which had previously been assigned to the Europe operating segment, was transferred to the Group Headquarters & Group Services segment as of January 1, 2014. Since then, it has been reported under the Finance board department due to the new definition of the management model of our EE joint venture.

Comparative figures have been adjusted retrospectively.

The measurement principles for Deutsche Telekom's segment reporting structure are primarily based on the IFRSs adopted in the consolidated financial statements. Deutsche Telekom evaluates the segments' performance based on revenue and profit or loss from operations (EBIT), among other factors. Revenue generated and goods and services exchanged between segments are calculated on the basis of market prices. Services performed by Telekom IT are charged at cost. Segment assets and liabilities include all assets and liabilities that are carried in the financial statements prepared by the segments and included in the consolidated financial statements. Segment investments include additions to intangible assets and property, plant and equipment. Where entities accounted for using the equity method are directly allocable to a segment, their shares of profit or loss after income taxes and their carrying amounts are reported in this segment's accounts. The performance indicators shown in TABLES 151 to 153 are exclusively presented from the segments' perspective. The effects of intersegment transactions are eliminated and presented in aggregate form in the reconciliation line.

The following tables show the performance indicators used by Deutsche Telekom to evaluate the operating segments' performance as well as additional segment-related indicators:

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millions of €

		Net revenue	Intersegment revenue	Total revenue	Profit (loss) from operations (EBIT)	Interest income	Interest expense	Share of profit (loss) of associates and joint ventures accounted for using the equity method	Income taxes
Germany	2014	20,903	1,354	22,257	4,663	6	(277)	2	0
	2013	21,056	1,379	22,435	4,435	20	(367)	1	5
	2012	21,384	1,352	22,736	4,213	38	(501)	1	(6)
United States	2014	22,405	3	22,408	1,405	2	(867)	(41)	(203)
	2013	18,552	4	18,556	1,404	461	(737)	(33)	(418)
	2012	15,365	6	15,371	(7,547)	86	(661)	(26)	2,191
Europe	2014	12,596	376	12,972	1,704	27	(365)	2	(371)
	2013	13,174	530	13,704	972	25	(423)	4	(417)
	2012	13,931	510	14,441	1,453	64	(419)	5	(402)
Systems Solutions	2014	5,988	2,613	8,601	(422)	14	(1)	(9)	(31)
	2013	6,244	2,794	9,038	(294)	15	(1)	4	(29)
	2012	6,411	3,140	9,551	(323)	37	(23)	(14)	19
Group Headquarters & Group Services	2014	766	1,750	2,516	(109)	906	(1,808)	(152)	(492)
	2013	1,106	1,773	2,879	(1,582)	1,145	(1,871)	(47)	(249)
	2012	1,078	1,757	2,835	(1,750)	1,458	(2,057)	(120)	(292)
<b>TOTAL</b>	2014	<b>62,658</b>	<b>6,096</b>	<b>68,754</b>	<b>7,241</b>	<b>955</b>	<b>(3,318)</b>	<b>(198)</b>	<b>(1,097)</b>
	2013	<b>60,132</b>	<b>6,480</b>	<b>66,612</b>	<b>4,935</b>	<b>1,666</b>	<b>(3,399)</b>	<b>(71)</b>	<b>(1,108)</b>
	2012	<b>58,169</b>	<b>6,765</b>	<b>64,934</b>	<b>(3,954)</b>	<b>1,683</b>	<b>(3,661)</b>	<b>(154)</b>	<b>1,510</b>
Reconciliation	2014	-	(6,096)	(6,096)	6	(630)	653	-	(9)
	2013	-	(6,480)	(6,480)	(5)	(1,438)	1,009	-	184
	2012	-	(6,765)	(6,765)	(8)	(1,377)	1,322	-	6
<b>GROUP</b>	2014	<b>62,658</b>	<b>-</b>	<b>62,658</b>	<b>7,247</b>	<b>325</b>	<b>(2,665)</b>	<b>(198)</b>	<b>(1,106)</b>
	2013	<b>60,132</b>	<b>-</b>	<b>60,132</b>	<b>4,930</b>	<b>228</b>	<b>(2,390)</b>	<b>(71)</b>	<b>(924)</b>
	2012	<b>58,169</b>	<b>-</b>	<b>58,169</b>	<b>(3,962)</b>	<b>306</b>	<b>(2,339)</b>	<b>(154)</b>	<b>1,516</b>

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millions of €

		Segment assets <sup>a</sup>	Segment liabilities	Segment investments	Investments accounted for using the equity method	Depreciation and amortization	Impairment losses	Average number of employees
Germany	2014	29,980	23,148	4,144	19	(3,884)	(9)	68,106
	2013	30,738	23,200	3,538	17	(3,959)	(7)	67,765
	2012	31,224	22,972	3,559	16	(4,389)	(4)	68,653
United States	2014	49,784	35,724	7,318	197	(2,829)	(10)	37,858
	2013	38,830	26,888	4,676	198	(2,133)	(105)	32,962
	2012	27,436	21,254	4,217	215	(2,265)	(10,601)	30,184
Europe	2014	30,923	12,761	2,718	52	(2,567)	(30)	52,829
	2013	29,976	12,695	4,192	59	(2,755)	(644)	56,810
	2012	30,457	12,127	1,961	58	(2,921)	(388)	58,785
Systems Solutions	2014	8,788	5,962	1,279	14	(712)	(5)	48,817
	2013	8,428	5,279	1,133	24	(639)	(13)	49,985
	2012	8,766	5,775	3,950	23	(614)	(17)	52,680
Group Headquarters & Group Services	2014	81,500	48,100	441	335	(582)	(89)	20,639
	2013	83,596	51,219	573	5,869	(627)	(72)	22,182
	2012	87,690	53,523	279	6,414	(654)	(99)	22,040
<b>TOTAL</b>	2014	<b>200,975</b>	<b>125,695</b>	<b>15,900</b>	<b>617</b>	<b>(10,574)</b>	<b>(143)</b>	<b>228,249</b>
	2013	<b>191,568</b>	<b>119,281</b>	<b>14,112</b>	<b>6,167</b>	<b>(10,113)</b>	<b>(841)</b>	<b>229,704</b>
	2012	<b>185,573</b>	<b>115,651</b>	<b>13,966</b>	<b>6,726</b>	<b>(10,843)</b>	<b>(11,109)</b>	<b>232,342</b>
Reconciliation	2014	(71,615)	(30,401)	(819)	-	143	-	(1)
	2013	(73,420)	(33,196)	(752)	-	47	3	-
	2012	(77,631)	(38,240)	(3,417)	-	(5)	-	-
<b>GROUP</b>	2014	<b>129,360</b>	<b>95,294</b>	<b>15,081</b>	<b>617</b>	<b>(10,431)</b>	<b>(143)</b>	<b>228,248</b>
	2013	<b>118,148</b>	<b>86,085</b>	<b>13,360</b>	<b>6,167</b>	<b>(10,066)</b>	<b>(838)</b>	<b>229,704</b>
	2012	<b>107,942</b>	<b>77,411</b>	<b>10,549</b>	<b>6,726</b>	<b>(10,848)</b>	<b>(11,109)</b>	<b>232,342</b>

<sup>a</sup> Relating to the Group Headquarters & Group Services segment, Deutsche Telekom AG shareholders opted to have part of their dividend entitlement converted into shares, meaning that this dividend in kind had no impact on cash flows (see Note 15 "Shareholders' equity," PAGES 227 and 228).

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millions of €

		Net cash from operating activities	Net cash (used in) from investing activities	Of which: cash capex <sup>a</sup>	Net cash (used in) from financing activities <sup>b</sup>
Germany	2014	8,810	(4,171)	(3,807)	(6,844)
	2013	8,646	(3,444)	(3,411)	(5,691)
	2012	8,489	(3,509)	(3,418)	(7,174)
United States	2014	3,170	(5,417)	(5,072)	1,952
	2013	2,580	(1,232)	(3,279)	2,728
	2012	3,164	(785)	(2,560)	(2,301)
Europe	2014	3,597	(2,196)	(2,101)	662
	2013	3,658	(3,026)	(3,661)	(2,128)
	2012	3,967	(903)	(1,739)	(2,362)
Systems Solutions	2014	687	(840)	(1,171)	424
	2013	999	(531)	(1,066)	138
	2012	268	(448)	(1,171)	363
Group Headquarters & Group Services	2014	2,510	912	(381)	(4,055)
	2013	3,266	3,731	(411)	(5,552)
	2012	3,028	3,665	(379)	(5,135)
<b>TOTAL</b>	2014	<b>18,774</b>	<b>(11,712)</b>	<b>(12,532)</b>	<b>(7,861)</b>
	2013	<b>19,149</b>	<b>(4,502)</b>	<b>(11,828)</b>	<b>(10,505)</b>
	2012	<b>18,916</b>	<b>(1,980)</b>	<b>(9,267)</b>	<b>(16,609)</b>
Reconciliation	2014	(5,381)	951	688	4,427
	2013	(6,132)	(5,394)	760	11,527
	2012	(5,339)	(4,691)	835	10,008
<b>GROUP</b>	2014	<b>13,393</b>	<b>(10,761)</b>	<b>(11,844)</b>	<b>(3,434)</b>
	2013	<b>13,017</b>	<b>(9,896)</b>	<b>(11,068)</b>	<b>1,022</b>
	2012	<b>13,577</b>	<b>(6,671)</b>	<b>(8,432)</b>	<b>(6,601)</b>

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

<sup>b</sup> Relating to the Group Headquarters & Group Services segment, Deutsche Telekom AG shareholders opted to have part of their dividend entitlement converted into shares, meaning that this dividend in kind had no impact on cash flows (see Note 15 "Shareholders' equity," PAGES 227 and 228).

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

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	Non-current assets			Net revenue		
	Dec. 31, 2014	Dec. 31, 2013	Dec. 31, 2012	2014	2013	2012
Germany	35,343	35,200	36,433	24,999	25,384	25,775
International	56,766	54,663	49,877	37,659	34,748	32,394
Of which: Europe (excluding Germany)	21,654	27,288	28,066	14,311	15,173	15,966
North America	35,039	27,289	21,696	22,701	18,796	15,593
Other countries	73	86	115	647	779	835
<b>GROUP</b>	<b>92,109</b>	<b>89,863</b>	<b>86,310</b>	<b>62,658</b>	<b>60,132</b>	<b>58,169</b>

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

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millions of €

	Net revenue		
	2014	2013	2012
Telecommunications	55,946	53,220	51,150
ICT solutions	6,513	6,713	6,790
Other	199	199	229
	<b>62,658</b>	<b>60,132</b>	<b>58,169</b>

### 33 CONTINGENCIES

As part of its ordinary business activities, Deutsche Telekom is involved in various proceedings both in and out of court with government agencies, competitors, and other parties, the outcome of which often cannot be reliably anticipated. As of the reporting date, the Group was exposed to contingent liabilities amounting to EUR 0.3 billion (December 31, 2013: EUR 0.6 billion) and to contingent assets amounting to EUR 0.0 billion (December 31, 2013: EUR 0.0 billion) that, on the basis of the information and estimates available, do not fulfill the requirements for recognition as liabilities or assets in the statement of financial position. Litigation provisions include the costs of legal counsel services and any probable losses. Deutsche Telekom does not believe that any additional costs arising from legal counsel services or the results of proceedings will have a material adverse effect on the results of operations and financial position of the Group. In addition to individual cases that do not have any significant impact on their own, the aforementioned total contingent liabilities include the following items, the sequence of which does not imply an evaluation of their probability of occurrence or potential damage. In the event that in extremely rare cases disclosures required by IAS 37 are not made, Deutsche Telekom comes to the conclusion that these disclosures could seriously undermine the outcome of the relevant proceedings.

#### CONTINGENT LIABILITIES

**Proceedings by Anti-Monopoly Commission in Poland.** On November 23, 2011, the Anti-Monopoly Commission in Poland (UOKiK) concluded investigations started in 2010. It decided that T-Mobile Polska (formerly PTC) and other Polish telecommunications companies had fixed prices in breach of anti-trust law and imposed a fine on T-Mobile Polska of PLN 34 million (approximately EUR 8 million). T-Mobile

Polska continues to believe these allegations are unfounded and thus complained in a lawsuit against the decision. As a result, the fine is not yet due. The same applies to another fine of PLN 21 million (approximately EUR 5 million) imposed by UOKiK on T-Mobile Polska on January 2, 2012 for an alleged breach of consumer protection law. The court has not yet made a decision.

**Claims by partnering publishers of telephone directories.** Several publishers that had set up joint ventures with DeTeMedien GmbH, a wholly owned subsidiary of Deutsche Telekom AG, to edit and publish subscriber directories, filed claims against DeTeMedien GmbH and/or Deutsche Telekom AG at the end of 2013. The complainants are claiming damages or refund from DeTeMedien GmbH and to a certain extent from Deutsche Telekom AG as joint and several debtor next to DeTeMedien GmbH. The complainants base their claims on allegedly excessive charges for the provision of subscriber data in the joint ventures. In 2014, further partnering publishers made claims for compensation or refund against DeTeMedien GmbH. At the end of 2014, several plaintiffs further quantified the amounts claimed. Thus the claimed amounts currently total around EUR 470 million plus interest. Hearings were held regarding two actions filed against DeTeMedien GmbH at the Frankfurt/Main Regional Court on July 16, 2014 which the Court rejected in rulings on October 22, 2014. The decisions are not final and legally binding yet. The complainants have filed an appeal with the Frankfurt/Main Higher Regional Court against the rulings. We expect decisions in the numerous other cases in 2015. Deutsche Telekom has recognized appropriate provisions for risks in 2014 in the statement of financial position.

**Claim for compensation against Slovak Telekom.** In 1999, an action was filed against Slovak Telekom based on the accusation that the legal predecessor of Slovak Telekom had ceased broadcast of an international radio program contrary to the underlying contract. The claimant originally demanded approximately EUR 100 million plus interest for damages and lost profit. On November 9, 2011, the Bratislava Regional Court ruled partly in favor of the claimant and ordered Slovak Telekom to pay approximately EUR 32 million plus interest. On December 27, 2011, Slovak Telekom appealed to the Supreme Court against this judgment. In case of a final and legally binding court ruling against Slovak Telekom, Deutsche Telekom AG can assert recourse claims against third parties for a part of the sum demanded.

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.

**Anti-trust and consumer protection proceedings.** Like many other companies, our Group is subject to the regulations of anti-trust law. In some countries, Deutsche Telekom and its subsidiaries, joint ventures, and associates are subject to various proceedings under anti-trust or competition law, which may also lead to civil follow-on claims. Looking at each of the proceedings individually, none has a material impact. Deutsche Telekom believes the respective allegations 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 announced its finding on October 15, 2014 that Slovak Telekom had abused its market power on the Slovak broadband market and as a result imposed fines on Slovak Telekom and Deutsche Telekom. The European Commission is of the opinion that Slovak Telekom refused unbundled access to its local loop and had margins squeezed for alternative providers. The fines amount to EUR 38.8 million for Slovak Telekom and Deutsche Telekom and a further EUR 31.1 million for Deutsche Telekom because a fine had already been imposed on Deutsche Telekom in 2003 for a margin squeeze in Germany. 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. For this reason, Deutsche Telekom and Slovak Telekom challenged the European Commission's decision before the Court of the European Union on December 29, 2014. The fines are included in other liabilities as of December 31, 2014.

**Toll Collect arbitration proceedings.** The principal members of the Toll Collect consortium are Daimler Financial Services AG and Deutsche Telekom AG. In the arbitration proceedings between these principal shareholders and the consortium company Toll Collect GbR on one side and the Federal Republic of Germany on the other concerning disputes in connection with the truck toll collection system, Deutsche Telekom received the Federal Republic of Germany's statement of claim on August 2, 2005. In this statement, the Federal Republic claimed to have lost toll revenues of approximately EUR 3.51 billion plus interest owing to a delay in the commencement of operations. The total claims for contractual penalties amount to EUR 1.65 billion plus interest; these claims are based on alleged violations of the operator agreement: alleged lack of consent to subcontracting, allegedly delayed provision of on-board units and monitoring equipment. In a letter dated May 16, 2008, the Federal Republic recalculated its claim for damages for lost toll revenues and reduced it by EUR 169 million. The claim is now approximately EUR 3.33 billion plus interest. The main claims by the Federal Republic – including the contractual penalty claims – thus amount to around EUR 4.98 billion plus interest. Further hearings took place in spring and fall 2014. In connection with the hearing in spring 2014, the proceedings and the share of the risk borne by Deutsche Telekom were reexamined and, as a result, appropriate provisions for risk were recognized in the statement of financial position. Deutsche Telekom believes that a claim arising from the joint and several liability is unlikely to be made in excess of Deutsche Telekom's share of the risk.

- **Bank loans guarantee.** Deutsche Telekom guarantees to third parties bank loans of up to a maximum amount of EUR 100 million granted to Toll Collect GmbH. These guarantees for bank loans will expire on October 15, 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, 2018, or earlier if the operating agreement is terminated prematurely. The amount of a potential settlement attributable to the equity maintenance undertaking cannot be estimated because of uncertainties.

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

The risks and obligations of Compagnie Financière et Industrielle des Autoroutes S.A., Sèvres Cedex (Cofiroute, which holds a 10-percent stake in Toll Collect) are limited to EUR 70 million. Deutsche Telekom AG and Daimler Financial Services AG have the obligation, on a joint and several basis, to indemnify Cofiroute against further claims.

**Prospectus liability proceedings.** There are around 2,600 ongoing actions filed by around 16,000 alleged buyers of T-Shares sold on the basis of the prospectuses published on May 28, 1999 (second public offering, or DT2) and May 26, 2000 (third public offering, or DT3). The complainants assert that individual figures given in these prospectuses were inaccurate or incomplete. The amount in dispute totals approximately EUR 80 million. Some of the actions are also directed at KfW and/or the Federal Republic of Germany as well as the banks that handled the issuances. The Frankfurt/Main Regional Court has issued certified questions to the Frankfurt/Main Higher Regional Court in accordance with the German Capital Investor Model Proceedings Act (Kapitalanleger-Musterverfahrensgesetz – KapMuG) and has temporarily suspended the initial proceedings. In the model proceedings (“Musterverfahren”) on the second public offering (DT2) on July 3, 2013, the Frankfurt/Main Higher Regional Court issued a decision and ruled that the disputed stock exchange prospectus did not contain any errors.

On May 16, 2012, the Frankfurt/Main Higher Regional Court had ruled in the model proceedings (“Musterverfahren”) on the third public offering (DT3) that there were also no errors in the prospectus for Deutsche Telekom AG's third public offering. The Frankfurt/Main Higher Regional Court therefore believes there is no basis for holding Deutsche Telekom AG liable. In its decision on October 21, 2014, the Federal Court of Justice revoked this ruling, determined that there was a mistake in the prospectus, and referred the case back to the Frankfurt/Main Higher Regional Court. A decision on possible liability for damages was not made. We continue to hold the opinion that there are compelling reasons why Deutsche Telekom AG should not be liable for damages.

**Claims relating to charges for shared use of cable ducts.** With an action filed in spring 2012, Kabel Deutschland Vertrieb und Service GmbH (KDG) is asserting two claims: first, Telekom Deutschland GmbH is to reduce the annual charge for the rights to use cable duct capacities in the future; second, it is to partially refund payments made in this connection since 2004. KDG quantified the amount of the claims incurred up to and including 2012 at approximately EUR 340 million plus interest. In its ruling on August 28, 2013, the Frankfurt/Main Regional Court dismissed the complaint. In the appeal proceedings, KDG also quantified its claims for 2013



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through an extension of claim and is now seeking a refund of charges allegedly paid in excess of approximately EUR 407 million as well as alleged net interest received of around EUR 34 million, plus interest in each case. On December 9, 2014, the Frankfurt/Main Higher Regional Court rejected the appeal and disallowed a further appeal. KDG has filed a complaint against the non-allowance of appeal with the Federal Court of Justice. 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. For charges allegedly paid in excess for the shared use of cable ducts from 2009 up to and including 2012, Unitymedia Hessen GmbH & Co. KG is currently demanding payment of approximately EUR 36.5 million plus interest, Unitymedia NRW GmbH EUR 90.8 million plus interest, and Kabel BW GmbH EUR 61.5 million plus interest.

**Claim for compensation against OTE.** In May 2009, Lannet Communications S.A. filed an action against OTE claiming compensation for damages of EUR 176 million plus interest arising from an allegedly unlawful termination of services by OTE – mainly interconnection services, unbundling of local loops, and leasing of dedicated lines. A hearing took place on May 30, 2013; a ruling has not yet been issued.

**Patents and licenses.** Like many other large telecommunications and Internet providers, Deutsche Telekom is exposed to a growing number of intellectual property rights disputes. There is a risk that we may have to pay license fees and/or compensation; there is also a risk of cease-and-desist orders, for example relating to the sale of a product or the use of a technology.

**Tax risks.** In many countries, Deutsche Telekom is subject to the applicable legal tax regulations. Risks that affect tax expense and benefit as well as tax receivables and liabilities can arise from changes in local taxation laws or jurisdiction and different interpretations of existing regulations.

### 34 LEASES

#### DEUTSCHE TELEKOM AS LESSEE

**Finance leases.** When a lease transfers substantially all risks and rewards to Deutsche Telekom as lessee, Deutsche Telekom initially recognizes the leased assets in the statement of financial position at the lower of fair value or present value of the future minimum lease payments. Most of the leased assets carried in the statement of financial position as part of finance leases relate to long-term rental and lease agreements for office buildings and cell towers or mobile communications facilities. The average lease term is 18 years. The agreements include extension and purchase options. TABLE 156 shows the net carrying amounts of leased assets capitalized in connection with a finance lease as of the reporting date:

T 156

millions of €

	Dec. 31, 2014	Of which: sale and leaseback transactions	Dec. 31, 2013	Of which: sale and leaseback transactions
Land and buildings	599	347	680	394
Technical equipment and machinery	455	0	362	0
Other	8	0	8	0
<b>NET CARRYING AMOUNTS OF LEASED ASSETS CAPITALIZED</b>	<b>1,062</b>	<b>347</b>	<b>1,050</b>	<b>394</b>

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

TABLE 157 provides a breakdown of these amounts:

T 157

millions of €

	Minimum lease payments		Interest component		Present values	
	Total	Of which: sale and leaseback	Total	Of which: sale and leaseback	Total	Of which: sale and leaseback
<b>DEC. 31, 2014</b>						
<b>MATURITY</b>						
Within 1 year	278	108	98	49	180	59
In 1 to 3 years	509	206	178	82	331	124
In 3 to 5 years	372	183	133	60	239	123
After 5 years	1,028	393	317	165	711	228
	<b>2,187</b>	<b>890</b>	<b>726</b>	<b>356</b>	<b>1,461</b>	<b>534</b>
<b>DEC. 31, 2013</b>						
<b>MATURITY</b>						
Within 1 year	260	109	98	52	162	57
In 1 to 3 years	475	209	183	90	292	119
In 3 to 5 years	398	198	140	70	258	128
After 5 years	1,079	472	345	189	734	283
	<b>2,212</b>	<b>988</b>	<b>766</b>	<b>401</b>	<b>1,446</b>	<b>587</b>

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

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

The operating lease expenses recognized in profit or loss amounted to EUR 3.3 billion in the 2014 financial year (2013: EUR 3.2 billion, 2012: EUR 2.8 billion). TABLE 158 provides a breakdown of future obligations arising from operating leases:

T 158

millions of €

	Dec. 31, 2014	Dec. 31, 2013
<b>MATURITY</b>		
Within 1 year	2,918	2,684
In 1 to 3 years	4,856	4,490
In 3 to 5 years	3,971	3,770
After 5 years	7,164	6,496
	<b>18,909</b>	<b>17,440</b>

## DEUTSCHE TELEKOM AS LESSOR

**Finance leases.** Deutsche Telekom is a lessor in connection with finance leases. Essentially, these relate to the leasing of routers and other hardware, which Deutsche Telekom provides to its customers for data and telephone network solutions. Deutsche Telekom recognizes a receivable in the amount of the net investment in the lease. The lease payments made by the lessees are split into an interest component and a principal component using the effective interest method. The lease receivable is reduced by the principal received. The interest component of the payments is recognized as finance income in the income statement. TABLE 159 shows how the amount of the net investment in a finance lease is determined:

T 159

millions of €

	Dec. 31, 2014	Dec. 31, 2013
Minimum lease payments	242	208
Unguaranteed residual value	2	10
Gross investment	244	218
Unearned finance income	(17)	(15)
<b>NET INVESTMENT (PRESENT VALUE OF THE MINIMUM LEASE PAYMENTS)</b>	<b>227</b>	<b>203</b>

TABLE 160 presents the gross investment amounts and the present value of payable minimum lease payments:

T 160

millions of €

	Dec. 31, 2014		Dec. 31, 2013	
	Gross investment	Present value of minimum lease payments	Gross investment	Present value of minimum lease payments
<b>MATURITY</b>				
Within 1 year	98	90	104	79
In 1 to 3 years	113	103	92	91
In 3 to 5 years	31	33	12	23
After 5 years	2	1	10	10
	<b>244</b>	<b>227</b>	<b>218</b>	<b>203</b>

**Operating leases.** If Deutsche Telekom is a lessor in connection with operating leases, it continues to recognize the leased assets in its statement of financial position. The lease payments received are recognized in profit or loss. The leases mainly relate to the rental of cell towers and building space and have an average term of 15 years. TABLE 161 presents the future minimum lease payments arising from non-cancelable operating leases:

T 161

millions of €

	Dec. 31, 2014	Dec. 31, 2013
<b>MATURITY</b>		
Within 1 year	314	275
In 1 to 3 years	380	382
In 3 to 5 years	289	302
After 5 years	507	603
	<b>1,490</b>	<b>1,562</b>

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### 35 OTHER FINANCIAL OBLIGATIONS

TABLE 162 provides an overview of Deutsche Telekom's other financial obligations:

T 162

millions of €

	Dec. 31, 2014			
	Total	Due within 1 year	Due >1 year ≤ 5 years	Due > 5 years
Purchase commitments regarding property, plant and equipment	2,103	1,683	403	17
Purchase commitments regarding intangible assets	1,036	887	149	0
Firm purchase commitments for inventories	5,287	2,699	2,588	0
Other purchase commitments and similar obligations	8,717	4,759	3,126	832
Payment obligations to the Civil Service Pension Fund	5,137	545	1,970	2,622
Miscellaneous other obligations	1,025	274	751	0
	<b>23,305</b>	<b>10,847</b>	<b>8,987</b>	<b>3,471</b>

### 36 SHARE-BASED PAYMENT

#### SHARE MATCHING PLAN

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

For the compensation system of Board of Management members who also participate in the Share Matching Plan, please refer to Note 40, PAGE 261 ET SEQ.

#### SHARE-BASED PAYMENT AT T-MOBILE US

In the 2013 financial year, T-Mobile us' Board of Directors and stockholders approved the 2013 Omnibus Incentive Plan, which authorized the issuance of up to 63 million shares of common stock of T-Mobile us. Under the incentive plan, the company may grant stock options, stock appreciation rights, restricted stock, restricted stock units, and performance awards to employees, consultants, advisors, and non-employee directors. 37 million T-Mobile us shares were available as of December 31, 2014 for the future issuance as part of these programs.

In 2013, T-Mobile US granted restricted stock units (RSUs) to eligible employees. RSUs entitle the grantee to receive shares of T-Mobile US common stock at the end of a vesting period of up to three-and-a-half years.

In 2013, T-Mobile US also granted performance stock units (PSUs) to eligible key executives of the company. PSUs entitle the holder to receive shares of T-Mobile US common stock at the end of a vesting period of up to two-and-a-half years if a

specific performance goal has been achieved. The number of shares ultimately received is dependent on specified performance of the company's operating free cash flow as well as its total shareholder return against a defined peer group.

The plan resulted in the following development:

T 163

	Number of shares	Weighted average fair value at grant date USD
<b>Non-vested as of January 1, 2014</b>	<b>22,949,165</b>	<b>22.14</b>
Granted	5,199,290	28.52
Vested	(6,296,107)	21.21
Forfeited	(1,900,259)	21.53
<b>Non-vested as of December 31, 2014</b>	<b>19,952,089</b>	<b>24.15</b>

The program is measured at fair value on the grant date and recognized as expense, net of expected forfeitures, following a graded vesting schedule over the related service period. The fair value of stock awards for the RSUs is based on the closing price of T-Mobile us' common stock on the date of grant. The fair value of stock awards for the PSUs was determined using the Monte Carlo model. Stock-based compensation expense was EUR 159 million as of December 31, 2014 (December 31, 2013: EUR 112 million).

Prior to the business combination, MetroPCS had established various stock option plans (predecessor plans). The MetroPCS stock options were adjusted in connection with the business combination. Following approval of T-Mobile us' 2013 Omnibus Incentive Plan, no new awards may be granted under the predecessor plans.

The plan resulted in the following development of the T-Mobile US stock options:

T 164

	Number of shares	Weighted average exercise price USD	Weighted average remaining contractual life Years
<b>Stock options outstanding/ exercisable at January 1, 2014</b>	<b>6,333,020</b>	<b>24.64</b>	
Exercised	(1,496,365)	17.95	
Forfeited	(487,743)	42.41	
<b>Stock options outstanding/ exercisable at December 31, 2014</b>	<b>4,348,912</b>	<b>24.96</b>	<b>3.7</b>

The exercise of stock options generated cash inflows of EUR 17 million (USD 27 million) in the 2014 financial year (2013: EUR 102 million (USD 137 million)).

## 37 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

T 165

Carrying amounts, amounts recognized, and fair values by class and measurement category  
millions of €

	Category in accordance with IAS 39	Carrying amounts Dec. 31, 2014	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
<b>ASSETS</b>						
Cash and cash equivalents	LaR	7,523	7,523			
Trade receivables	LaR	10,262	10,262			
Originated loans and receivables	LaR/n. a.	3,224	2,997			
Of which: collateral paid	LaR	527	527			
Other non-derivative financial assets						
Held-to-maturity investments	HtM	10	10			
Available-for-sale financial assets <sup>a</sup>	AFS	683		122	561	
Derivative financial assets <sup>b</sup>						
Derivatives without a hedging relationship	FAHT	835				835
Of which: termination rights embedded in bonds issued and conversion rights	FAHT	183				183
Derivatives with a hedging relationship	n. a.	508			286	222
<b>LIABILITIES AND SHAREHOLDERS' EQUITY<sup>c</sup></b>						
Trade payables	FLAC	9,631	9,631			
Bonds and other securitized liabilities	FLAC	44,219	44,219			
Liabilities to banks	FLAC	3,676	3,676			
Liabilities to non-banks from promissory notes	FLAC	946	946			
Other interest-bearing liabilities	FLAC	1,775	1,775			
Of which: collateral received	FLAC	486	486			
Other non-interest-bearing liabilities	FLAC	2,055	2,055			
Finance lease liabilities	n. a.	1,461				
Derivative financial liabilities <sup>b</sup>						
Derivatives without a hedging relationship	FLHT	664				664
Derivatives with a hedging relationship	n. a.	431			423	8
Of which: aggregated by category in accordance with IAS 39						
Loans and receivables	LaR	20,782	20,782			
Held-to-maturity investments	HtM	10	10			
Available-for-sale financial assets <sup>a</sup>	AFS	683		122	561	
Financial assets held for trading	FAHT	835				835
Financial liabilities measured at amortized cost	FLAC	62,302	62,302			
Financial liabilities held for trading	FLHT	664				664

<sup>a</sup> For details, please refer to Note 8 "Other financial assets," PAGE 214.<sup>b</sup> For details, please refer to TABLE 171 on derivatives in this Note, PAGE 257.<sup>c</sup> For financial guarantees and loan commitments existing at the reporting date, please refer to the additional information provided in this Note, PAGE 256.<sup>d</sup> The exemption provisions under IFRS 7.29 a) were applied for information on specific fair values.

Trade receivables include receivables amounting to EUR 1.6 billion (December 31, 2013: EUR 1.0 billion) due in more than one year. The fair value generally equates to the carrying amount.

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Amounts recognized in the statement of financial position according to IAS 17	Fair value Dec. 31, 2014 <sup>d</sup>	Category in accordance with IAS 39	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, 2013 <sup>d</sup>
			Carrying amounts Dec. 31, 2013	Amortized cost	Cost	Fair value recognized in equity	Fair value recognized in profit or loss		
	-	LaR	7,970	7,970				-	
	-	LaR	7,580	7,580				-	
227	3,256	LaR/n. a.	2,672	2,469			203	-	
	-	LaR	941	941				-	
	-	HtM	12	12				-	
	561	AfS	652		280	372		372	
	835	FAHfT	596				596	596	
	183	FAHfT	158				158	158	
	508	n. a.	175			113	62	175	
	-	FLAC	7,231	7,231				-	
	49,402	FLAC	40,535	40,535				44,631	
	3,788	FLAC	4,105	4,105				4,219	
	1,106	FLAC	1,072	1,072				1,230	
	1,836	FLAC	891	891				881	
	-	FLAC	40	40				-	
	-	FLAC	1,967	1,967				-	
1,461	1,869	n. a.	1,446				1,446	1,768	
	664	FLHfT	581				581	581	
	431	n. a.	1,002			726	276	1,002	
	3,029	LaR	18,019	18,019				-	
	-	HtM	12	12				-	
	561	AfS	652		280	372		372	
	835	FAHfT	596				596	596	
	56,132	FLAC	55,801	55,801				50,961	
	664	FLHfT	581				581	581	

### Financial instruments not measured at fair value, the fair values of which are disclosed nevertheless

T 166

millions of €

	Dec. 31, 2014				Dec. 31, 2013			
	Level 1 Inputs as prices in active markets	Level 2 Other inputs that are directly or indirectly observable	Level 3 Inputs that are unobservable <sup>a</sup>	Total	Level 1 Inputs as prices in active markets	Level 2 Other inputs that are directly or indirectly observable	Level 3 Inputs that are unobservable	Total
<b>ASSETS</b>								
Originated loans and receivables		3,256		3,256				-
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>								
Financial liabilities measured at amortized cost (FLAC)	41,121	14,828	183	56,132	38,026	12,935		50,961
Of which: bonds and other securitized liabilities	41,121	8,098	183	49,402	38,026	6,605		44,631
Of which: liabilities to banks		3,788		3,788		4,219		4,219
Of which: liabilities to non-banks from promissory notes		1,106		1,106		1,230		1,230
Of which: other interest-bearing liabilities		1,836		1,836		881		881
Finance lease liabilities		1,869		1,869		1,768		1,768

<sup>a</sup> Separation of embedded derivatives; the fair value of the entire instrument must be categorized as Level 1.

### Financial instruments measured at fair value

T 167

millions of €

	Dec. 31, 2014				Dec. 31, 2013			
	Level 1 Inputs as prices in active markets	Level 2 Other inputs that are directly or indirectly observable	Level 3 Inputs that are unobservable	Total	Level 1 Inputs as prices in active markets	Level 2 Other inputs that are directly or indirectly observable	Level 3 Inputs that are unobservable	Total
<b>ASSETS</b>								
Available-for-sale financial assets (AFS)	348	5	208	561	365	7		372
Financial assets held for trading (FAHFT)		652	183	835		596		596
Derivative financial assets with a hedging relationship		508		508		175		175
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>								
Financial liabilities held for trading (FLHFT)		664		664		581		581
Derivative financial liabilities with a hedging relationship		431		431		1,002		1,002

Of the available-for-sale financial assets (AFS) presented under other non-derivative financial assets, the instruments presented in Level 1 and Level 2 constitute separate classes. In Level 1, EUR 348 million (December 31, 2013: EUR 365 million) is recognized, the majority of which relates to listed government bonds, the fair values of which are the price quotations at the reporting date.

The available-for-sale financial assets assigned to Level 3 that are carried under other non-derivative financial assets are equity investments measured using the best information available at the reporting date. As a rule, we consider executed transactions involving shares in those companies to have the greatest relevance. Executed transactions involving shares in comparable companies are also considered. The closeness of the transaction in question to the reporting date and the

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question of whether the transaction was at arm's length are relevant for the decision on which information will ultimately be used for the measurement. In the case of investments with a carrying amount of EUR 192 million, transactions involving shares in these companies took place at arm's length sufficiently close to the reporting date, which is why in our view the share prices agreed in the transactions were to be used without adjustment for the measurement as of December 31, 2014. In the case of investments with a carrying amount of EUR 16 million, no arm's length transactions involving shares in these companies took place sufficiently close to the reporting date. For this reason, these were measured on the basis of arm's length transactions involving shares in comparable companies that were executed sufficiently close to the reporting date. Here, multiples to the reference variables of net revenue (ranging between 0.52 and 3.5) and EBIT (ranging between 6.6 and 39.75) were used, usually the respective median. If the value of the respective 2/3-quantile (1/3-quantile) had been used as a multiple with no change in the reference variables, the fair value of the investments at the reporting date would have been EUR 5 million higher (EUR 6 million lower). If the reference variables had been 10 percent higher (lower) with no change in the multiples, the fair value of the investments at the reporting date would have been EUR 1 million higher (EUR 1 million lower). In the reporting period, net expense of EUR 54 million was recognized in other financial income/expense for unrealized losses for the investments in the portfolio at the reporting date. For practical reasons, the investments are not remeasured annually unless the periodic individual analysis of the financial position and results of operations of the companies indicates significant changes in the fair values. In the prior year, the investments had been carried at cost. Please refer to TABLE 168 for the development of the carrying amounts in the reporting period.

The listed bonds and other securitized liabilities are assigned to Level 1 or Level 2 on the basis of the amount of the trading volume for the relevant instrument. Issues denominated in EUR or USD with relatively large nominal amounts are routinely to be classified as Level 1, the rest routinely as Level 2. The fair values of the instruments assigned to Level 1 equal the nominal amounts multiplied by the price quotations at the reporting date. The fair values of the instruments assigned to Level 2 are calculated as the present values of the payments associated with the debts, based on the applicable yield curve and Deutsche Telekom's credit spread curve for specific currencies.

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

Since there are no market prices available for the derivative financial instruments in the portfolio assigned to Level 2 due to the fact that they are not listed on the market, the fair values are calculated using standard financial valuation models, based entirely on observable inputs. The fair value of derivatives is the value that Deutsche Telekom would receive or have to pay if the financial instrument were transferred at the reporting date. Interest rates of contractual partners relevant as of the reporting date are used in this respect. The middle rates applicable as of the reporting date are used as exchange rates. In the case of interest-bearing

derivatives, a distinction is made between the clean price and the dirty price. In contrast to the clean price, the dirty price also includes the interest accrued. The fair values carried correspond to the full fair value or the dirty price.

Financial assets held for trading (FAHFT) assigned to Level 3 relate to options embedded in bonds issued by T-Mobile US with a carrying amount of EUR 183 million when translated into euros. The options, which can be exercised by T-Mobile US at any time, allow early redemption of the bonds at a fixed exercise price. Observable market prices are available routinely and also at the reporting date for the bonds as entire instruments, but not for the options embedded therein. Although major adjustments in the observable input parameters had not been required for option measurement purposes in prior periods, at the reporting date the historical interest rate volatilities with matching maturities of bonds issued by T-Mobile US and comparable issuers differed substantially from the market interest rate volatilities with matching maturities observable at the reporting date. We believe that these historical interest rate volatilities have greater relevance at the reporting date than the current market interest rate volatilities. For this reason, the historical interest rate volatilities were used for the measurement at the reporting date, which is why unobservable input parameters were included in the measurement for the first time. Since the interest rate volatilities used are classified as unobservable and in view of the fact that observable market prices exist for the entire instruments, the spreads with matching maturities to be paid by T-Mobile US over and above the risk-free interest rates must also be categorized as Level 3 rather than as Level 2 input factors. The historical interest rate volatilities used for the measurement at the reporting date were between 18 and 22 percent, while the spreads calculated on the basis of current market prices of bonds issued by T-Mobile US are between 3.7 and 4.2 percent. If 10 percent higher (lower) interest rate volatilities had been used for the measurement at the reporting date, with unchanged spreads the fair value of the options from T-Mobile US' perspective would have been EUR 131 million higher (EUR 112 million lower) when translated into euros. If spreads of 100 basis points higher (lower) had been used for the measurement at the reporting date, with unchanged interest rate volatilities the fair value of the options from T-Mobile US' perspective would have been EUR 99 million lower (EUR 163 million higher) when translated into euros. In the reporting period, net income of EUR 75 million when translated into euros was recognized under the Level 3 measurement in other financial income/expense for unrealized gains for the options in the portfolio at the reporting date. The last assignment to Level 2 was carried out as of September 30, 2014. Please refer to TABLE 168 for the development of the carrying amounts in the reporting period.

Financial assets held for trading assigned to Level 3 with a carrying amount of less than EUR 1 million relate to stock options embedded in the Mandatory Convertible Preferred Stock issued by T-Mobile US in December 2014 (see Note 10 "Financial Liabilities," PAGE 215 ET SEQ.). The Mandatory Convertible Preferred Stock will be converted into a variable number of shares of T-Mobile US on the maturity date in 2017 and, in accordance with IFRS, accounted for as debt capital rather than equity. The entire instrument is split into a debt instrument (bond) measured at amortized cost and an embedded derivative measured at fair value through profit or loss. In addition to conversion on the maturity date, this derivative also includes

the early conversion rights granted to investors. An observable market price exists at the reporting date for the Mandatory Convertible Preferred Stock as an entire instrument, but not for the options embedded therein. Due to the closeness to the issue date, the change in the spread of bonds issued by T-Mobile US and comparable issuers in the meantime was used to measure the bond component at the reporting date. The resulting difference compared to the market price of the entire instrument at the reporting date constitutes the fair value of the derivative. The market price of the entire instrument and its individual components is largely dependent on T-Mobile US' share price performance and the market interest rates. If the market price for the entire instrument had been 10 percent higher (lower) at the reporting date as a consequence of a change in T-Mobile US' share price, with otherwise unchanged parameters the fair value of the options from T-Mobile US' perspective would have been EUR 86 million lower (higher) when translated into euros. If a spread of 100 basis points higher (lower) had been used for the measurement at the reporting date, with otherwise unchanged parameters the fair value of the options from T-Mobile US' perspective would have been EUR 23 million lower (EUR 24 million higher) when translated into euros. In the reporting period, a net expense of EUR 35 million when translated into euros was recognized in other financial income/expense for unrealized losses for the options in the portfolio at the reporting date. Please refer to TABLE 168 for the development of the carrying amount in the reporting period. The change in the market price between the issue date and the reporting date is largely attributable to the rise in T-Mobile US' share price.

T 168

**Development of the carrying amounts of the financial assets assigned to Level 3**

millions of €

	Available-for-sale financial assets (AfS)	Financial assets held for trading (FAHFT): Early redemption options embedded in bonds	Financial assets held for trading (FAHFT): Conversion options embedded in Mandatory Convertible Preferred Stock
<b>Carrying amount as of January 1, 2014</b>	<b>0</b>	<b>0</b>	<b>0</b>
Additions (including first-time categorization as Level 3)	237	104	35
Value decreases recognized in profit/loss	(54)	0	(35)
Value increases recognized in profit/loss	0	75	0
Value decreases recognized directly in equity	(16)	0	0
Value increases recognized directly in equity	60	0	0
Disposals	(19)	0	0
Currency translation effects recognized directly in equity	0	4	0
<b>CARRYING AMOUNT AS OF DECEMBER 31, 2014</b>	<b>208</b>	<b>183</b>	<b>0</b>

T 169

**Net gain/loss by measurement category**

millions of €

	Recognized in profit or loss from interest, dividends	Recognized in profit or loss from subsequent measurement			Recognized directly in equity from subsequent measurement At fair value	Recognized in profit or loss from derecognition	Net gain (loss)
		At fair value	Currency translation	Impairments/ allowances			
Loans and receivables (LaR)	16		1,865	(602)			1,279
Held-to-maturity investments (HTM)							-
Available-for-sale financial assets (AFS)	7			(132)	41	20	(64)
Financial instruments held for trading (FAHFT and FLHFT)	n. a.	435					435
Financial liabilities measured at amortized cost (FLAC)	(2,446)		(2,255)			29	(4,672)
	<b>(2,423)</b>	<b>435</b>	<b>(390)</b>	<b>(734)</b>	<b>41</b>	<b>49</b>	<b>(3,022)</b>

millions of €

	Recognized in profit or loss from interest, dividends	Recognized in profit or loss from subsequent measurement			Recognized directly in equity from subsequent measurement At fair value	Recognized in profit or loss from derecognition	Net gain (loss)
		At fair value	Currency translation	Impairments/ allowances			
Loans and receivables (LaR)	20		(1,051)	(573)			(1,604)
Held-to-maturity investments (HTM)							-
Available-for-sale financial assets (AFS)	11			(29)	(4)	30	8
Financial instruments held for trading (FAHFT and FLHFT)	n. a.	(451)					(451)
Financial liabilities measured at amortized cost (FLAC)	(2,248)		1,220				(1,028)
	<b>(2,217)</b>	<b>(451)</b>	<b>169</b>	<b>(602)</b>	<b>(4)</b>	<b>30</b>	<b>(3,075)</b>



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Interest from financial instruments is recognized in finance costs, dividends in other financial income/expense (please also refer to Note 22 "Finance costs," PAGE 231, and Note 24 "Other financial income/expense," PAGE 231). Deutsche Telekom recognizes the other components of net gain/loss in other financial income/expense, except for allowances on trade receivables (please also refer to Note 2 "Trade and other receivables," PAGES 203 and 204) that are classified as loans and receivables, which are reported under selling expenses. The net gain from the subsequent measurement for financial instruments held for trading (EUR 435 million) also includes interest and currency translation effects. The net currency translation gains on financial assets classified as loans and receivables (EUR 1,865 million) are primarily attributable to the Group-internal transfer of foreign-currency loans taken out by Deutsche Telekom's financing company, Deutsche Telekom International Finance B.V., on the capital market. These were offset by corresponding currency translation losses on capital market liabilities of EUR 2,255 million. These include currency translation gains from derivatives that Deutsche Telekom used as hedges for hedge accounting in foreign currency (EUR 331 million; 2013: currency translation loss of EUR 98 million). Finance costs from financial liabilities measured at amortized cost (net expense of EUR 2,446 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 231).

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

If the euro had gained (lost) 10 percent against the U.S. dollar and the pound sterling at December 31, 2014, the hedging reserve in shareholders' equity and the fair values of the hedging instruments before taxes would have been EUR 21 million higher

(lower) (December 31, 2013: EUR 56 million higher (lower)). The hypothetical effect of EUR 21 million on profit or loss primarily results from the currency sensitivities EUR/USD: EUR 35 million and EUR/GBP: EUR -14 million.

If the euro had gained (lost) 10 percent against all currencies at December 31, 2014, other financial income and the fair value of the hedging instruments before taxes would have been EUR 115 million higher (lower) (December 31, 2013: EUR 64 million higher (lower)). The hypothetical effect of EUR 115 million on profit or loss primarily results from the currency sensitivities EUR/PLN: EUR 68 million, EUR/CZK: EUR 29 million and EUR/HUF: EUR 12 million.

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

Due to the derivative hedging instruments, an average of 60 percent (2013: 64 percent) of net debt in 2014 denominated in euros and 93 percent (2013: 76 percent) of net debt denominated in U.S. dollars had a fixed rate of interest. The average value is representative for the year as a whole. Since T-Mobile US as a self-financing company is responsible for the "net exposure in USD" and a higher fixed portion for high-yield issuers is quite usual in the market and appropriate, no interest rate management measures for the U.S. dollar were resolved or implemented in 2014.

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.

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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 at December 31, 2014, profit or loss before taxes would have been EUR 301 million (December 31, 2013: EUR 176 million) lower. If the market interest rates had been 100 basis points lower at December 31, 2014, profit or loss before taxes would have been EUR 366 million (December 31, 2013: EUR 176 million) higher. This simulation includes the effects from the financial instruments assigned to Level 3 described above. The hypothetical effect of EUR -301 million/EUR +366 million on income results from the potential effects of EUR -289 million/EUR +354 million from interest rate derivatives and EUR -12 million/EUR +12 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, 2014, the hedging reserve would have been EUR 97 million (December 31, 2013: EUR 184 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.

Aside from the value-creating factors in the financial instruments assigned to Level 3 described above, there were no other price risks as of December 31, 2014, as was also the case at December 31, 2013.

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

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

T 170

millions of €

Dec. 31, 2014

	Trade receivables	Trade payables	Derivative financial assets	Derivative financial liabilities
Gross amounts subject to enforceable master netting arrangements or similar agreements	301	347	1,160	1,095
Amounts set off in the statement of financial position in accordance with IAS 32.42	(102)	(102)	-	-
<b>Net amounts presented in the statement of financial position</b>	<b>199</b>	<b>245</b>	<b>1,160</b>	<b>1,095</b>
<b>Amounts subject to enforceable master netting arrangements or similar agreements and not meeting all offsetting requirements in accordance with IAS 32.42</b>	<b>(11)</b>	<b>(11)</b>	<b>(1,108)</b>	<b>(1,091)</b>
Of which: amounts related to recognized financial instruments	(11)	(11)	(624)	(624)
Of which: amounts related to financial collateral (including cash collateral)	-	-	(484)	(467)
<b>NET AMOUNTS</b>	<b>188</b>	<b>234</b>	<b>52</b>	<b>4</b>

millions of €

Dec. 31, 2013

	Trade receivables	Trade payables	Derivative financial assets	Derivative financial liabilities
Gross amounts subject to enforceable master netting arrangements or similar agreements	410	362	613	1,583
Amounts set off in the statement of financial position in accordance with IAS 32.42	(177)	(177)	-	-
<b>Net amounts presented in the statement of financial position</b>	<b>233</b>	<b>185</b>	<b>613</b>	<b>1,583</b>
<b>Amounts subject to enforceable master netting arrangements or similar agreements and not meeting all offsetting requirements in accordance with IAS 32.42</b>	<b>(18)</b>	<b>(18)</b>	<b>(610)</b>	<b>(1,514)</b>
Of which: amounts related to recognized financial instruments	(18)	(18)	(574)	(574)
Of which: amounts related to financial collateral (including cash collateral)	-	-	(36)	(940)
<b>NET AMOUNTS</b>	<b>215</b>	<b>167</b>	<b>3</b>	<b>69</b>

Offsetting is applied in particular to receivables and liabilities at Deutsche Telekom AG and Telekom Deutschland GmbH for the routing of international calls via the fixed network and for roaming fees in the mobile network.

In line with the contractual provisions, in the event of insolvency all derivatives with a positive or negative fair value that exist with the respective counterparty are offset against each other, leaving a net receivable or liability. The net amounts are normally recalculated every bank working day and offset against each other. When the netting of the positive and negative fair values of all derivatives was positive from Deutsche Telekom's perspective, the counterparty provided Deutsche Telekom with cash pursuant to the collateral contracts mentioned in Note 1 "Cash and cash equivalents." The credit risk was thus further reduced.

When the netting of the positive and negative fair values of all derivatives was negative from Deutsche Telekom's perspective, Deutsche Telekom provided cash collateral to counterparties pursuant to collateral agreements. The net amounts are normally recalculated every bank working day and offset against each other. The cash collateral paid (please also refer to Note 8 "Other financial assets," PAGE 214) is offset by corresponding negative net derivative positions of EUR 467 million at the reporting date, which is why it was not exposed to any credit risks in this amount as of the reporting date. The collateral paid is reported under originated loans and receivables within other financial assets. On account of its close connection to the corresponding derivatives, the collateral paid constitutes a separate class of financial assets. Likewise, the collateral received, which is reported as other interest-bearing liabilities under financial liabilities, constitutes a separate class of financial liabilities on account of its close connection to the corresponding derivatives.

In accordance with the terms of bonds issued by a Deutsche Telekom subsidiary, this subsidiary has the right to terminate the bonds prematurely under specific conditions. The rights of termination constitute embedded derivatives and are accounted for separately as derivative financial assets. The conversion rights contained in Mandatory Convertible Preferred Stock issued by a subsidiary of Deutsche Telekom constitute an embedded derivative and are recognized separately as a derivative. Since these rights of termination and conversion rights are not exposed to a credit risk, they constitute a separate class of financial instruments.

No other significant agreements reducing the maximum exposure to the credit risks of financial assets existed. The maximum exposure to credit risk of the other financial assets thus corresponds to their carrying amounts.

In addition, Deutsche Telekom is exposed to a credit risk through the granting of financial guarantees. Guarantees amounting to a nominal total of EUR 50 million had been pledged as of the reporting date (December 31, 2013: EUR 70 million), which also represent the maximum exposure to credit risk.

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

**Risks from financing and loan commitments.** Deutsche Telekom again granted the EE joint venture an irrevocable loan commitment of a maximum of GBP 225 million at arm's length market conditions in the reporting period which has not yet been utilized. The credit facility can be utilized at any time and will expire on November 16, 2015. 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 also refer to Note 10 "Financial liabilities," PAGE 215 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 EUR, GBP, NOK, and USD. Fixed-income bonds/MTNs denominated in EUR, GBP, NOK, and USD were designated as hedged items. The changes in the fair values of the hedged items resulting from changes in the Euribor, GBP Libor, NOK OIBOR, or USD Libor swap rate are offset against the changes in the value of the interest rate swaps. In addition, a cross-currency swap totaling AUD 125 million has been designated as fair value hedge, which converts a fixed-interest MTN into a variable interest-bearing security. The aim of this hedging is to transform the fixed-income bonds into variable-interest debt, thus hedging the fair value of the financial liabilities. Credit risks are not part of the hedging.

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

In the reporting period, new fair value hedges with a total nominal volume of EUR 3.5 billion were designated for reducing the fair value risk.

As the list of the fair values of derivatives shows (see TABLE 171, PAGE 257), Deutsche Telekom had interest rate derivatives with a net fair value of EUR 0.2 billion (December 31, 2013: EUR -0.2 billion) designated as fair value hedges at December 31, 2014. The remeasurement of the hedged items results in losses of EUR 0.4 billion being recorded in other financial income/expense in the 2014 financial year (2013: gains of EUR 0.4 billion); the changes in the fair values of the hedging transactions result in gains of EUR 0.4 billion (2013: losses of EUR 0.4 billion) being recorded in other financial income/expense.

**Cash flow hedges - interest rate risks.** Deutsche Telekom entered into payer interest rate swaps and forward payer interest rate swaps (pay fixed, receive variable) to hedge the cash flow risk of variable-interest debt. The interest payments to be made in the hedging period are the hedged items and are recognized in profit or loss in the same period. The changes in the cash flows of the hedged items resulting from changes in the Euribor and Libor rates are offset against the changes in the cash flows of the interest rate swaps. The aim of this hedging is to

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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 2015 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 19 million (income) was recognized in profit or loss under other financial income/expense in the reporting year (2013: expense of EUR 21 million).

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

As the list of the fair values of derivatives shows (see TABLE 171), Deutsche Telekom had interest rate derivatives with a fair value of EUR –0.3 billion (December 31, 2013: EUR –0.3 billion) amounting to a nominal total of EUR 3.1 billion (December 31, 2013: EUR 5.0 billion) designated as hedging instruments for the hedging of interest rate risks as part of cash flow hedges at December 31, 2014.

The recognition directly in equity of the change in the fair value of the hedging instruments resulted in losses (before taxes) of EUR 97 million (2013: gains of EUR 36 million) in shareholders' equity in the 2014 financial year. Losses amounting to EUR 77 million (2013: losses of EUR 124 million) recognized directly in equity were reclassified to other financial income/expense in the income statement in the 2014 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 2015 through 2033. The effectiveness of the hedging relationship is tested prospectively and retrospectively using statistical methods in the form of a regression analysis. All designated hedging relationships were sufficiently effective as of the reporting date.

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

In the 2014 financial year, gains (before taxes) totaling EUR 362 million (2013: losses of EUR 199 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 2014 financial year, gains totaling EUR 338 million recognized directly in equity were reclassified to other financial income/expense and gains totaling EUR 6 million were reclassified to profit/loss from operations (2013: losses of EUR 70 million were reclassified to other financial income/expense and gains of EUR 16 million to profit/loss from operations). There was no material ineffectiveness of these hedges recorded as of the reporting date.

As the list of the fair values of derivatives shows (see TABLE 171), Deutsche Telekom had currency forwards of a net fair value of EUR –5 million (December 31, 2013: EUR +21 million), that are the result of foreign currency purchases totaling EUR 0.2 billion and foreign currency sales totaling EUR 0.4 billion (December 31, 2013: foreign currency purchases of EUR 0.3 billion and foreign currency sales of EUR 0.8 billion), as well as cross-currency swaps of a net fair value of EUR 0.1 billion (December 31, 2013: EUR –0.3 billion) and a total volume of EUR 4.8 billion (December 31, 2013:

EUR 4.8 billion) designated as hedging instruments for cash flow hedges as of December 31, 2014.

**Hedging of a net investment.** The hedge of the net investment in T-Mobile us against fluctuations in the U.S. dollar spot rate designated in 2012 did not generate any effects in 2014. The level of gains/losses recognized directly in equity (total other comprehensive income) remained unchanged at EUR –0.4 billion (before taxes).

**Derivatives.** TABLE 171 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 171

millions of €

	Net carrying amounts Dec. 31, 2014	Net carrying amounts Dec. 31, 2013
<b>ASSETS</b>		
Interest rate swaps		
Held for trading	53	54
In connection with fair value hedges	222	62
In connection with cash flow hedges	–	–
Currency forwards/currency swaps		
Held for trading	67	26
In connection with cash flow hedges	4	24
Cross-currency swaps		
Held for trading	531	358
In connection with fair value hedges	–	–
In connection with cash flow hedges	282	89
Other derivatives in connection with cash flow hedges	–	–
Other derivatives without a hedging relationship	1	–
Embedded derivatives	183	158
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Interest rate swaps		
Held for trading	235	226
In connection with fair value hedges	–	264
In connection with cash flow hedges	252	336
Currency forwards/currency swaps		
Held for trading	229	39
In connection with cash flow hedges	9	3
In connection with net investment hedges	–	–
Cross-currency swaps		
Held for trading	185	316
In connection with fair value hedges	8	12
In connection with cash flow hedges	162	387
Other derivatives in connection with cash flow hedges	–	–
Other derivatives without a hedging relationship	15	–
Embedded derivatives	–	–

### Transfer of financial assets

#### Factoring transactions with substantially all risks and rewards being transferred.

Deutsche Telekom entered into a factoring agreement under which a bank is required to purchase current trade receivables in a monthly revolving nominal volume of EUR 300 million in total. The agreement runs until 2015, giving Deutsche Telekom the freedom to decide whether receivables will be sold and in which revolving nominal volume. The assessment of the risk associated with the sold receivables is based on the credit risk and 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 respective 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, 2014 (nominal volume EUR 167 million) is EUR 6 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, 2014, the carrying amount of the other financial asset representing Deutsche Telekom's entire continuing involvement was EUR 2 million, the fair value of which was EUR 2 million. Deutsche Telekom expensed EUR 51 million, including credit-risk discounts less bonuses to cover monthly bad debt losses, in the 2014 financial year from its continuing involvement including program fees (interest and bank margin), and has expensed a total amount of EUR 300 million since the beginning of the transaction. Deutsche Telekom presents the purchase price payments it receives from the buyers in cash generated from operations. The banks have the right to sell overdue receivables back to Deutsche Telekom. However, this does not affect the allocation of the credit risk-related losses in any way because the purchase price equals the actual proceeds from collection or disposal. The buy-back does not entail any liquidity risks for Deutsche Telekom whatsoever, as payment of the purchase price to the banks is only due after the proceeds from collection or disposal have been received. As in previous years, the volume of receivables sold was not subject to major fluctuations during the financial year. As of December 31, 2014, a total provision of EUR 3 million was recognized for the receivables management to be performed by Deutsche Telekom. A factoring agreement that was still active in the prior period was completed and settled as of the reporting date.

#### Factoring transactions involving the splitting of significant risks and rewards as well as the transfer of control.

Factoring agreements were entered into under which banks are required to purchase current trade receivables. The factoring agreements have a maximum program volume of EUR 402 million when translated into euros. If more receivables are purchased, payment of the purchase price is regularly deferred until the maximum program volume falls again accordingly. The term of the agreements ends between 2015 and 2017, giving 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 the risk of late payments (late-payment risk). The purchase price corresponds to the nominal amount. The maximum credit risk from the various tranches to be borne by Deutsche Telekom amounts to EUR 140 million. The other

credit risk-related losses are borne by the banks. The existing loan insurance policy reimburses losses relating to certain receivables to a maximum amount of EUR 150 million and thus reduces the exposure to loss. The late-payment risk continues to be borne 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, 2014 (nominal volume EUR 407 million when translated into euros), excluding loan insurance coverage, is EUR 154 million. Substantially all the risks and rewards of ownership of the receivables were neither transferred nor retained (allocation of the material risks between Deutsche Telekom and the bank). Control of the receivables sold was transferred to the banks because these have the practical ability to resell them. All receivables sold as of December 31, 2014 have been derecognized. At the derecognition date, the fair value of the expected losses was expensed as financial liabilities. As of December 31, 2014, the carrying amount of the financial liability representing Deutsche Telekom's entire continuing involvement was EUR 8 million and its fair value was EUR 8 million. Deutsche Telekom expensed EUR 19 million, including credit-risk discounts and loss allocations to cover monthly credit risks, in the financial year from its continuing involvement including program fees (interest and bank margin), and has expensed a total amount of EUR 36 million since the beginning of the transaction. Deutsche Telekom presents the purchase price payments it receives from the buyers in cash generated from operations. The bank has the right to sell all receivables 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 2015. The volume of receivables sold was not subject to major fluctuations since the beginning of the transaction. The carrying amount of the provision recognized by Deutsche Telekom as of December 31, 2014 for the receivables management to be performed is less than EUR 1 million.

#### Factoring transactions involving the splitting of significant risks and rewards with control remaining at Deutsche Telekom.

Deutsche Telekom has entered into three factoring agreements under which it sells trade receivables on a revolving basis. The receivables are sold on a daily basis and settled on a monthly basis. The receivables sold entail both charges already due and charges from sales of handsets payable over a period of up to two years. The debtors are consumers as well as business customers. In none of the transactions is Deutsche Telekom exposed to risks other than the credit risk and late-payment risk resulting from the sold receivables agreed in the respective agreement. The term of the agreements ends between 2016 and 2020.

One factoring agreement has a maximum program volume of EUR 519 million when translated into euros. If more receivables are purchased, the purchase price is deferred until the maximum program volume accordingly falls again. Under this agreement, subsidiaries of Deutsche Telekom sell receivables to a structured entity that is also a subsidiary of Deutsche Telekom and was established for the sole purpose of this factoring agreement. The structured entity has no assets and liabilities other than those resulting from the purchase and sale of the receivables under the factoring agreement. It resells the receivables to another structured entity. Deutsche Telekom does not consolidate this other structured entity because it has no ability to direct this entity's relevant activities. This other structured entity sells the ownership interests in the receivables to banks on a pro-rata basis. The required

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funding is provided to the structured entity consolidated by Deutsche Telekom in the context of Deutsche Telekom's general Group financing. The structured entity not consolidated by Deutsche Telekom is financed by the external buyers of the receivables. All purchases of receivables are performed automatically and without a selection process, provided the eligibility criteria for purchase set out in the receivables purchase agreement are met.

A second factoring agreement has a maximum program volume of EUR 150 million. If more receivables are purchased, the purchase price is deferred until the maximum program volume accordingly falls again. There is no structured entity consolidated by Deutsche Telekom with this structure. Rather, the receivables are sold directly to a structured entity that is not consolidated by Deutsche Telekom due to the lack of ability to direct the entity's relevant activities. This structured entity holds the receivables and allocates the rewards and risks resulting from these to Deutsche Telekom and a bank on the basis of contractual arrangements. The structured entity is financed through the issue of commercial paper to third parties outside the Group or, alternatively, through a credit facility provided by a bank. In one receivables portfolio, purchases of receivables are performed automatically and without a selection process, provided the eligibility criteria for purchase set out in the receivables purchase agreement are met. In another receivables portfolio, the structured entity has the freedom to decide whether and which receivables will be purchased, though purchase of the agreed minimum volume is imperative.

None of the structured entities has business activities other than the purchase or sale of trade receivables.

Under the third factoring agreement with a maximum volume of receivables of EUR 150 million, Deutsche Telekom sells the receivables directly to the purchaser outside the Group without using a structured entity as an intermediary. Deutsche Telekom has the freedom to decide whether receivables can be sold and in which volume. The existing loan insurance policy reimburses losses relating to certain receivables to a maximum amount of EUR 50 million and thus reduces the exposure to loss.

The nominal volume of the receivables sold by Deutsche Telekom under the three factoring agreements and not yet settled by the debtors was EUR 862 million as of the reporting date when translated into euros. The assessment of the risk associated with the sold receivables is based on the credit risk and the risk of late payments (late-payment risk). The maximum credit risk to be borne by Deutsche Telekom amounts to EUR 292 million as of the reporting date when translated into euros and is fully attributable to transactions involving structured entities. The other credit risk-related losses are borne by the buyers. The late-payment risk continues to be borne in full by Deutsche Telekom. The maximum exposure to loss for Deutsche Telekom resulting from credit risk and late-payment risk relating to the receivables sold at the reporting date is EUR 297 million when translated into euros and is largely attributable to transactions involving structured entities. Substantially all the risks and rewards of ownership of the receivables were neither transferred nor retained (allocation of the material risks and rewards between Deutsche Telekom and the buyers). Deutsche Telekom continues to perform servicing for the receivables sold. Under the factoring agreements in which structured entities are engaged, buyers have the right to transfer the servicing to third parties for no specific reason.

Although Deutsche Telekom is not authorized to use the receivables sold other than in its capacity as servicer, it retains control over the receivables sold because the buyers and the structured entities do not have the practical ability to resell the purchased receivables. At the time the receivables are sold, the fair value of the expected losses is expensed and reported as a component of the associated liability. Deutsche Telekom continues to recognize the trade receivables sold to the extent of its continuing involvement, i.e., in the maximum amount with which it is still liable for the credit risk and late-payment risk inherent in the receivables sold, and recognizes a corresponding associated liability presented in liabilities to banks. The receivables and the associated liability are subsequently derecognized in the extent to which Deutsche Telekom's continuing involvement is reduced (particularly when payment is made by the customer). The carrying amount of the receivables is subsequently reduced by the extent to which the actual losses to be borne by Deutsche Telekom resulting from the credit risk and the late-payment risk exceed the losses initially expected. This amount is recognized as an expense. Deutsche Telekom's continuing involvement as of December 31, 2014 amounted to EUR 297 million when translated into euros, and the carrying amount of the associated liability was EUR 300 million when translated into euros. Deutsche Telekom presents the purchase price payments received from the buyers under cash generated from operations where these relate to the derecognized portion of the receivables, and under net cash from/used in financing activities where they relate to the portion of the receivables that is still recognized. Under the factoring agreements in which structured entities are engaged, Deutsche Telekom is required to buy back overdue receivables, as well as receivables where impairment is imminent, at their nominal value. Such buy-backs would not affect the allocation of the credit risk-related losses in any way, as the latter would be passed back to the buyers in line with the agreed risk allocation. The cash outflows caused by the buy-backs would occur in the short term, i.e., in 2015. The volume of receivables sold was not subject to major fluctuations since the beginning of the respective transaction.

### 38 CAPITAL MANAGEMENT

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

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

For further information, please refer to the section "Comparison of our stakeholders' expectations with actual figures," PAGE 84, and the section "Management of the Group," PAGE 72 ET SEQ., in the combined management report.

An important key performance indicator for the capital market communication with investors, analysts, and rating agencies is relative debt, i.e., net debt to adjusted EBITDA. This ratio stood at 2.4 at December 31, 2014 (December 31, 2013: 2.2). The target corridor for relative debt is between 2.0 and 2.5. Net debt is a non-GAAP figure not governed by International Financial Reporting Standards and its definition and calculation may vary from one company to another. A further essential key performance indicator is the equity ratio, i.e., the ratio of shareholders' equity to

total assets as shown in the consolidated statement of financial position. The equity ratio was 26.3 percent as of December 31, 2014 (December 31, 2013: 27.1 percent). The target corridor is between 25 and 35 percent. In addition, Deutsche Telekom maintains a liquidity reserve covering all maturities of the next 24 months.

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#### Calculation of net debt; shareholders' equity

millions of €

	Dec. 31, 2014	Dec. 31, 2013
Financial liabilities (current)	10,558	7,891
Financial liabilities (non-current)	44,669	43,708
<b>FINANCIAL LIABILITIES</b>	<b>55,227</b>	<b>51,599</b>
Accrued interest	(1,097)	(1,091)
Other	(1,038)	(881)
<b>GROSS DEBT</b>	<b>53,092</b>	<b>49,627</b>
Cash and cash equivalents	7,523	7,970
Available-for-sale/held-for-trading financial assets	289	310
Derivative financial assets	1,343	771
Other financial assets	1,437	1,483
<b>NET DEBT</b>	<b>42,500</b>	<b>39,093</b>
<b>SHAREHOLDERS' EQUITY</b>	<b>34,066</b>	<b>32,063</b>

### 39 RELATED-PARTY DISCLOSURES

**Federal Republic of Germany and other related parties.** The Federal Republic of Germany is both a direct and an indirect shareholder (via KfW Bankengruppe) and holds approximately 31.7 percent (December 31, 2013: 31.9 percent) of the share capital of Deutsche Telekom AG. The Federal Republic usually represents a solid majority at the shareholders' meeting due to its high attendance rate, giving the Federal Republic control over Deutsche Telekom. Therefore, the Federal Republic and the companies controlled by the Federal Republic, or companies over which the Federal Republic can exercise a significant influence are classified as related parties of Deutsche Telekom. Charges for services provided to the Federal Republic and its departments and agencies, and the individual companies are based on Deutsche Telekom's commercial pricing policies. Deutsche Telekom participates in the spectrum auctions of the Federal Network Agency. The acquisition of mobile communications spectrum through licenses may result in build-out requirements stipulated by the Agency.

The Federal Posts and Telecommunications Agency (Federal Agency) has been assigned certain tasks by law that affect cross-company issues at Deutsche Telekom AG, Deutsche Post AG, and Deutsche Postbank AG. The Federal Agency's responsibilities include the continuation of the Civil Service Health Insurance Fund (Postbeamtenkrankenkasse), the recreation service (Erholungswerk), the supplementary retirement pensions institution (Versorgungsanstalt der Deutschen Bundespost), and the welfare service (Betreuungswerk) for Deutsche Telekom AG, Deutsche Post AG, and Deutsche Postbank AG. The coordination and administrative tasks are performed on the basis of agency agreements. Up to and including the 2012 reporting year, Deutsche Telekom maintained a joint pension fund, Bundes-Pensions-Service für Post und Telekommunikation e. V., Bonn (Federal Pension Service for Post and Telecommunications – BPS-PT), together with Deutsche Post AG and Deutsche Postbank AG for civil servant pension plans. The German Act on the Reorganization of the Civil Service Pension Fund (Gesetz zur Neuordnung der

Postbeamtenversorgungskasse – PVKNeuG) transferred the functions of BPS-PT relating to civil servant pensions (organized within the Civil Service Pension Fund) to the existing Federal Agency effective January 1, 2013. The civil servant pension functions are therefore performed by the Civil Service Pension Fund as an integral part of the Federal Agency. This joint Civil Service Pension Fund works for the funds of all three companies and also handles the financial administration of the pension plan for the Federal Republic on a trust basis. For the 2014 financial year, Deutsche Telekom made payments in the amount of EUR 58 million (2013: EUR 58 million, 2012: EUR 61 million). Furthermore, payments are made to the Civil Service Pension Fund according to the provisions of the Act on the Reorganization of the Civil Service Pension Fund (please also refer to Note 12 "Provisions for pensions and other employee benefits," PAGE 219 ET SEQ.).

The Federal Republic and the companies controlled by the Federal Republic, or companies over which the Federal Republic can exercise a significant influence are customers or suppliers of Deutsche Telekom and as such have mutual contractual relationships with Deutsche Telekom.

In connection with the option granted to all shareholders in 2014, KfW Bankengruppe requested its dividend entitlement for shares held in Deutsche Telekom AG for the 2013 financial year be paid out partly in cash and partly in shares from authorized capital. As a result, it received 32,559 thousand shares in June 2014. The stake of KfW Bankengruppe in Deutsche Telekom AG as of December 31, 2014 totaled 17.4 percent. Otherwise, Deutsche Telekom did not execute any individually material transactions in the 2014 financial year at off-market terms and conditions or, as described, outside of its normal business activities.

**Joint ventures.** In the 2014 financial year, Deutsche Telekom generated revenue and other operating income totaling EUR 283 million (2013: EUR 294 million, 2012: EUR 315 million) from the EE joint venture established on April 1, 2010, and revenue of EUR 65 million (2013: EUR 62 million, 2012: EUR 61 million) from Toll Collect.

Net funds of EUR 0.2 billion that had been originally invested by the EE joint venture were repaid to the company by Deutsche Telekom in the reporting year. Subsequently, the EE joint venture again invested a net EUR 0.2 billion with Deutsche Telekom.

At the end of the year, there were receivables vis-à-vis the EE joint venture in the amount of EUR 175 million (December 31, 2013: EUR 94 million, December 31, 2012: EUR 96 million), liabilities of EUR 257 million (December 31, 2013: EUR 241 million, December 31, 2012: EUR 453 million), and loan commitments of EUR 0.3 billion (December 31, 2013: EUR 0.3 billion, December 31, 2012: EUR 0.3 billion). Loan guarantees and guarantee statements of EUR 0.6 billion (December 31, 2013: EUR 0.6 billion, December 31, 2012: EUR 0.6 billion) given by the Company to third parties existed.

As of December 31, 2014, there were receivables vis-à-vis Toll Collect in the amount of EUR 11 million (December 31, 2013: EUR 13 million, December 31, 2012: EUR 12 million), liabilities of EUR 12 million (December 31, 2013: EUR 12 million, December 31, 2012: EUR 12 million), an equity maintenance undertaking, and loan guarantees granted to banks. For further details, please refer to Note 33 "Contingencies," PAGE 243 ET SEQ.

There are otherwise no material revenue, receivables or liabilities from or to joint ventures.



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**Related individuals.**<sup>1</sup> In the reporting period, expenses for short-term benefits payable to members of the Board of Management and the Supervisory Board amounted to EUR 13.5 million (2013: EUR 14.9 million) and expenses for long-term benefits amounted to EUR 2.5 million (2013: EUR 2.9 million). Service cost of EUR 2.4 million (2013: EUR 3.3 million) was recorded for Board of Management benefits. In addition, expenses for share-based payment for Board of Management members were incurred in the amount of EUR 862 thousand (2013: EUR 157 thousand). EUR 2.9 million (2013: EUR 0 million) was paid for termination benefits and recognized as an expense.

Compensation of the Board of Management and the Supervisory Board totaled EUR 22.2 million in the reporting year (2013: EUR 21.3 million).

For further details, please refer to Note 40 "Compensation of the Board of Management and the Supervisory Board."

Employees elected to the Supervisory Board of Deutsche Telekom continue to be entitled to a regular salary as part of their employment contract. The amount of the salary is the adequate compensation for their job or activity within the Company. Besides this, no major transactions took place with related individuals.

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

##### COMPENSATION OF THE BOARD OF MANAGEMENT

The following disclosures on Board of Management compensation are in accordance with § 314 of the German Commercial Code (Handelsgesetzbuch – HGB) and German Accounting Standard No. 17 (GAS 17).

**Changes in the composition of the Board of Management and contract extensions.** On January 1, 2014, Timotheus Höttges succeeded René Obermann as Chairman of the Board of Management of Deutsche Telekom AG. Also at the start of the year, Thomas Dannenfeldt took over the post of Chief Financial Officer from Timotheus Höttges. The Supervisory Board had approved both changes on May 15, 2013. Prof. Marion Schick, Member of the Board of Management responsible for Human Resources and Labor Director, left the Group with effect from April 30, 2014 for health reasons. Dr. Thomas Kremer had been acting as deputy for Prof. Marion Schick since January 2014, and since her departure he has been interim Member of the Board of Management responsible for Human Resources in addition to fulfilling his own duties as Member of the Board of Management responsible for Data Privacy, Legal Affairs and Compliance.

**Basis of Board of Management compensation.** On February 24, 2010, the Supervisory Board resolved on a new system for the compensation of the Board of Management members, taking into account the provisions specified in the German Act on the Appropriateness of Management Board Remuneration (Gesetz zur Angemessenheit der Vorstandsvergütung – VorstAG) that has been in effect since August 5, 2009. The shareholders' meeting of Deutsche Telekom AG on May 3, 2010 approved this new system. The compensation of Board of Management members comprises various components. Under the terms of their service contracts, members of the Board of Management are entitled to an annual fixed remuneration and annual variable performance-based remuneration, 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 for the variable components.

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

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

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

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

##### Variable performance-based remuneration

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

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

**Variable II.** The exclusively long-term-oriented Variable II is measured based on the fulfillment of four equally weighted performance parameters (adjusted operational return on capital employed (ROCE), adjusted earnings per share, customer

<sup>1</sup> The prior-year figures also include the then Member of the Board of Management René Obermann.

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 2014 financial year, the following absolute nominal amounts were pledged to the Board of Management members for their participation in the 2014 tranche of Variable II in the event of 100-percent target achievement.

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	2014 tranche	2013 tranche
Reinhard Clemens	650,000	650,000
Niek Jan van Damme	640,083	550,000
Thomas Dannenfeldt (since January 1, 2014)	550,000	0
Timotheus Höttges	1,092,000	760,500
Dr. Thomas Kremer	550,000	550,000
Claudia Nemat	675,000	675,000
Prof. Marion Schick (until April 30, 2014)	0 <sup>a</sup>	550,000

<sup>a</sup> Prof. Marion Schick did not receive any further tranche of Variable II for the 2014 financial year due to her departure.

**Information on the Share Matching Plan.** In the 2014 financial year, the Board of Management members, as described, are contractually obliged to invest a third of Variable I in shares of Deutsche Telekom AG. Deutsche Telekom AG will grant one additional share for every share purchased as part of the Board of Management member's aforementioned personal investment (Share Matching Plan) that will be allotted to the beneficiaries of this plan on expiration of the four-year lock-up period.

GAS 17 and IFRS 2 require disclosure not only of the total expense related to share-based payment from matching shares in the 2014 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 174 does not represent a component of remuneration for the Board of Management members in 2014. It is an imputed value of the entitlements to matching shares determined on the basis of relevant accounting policies. Here, the fair value equates to the share price at grant date less an expected dividend markdown. TABLE 174 is based on expected target achievement for the 2014 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 2014 financial year may be higher or lower than the amounts estimated here.

The total share-based payment expense for matching shares to be recognized for the financial years 2010 through 2013 and 2014, pursuant to IFRS 2, is included in the two last columns of TABLE 174.

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	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 2014	Number of shares transferred in 2014 as part of the Share Matching Plan	Fair value of the matching shares at grant date €	Cumulative total share-based payment expense in 2014 for matching shares for the years 2010 through 2014 €	Cumulative total share-based payment expense in 2013 for matching shares for the years 2010 through 2013 €
Reinhard Clemens	113,192	18,003	22,001	186,512	186,836	166,907
Niek Jan van Damme	103,500	17,403	18,914	180,295	169,408	153,160
Thomas Dannenfeldt (since January 1, 2014)	0	15,233	0	157,817	54,916	0
Timotheus Höttges	138,639	30,245	25,741	313,339	222,952	202,328
Dr. Thomas Kremer	29,791	15,233	0	157,817	57,619	38,270
Claudia Nemat	54,821	18,695	0	193,685	97,441	79,415
Prof. Marion Schick (until April 30, 2014)	44,532	0	22,862	0	72,535	56,276

By December 31, 2014, Deutsche Telekom had acquired 363,857 shares for the purpose of awarding matching shares to Board of Management members as part of the Share Matching Plan. In 2014, matching shares were transferred to individual members of the Board of Management for the first time. A total of 89,518 shares were transferred to Board of Management members in 2014 including 22,862 shares transferred to Prof. Marion Schick in accordance with the provisions of the termination agreement. Prof. Marion Schick has no further entitlements to matching shares.

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

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

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

### Company pension plan

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

The pension payments to be made increase dynamically, at a rate of 1 percent. In addition, the pension agreements include arrangements for pensions for surviving

dependents in the form of entitlements for widows and orphans. In specifically provided exceptional cases, entitlement to a widow's pension is excluded. The standard criteria for eligibility in the pension arrangements are in line with market conditions. In the event of a permanent incapacity for work (invalidity), the respective period of service through the scheduled end of the current period of appointment serves as the basis for the period of service eligible for calculating the pension.

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

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

Service cost and defined benefit obligations for each member of the Board of Management are shown in TABLE 175:

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	Service cost 2014	Defined benefit obligation (DBO) Dec. 31, 2014	Service cost 2013	Defined benefit obligation (DBO) Dec. 31, 2013
Reinhard Clemens	599,763	5,427,515	605,603	3,536,455
Niek Jan van Damme	288,661	2,129,080	305,199	1,584,901
Thomas Dannenfeldt (since January 1, 2014)	246,151	293,973	0	0
Timotheus Höttges	818,212	8,695,342	582,852	5,607,988
Dr. Thomas Kremer	243,743	703,470	253,723	401,430
Claudia Nemat	247,026	1,069,351	275,014	605,675
Prof. Marion Schick (until April 30, 2014)	0	0	245,791	494,551

An annual contribution of EUR 290,000 was allocated to Niek Jan van Damme in accordance with the provisions of the new company pension plan. The respective amounts for Thomas Dannenfeldt, Dr. Thomas Kremer, Claudia Nemat, and Prof. Marion Schick total EUR 250,000 for each year of service. As of December 31, 2014, Prof. Marion Schick had no Board of Management pension entitlement because at the time of her departure from the Company, the legal vesting requirements had not been fulfilled.

The pension expense resulting from the company pension plan is shown as service cost.

**Board of Management compensation for the 2014 financial year.** In reliance on legal requirements and other guidelines, a total of EUR 13.9 million (2013: EUR 15.6 million) is reported in TABLE 176 as total compensation for the 2014 financial year for the members of the Board of Management.

The Board of Management compensation comprises the fixed annual remuneration as well as other benefits, non-cash benefits and remuneration in kind, short-term variable remuneration (Variable I), a special bonus for extraordinary performance if applicable, fully earned tranches of long-term variable remuneration (Variable II),

and the fair value of the matching shares. This was calculated on the basis of the estimated amount of Variable I at the grant date and the resulting number of entitlements to matching shares.

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

**Total compensation.** The compensation of the Board of Management is shown in detail in TABLE 176:

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		Non-performance-based compensation		Performance-based compensation			Total compensation
		Fixed annual remuneration	Other remuneration	Short-term variable remuneration	Long-term variable performance-based remuneration (Variable II)	Long-term variable performance-based remuneration (fair value of matching shares)	
Reinhard Clemens	2014	840,000	17,350	714,350	429,000	186,512	2,187,212
	2013	840,000	22,366	755,950	390,000	174,153	2,182,469
Niek Jan van Damme	2014	850,000	26,758	708,760	363,000	180,295	2,128,813
	2013	794,355	24,555	647,900	330,000	147,360	1,944,170
Thomas Dannenfeldt (since January 1, 2014)	2014	700,000	22,433	641,300	-	157,817	1,521,550
	2013	-	-	-	-	-	-
Timotheus Höttges	2014	1,450,000	22,359	1,307,124	429,000	313,339	3,521,822
	2013	1,037,500	23,972	953,667	390,000	203,759	2,608,898
Dr. Thomas Kremer	2014 <sup>a</sup>	700,000	60,983	856,650	234,438	157,817	2,009,888
	2013	700,000	60,508	627,000	130,625	147,360	1,665,493
Claudia Nemat	2014	900,000	65,900	764,775	361,969	193,685	2,286,329
	2013	900,000	49,602	722,925	227,813	180,851	2,081,191
Prof. Marion Schick (until April 30, 2014)	2014	233,333	5,743	-	-	-	239,076
	2013 <sup>b</sup>	700,000	23,272	568,150	137,500	147,360	1,576,282
	2014	5,673,333	221,526	4,992,959	1,817,407	1,189,465	13,894,690
	2013 <sup>c</sup>	4,971,855	204,275	4,275,592	1,605,938	1,000,843	12,058,503

<sup>a</sup> The Supervisory Board resolved to give Dr. Thomas Kremer a special bonus for extraordinary performance for 2014. The amount of EUR 856,650 therefore includes a figure of EUR 250,000. With this payment, the Supervisory Board rewards the extraordinary performance of Dr. Thomas Kremer who, as a result of the departure of Prof. Marion Schick for health reasons, assumed responsibility for the Board department for Human Resources for the full 2014 financial year in addition to his own duties in the area of Data Privacy, Legal Affairs and Compliance.

<sup>b</sup> On account of Prof. Marion Schick's departure for health reasons during 2014, the Supervisory Board exercised its right to reduce her entitlement to variable remuneration components. The fixed short-term remuneration for Prof. Marion Schick in the line for the previous year was therefore reduced by EUR 40,471 at the payment date. Of the long-term variable remuneration, EUR 4,800 less was paid than shown in the line for the previous year.

<sup>c</sup> Remuneration relating to Board of Management members who left the Company in the course of 2013 is no longer included in the table.

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The amounts shown in the "Long-term variable performance-based remuneration (Variable II)" column had been pledged to the eligible Board of Management members in the 2011 financial year. As they joined the Company after the commencement of the current plan tranche of Variable II, pro-rata pledges were granted to Claudia Nemat in 2011 and to Dr. Thomas Kremer in 2012.

The details of René Obermann's termination agreement were disclosed as part of the prior-year publication requirements. In this context, the payment of a fixed annual salary as compensation for the period of prohibition of competition was announced for 2014. However, due to agreed provisions for the allowance of other remuneration of René Obermann, Deutsche Telekom was not required to pay him any compensation in 2014.

The service contract between the Company and the Board of Management member Prof. Marion Schick was ended by mutual agreement effective midnight April 30, 2014. The termination agreement between Prof. Marion Schick and the Company contains the components described below. The Company will pay Prof. Marion Schick a final settlement of EUR 2.7 million for early termination of her service contract. Prof. Marion Schick had been transferred 22,862 shares of Deutsche Telekom AG as part of the Share Matching Plan but has no other entitlements to matching shares. Prof. Marion Schick will lose her Board of Management pension entitlement because the legal vesting requirements are not fulfilled. In connection with the prohibition of competition, Prof. Marion Schick will receive compensation of EUR 234,375 for the period May to September. These payments are disclosed as part of the disclosures for former Board of Management members and Board of Management members who left the Company during the reporting period. On account of Prof. Marion Schick's ongoing illness, no more variable remuneration entitlements arose for 2014.

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 9.2 million (2013: EUR 7.3 million) was granted for payments to and entitlements for former members of the Board of Management and those who left in the reporting year as well as any surviving dependents.

Provisions (measured in accordance with IAS 19) totaling EUR 196.9 million (December 31, 2013: EUR 139.1 million) were recognized for current pensions and vested rights to pensions for this group of persons and their surviving dependents.

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

## COMPENSATION OF THE SUPERVISORY BOARD

The compensation received by the members of the Supervisory Board is specified under § 13 of the Articles of Incorporation of Deutsche Telekom AG. Under the new compensation system that came into effect on January 1, 2013, members of the Supervisory Board receive fixed annual compensation of EUR 70,000.00.

The Chairman of the Supervisory Board receives a further EUR 70,000.00 and the Deputy Chairman EUR 35,000.00. Members of the Supervisory Board also receive compensation as follows for activities on Supervisory Board committees:

- (a) The Chairman of the Audit Committee receives EUR 80,000.00, ordinary members of the Audit Committee EUR 40,000.00.
- (b) The Chairman of the General Committee receives EUR 35,000.00, ordinary members of the General Committee EUR 25,000.00.
- (c) The Chairman of any other committee receives EUR 30,000.00, ordinary members of any other committee EUR 20,000.00.

Chairmanship and membership of the Nomination Committee and the Mediation Committee are not remunerated. Members of the Supervisory Board receive an attendance fee amounting to EUR 1,000.00 for each meeting of the Supervisory Board or its committees that they have attended. The Company reimburses value-added tax payable on remuneration and expenses. Under the old compensation system in place until December 31, 2012, members of the Supervisory Board are entitled to variable, performance-related remuneration for the 2012 financial year 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 (reference year) exceeds the net profit per no par value share in the financial year preceding the financial year in question. The performance-related annual remuneration as a long-term incentive is limited to a maximum of EUR 40,000.00.

Since the aforementioned condition for the payment of the performance-based variable remuneration was met as of December 31, 2014, the performance-related remuneration for the 2012 financial year is paid out.

The total compensation of the members of the Supervisory Board in 2014 amounted to EUR 3,160,791.65 (plus VAT).

For former members of the Supervisory Board, the performance-based variable remuneration for the 2012 financial year totaled EUR 226,562.50 (plus VAT).

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

The compensation of the individual members of the Supervisory Board for 2014 is as follows:

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Member of the Supervisory Board	Fixed remuneration	Meeting attendance fee	Performance-related remuneration for 2012	Total
Baldauf, Sari	90,000.00	9,000.00	4,250.00	103,250.00
Bednarski, Josef	103,333.33	13,000.00	-	116,333.33
Dr. Bernotat, Wulf	103,333.33	12,000.00	40,000.00	155,333.33
Dr. Beus, Hans Bernhard (until February 5, 2014)	22,500.00	2,000.00	40,000.00	64,500.00
Brandl, Monika	90,000.00	10,000.00	40,000.00	140,000.00
Geismann, Johannes (since February 6, 2014)	123,750.00	24,000.00	-	147,750.00
Dr. von Grünberg, Hubertus	100,000.00	11,000.00	40,000.00	151,000.00
Hanas, Klaus-Dieter	70,000.00	7,000.00	14,875.00	91,875.00
Hauke, Sylvia <sup>a</sup>	103,333.33	11,000.00	25,500.00	139,833.33
Hinrichs, Lars	90,000.00	11,000.00	-	101,000.00
Kallmeier, Hans-Jürgen <sup>b</sup>	130,000.00	15,000.00	40,000.00	185,000.00
Kollmann, Dagmar P.	130,000.00	20,000.00	40,000.00	190,000.00
Kreusel, Petra Steffi <sup>c</sup>	110,000.00	13,000.00	-	123,000.00
Prof. Lehner, Ulrich (Chairman)	215,000.00	31,000.00	40,000.00	286,000.00
Litzenberger, Waltraud	155,000.00	25,000.00	40,000.00	220,000.00
Schröder, Lothar (Deputy Chairman) <sup>d</sup>	193,333.33	26,000.00	40,000.00	259,333.33
Dr. Schröder, Ulrich	113,333.33	12,000.00	38,250.00	163,583.33
Sommer, Michael	90,000.00	7,000.00	25,500.00	122,500.00
Spoo, Sibylle	70,000.00	7,000.00	25,500.00	102,500.00
Streibich, Karl-Heinz	90,000.00	11,000.00	-	101,000.00
Dr. h. c. Walter, Bernhard (until January 11, 2015) †	150,000.00	7,000.00	40,000.00	197,000.00
	<b>2,342,916.65</b>	<b>284,000.00</b>	<b>533,875.00</b>	<b>3,160,791.65</b>

<sup>a</sup> In addition to remuneration for her activities as a member of the Supervisory Board of Deutsche Telekom AG, Sylvia Hauke also received other remuneration amounting to EUR 14,000.00 (including meeting attendance fees) in the 2014 financial year (for her mandate as member of the supervisory board of Telekom Deutschland GmbH).

<sup>b</sup> In addition to remuneration for his activities as a member of the Supervisory Board of Deutsche Telekom AG, Hans-Jürgen Kallmeier also received other remuneration amounting to EUR 16,000.00 (including meeting attendance fees) in the 2014 financial year (for his mandate as member of the supervisory board of T-Systems International GmbH).

<sup>c</sup> In addition to remuneration for her activities as a member of the Supervisory Board of Deutsche Telekom AG, Petra Steffi Kreusel also received other remuneration amounting to EUR 15,500.00 (including meeting attendance fees) in the 2014 financial year (for her mandate as member of the supervisory board of T-Systems International GmbH).

<sup>d</sup> In addition to remuneration for his activities as a member of the Supervisory Board of Deutsche Telekom AG, Lothar Schröder also received other remuneration amounting to EUR 29,000.00 (including meeting attendance fees) in the 2014 financial year (EUR 20,000.00 for his mandate as member of the supervisory board of Telekom Deutschland GmbH and EUR 9,000.00 as Chairman of the Data Privacy Advisory Council).

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#### 41 DECLARATION OF CONFORMITY WITH THE GERMAN

##### CORPORATE GOVERNANCE CODE IN ACCORDANCE WITH § 161 AktG

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

#### 42 EVENTS AFTER THE REPORTING PERIOD

**Acquisition of spectrum licenses.** The U.S. telecommunications regulator (FCC) carried out the auction for a total of 65 MHz of spectrum in the 1.6, 1.7, and 2.1 GHz bands (AWS-3). T-Mobile US participated in the auction, which ended on January 29, 2015. The licenses acquired by T-Mobile US have a total value of USD 1.8 billion. Subject to approval by the relevant authorities, T-Mobile US expects to receive the AWS spectrum licenses in the second quarter of 2015.

**Agreement on the sale of our EE joint venture.** On February 5, 2015, Deutsche Telekom and the French telecommunications operator Orange reached an agreement with the British telecommunications operator BT on the sale of the EE joint venture. Upon closing of the transaction at an agreed purchase price of GBP 12.5 billion, Deutsche Telekom will become the largest shareholder in BT with a stake of approximately 12 percent. Depending on BT's share price and other factors at closing, Deutsche Telekom may receive a cash payment in addition to the 12 percent stake in BT. The transaction has yet to be approved by BT's shareholders and the responsible authorities. Closing is expected before the end of March 2016. The EE joint venture, which is part of the Group Headquarters & Group Services segment, was reported under non-current assets and disposal groups held for sale as of December 31, 2014.

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

TABLE 178 provides a breakdown of the auditor's professional fees recognized as expenses in the 2014 financial year:

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**PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft**  
millions of €

	2014
Auditing services	12
Other assurance services	6
Tax advisory services	0
Other non-audit services	2
	20

Professional fees for auditing services include in particular fees for the statutory auditing of annual and consolidated financial statements, the review of the interim financial statements, auditing activities in connection with the documentation of the internal control system for financial reporting, and the auditing of information systems and processes, as well as fees for other auditing services.

Professional fees for other assurance services primarily relate to the commissioning of a review of regulatory issues for the Federal Network Agency.

Other non-audit services mainly relate to services in connection with fundamental business issues for the Company's compliance with requirements stipulated by the Federal Network Agency and other authorities. The services provided by consulting companies cundus AG and strategy& (formerly Booz & Company), which have been members of the PricewaterhouseCoopers network since April 2014, are also reported.

# 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 10, 2015

Deutsche Telekom AG  
Board of Management

Timotheus Höttges

Reinhard Clemens

Niek Jan van Damme

Thomas Dannenfeldt

Dr. Thomas Kremer

Claudia Nemat



# INDEPENDENT AUDITOR'S REPORT

## To Deutsche Telekom AG, Bonn

### Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of Deutsche Telekom AG, Bonn, and its subsidiaries, which comprise the consolidated statement of financial position, the consolidated income statement and statement of comprehensive income, the consolidated statement of changes in equity, the consolidated statement of cash flows and the notes to the consolidated financial statements, for the financial year from January 1 to December 31, 2014.

### Board of Management's responsibility for the consolidated financial statements

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

### Auditor's responsibility

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

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

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

### Audit opinion

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

In our opinion based on the findings of our audit, the consolidated financial statements comply, in all material respects, with IFRSs, as adopted by the EU, and the additional requirements of German commercial law pursuant to § 315a (1) HGB and give a true and fair view of the net assets and financial position of the Group as at December 31, 2014 as well as the results of operations for the financial year then ended, in accordance with these requirements.

### Report on the Group management report

We have audited the accompanying Group management report of Deutsche Telekom AG, Bonn, which is combined with the management report of the Company, for the financial year from January 1 to December 31, 2014. 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 10, 2015

PricewaterhouseCoopers  
Aktiengesellschaft  
Wirtschaftsprüfungsgesellschaft

Harald Kayser  
Wirtschaftsprüfer

Verena Heineke  
Wirtschaftsprüferin

# MEMBERS OF THE SUPERVISORY BOARD OF DEUTSCHE TELEKOM AG IN 2014

## PROF. DR. ULRICH LEHNER

Member of the Supervisory Board since April 17, 2008  
 Chairman of the Supervisory Board since April 25, 2008  
 Member of the Shareholders' Committee of Henkel AG & Co. KGaA, Düsseldorf

### Seats on the supervisory bodies of other companies:

- Porsche Automobil Holding SE, Stuttgart (since 11/2007)
- E.ON SE, Düsseldorf (since 4/2003)
- ThyssenKrupp AG, Duisburg and Essen (since 1/2008),  
 Chairman of the Supervisory Board (since 3/2013)

### Member of comparable supervisory bodies of companies in Germany or abroad:

- Dr. August Oetker KG, Bielefeld, Member of the Advisory Board (from 3/2000 to 4/2014)
- Novartis AG, Basle, Switzerland, Member of the Board of Directors (from 3/2002 to 2/2015)

## LOTHAR SCHRÖDER

Member of the Supervisory Board since June 22, 2006  
 Deputy Chairman of the Supervisory Board since June 29, 2006  
 Member of the ver.di National Executive Board, Berlin

### Seats on the supervisory bodies of other companies:

- Vereinigte Postversicherung VVaG, Stuttgart (since 6/2011)

### Member of the supervisory bodies of the following subsidiaries, associates and joint ventures:

- Telekom Deutschland GmbH, Bonn (since 8/2003),  
 Deputy Chairman of the Supervisory Board (since 9/2003)

## SARI BALDAUF

Member of the Supervisory Board since November 1, 2012  
 Non-Executive Director and Chairwoman of the Board of Directors of Fortum Oyj, Espoo, Finland

### Seats on the supervisory bodies of other companies:

- Akzo Nobel N.V., Amsterdam, Netherlands (since 4/2012)
- Daimler AG, Stuttgart (since 2/2008)

### Member of comparable supervisory bodies of companies in Germany or abroad:

- F-Secure Oyj, Helsinki, Finland, Member of the Board of Directors (from 3/2005 to 3/2014)

## JOSEF BEDNARSKI

Member of the Supervisory Board since November 26, 2013  
 Deputy Chairman of the Group Works Council at Deutsche Telekom AG, Bonn  
 Chairman of the Central Works Council at Deutsche Telekom Kundenservice GmbH, Bonn

### Seats on the supervisory bodies of other companies:

- Deutsche Telekom Kundenservice GmbH, Bonn (since 11/2007)

## DR. WULF H. BERNOTAT

Member of the Supervisory Board since January 1, 2010  
 Managing Director and partner of Bernotat & Cie. GmbH, Essen  
 Former Chairman of the Board of Management of E.ON AG, Düsseldorf

### Seats on the supervisory bodies of other companies:

- Allianz SE, Munich (since 4/2003)
- Bertelsmann SE & Co. KGaA, Gütersloh (since 5/2006)
- Bertelsmann Management SE, Gütersloh (since 5/2012)
- Deutsche Annington Immobilien SE, Düsseldorf, Chairman of the Supervisory Board (since 6/2013)
- Metro AG, Düsseldorf (since 5/2003)

## MONIKA BRANDL

Member of the Supervisory Board since November 6, 2002  
 Chairwoman of the Central Works Council at Deutsche Telekom AG, Bonn  
 – no other seats –

## JOHANNES GEISMANN

Member of the Supervisory Board since February 6, 2014  
 State Secretary, Federal Ministry of Finance, Berlin

### Seats on the supervisory bodies of other companies:

- KfW IPEX-Bank GmbH, Frankfurt/Main (since 2/2014)

## DR. HUBERTUS VON GRÜNBERG

Member of the Supervisory Board since May 25, 2000  
 Chairman of the Board of Directors of ABB Ltd., Zurich, Switzerland

### Member of comparable supervisory bodies of companies in Germany or abroad:

- ABB Ltd., Zurich, Switzerland, Chairman of the Board of Directors (since 5/2007)
- Schindler Holding AG, Hergiswil, Switzerland, Member of the Board of Directors (since 5/1999)
- Sapinda Holding B.V., Schiphol, Netherlands, Chairman of the Advisory Board (from 2/2011 to 4/2014), Chairman of the Board of Directors (since 4/2014)

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### KLAUS-DIETER HANAS

Member of the Supervisory Board since June 1, 2012

Chairman of the Works Council at Deutsche Telekom Kundenservice GmbH, Central-Eastern District, Bonn

#### Seats on the supervisory bodies of other companies:

- PSD-Bank Braunschweig eG, Braunschweig (since 11/1999), Deputy Chairman of the Supervisory Board (since 7/2011)

### SYLVIA HAUKE

Member of the Supervisory Board since May 3, 2007

Chairwoman of the Central Works Council at Telekom Deutschland GmbH, Bonn (since 6/2014)

#### Member of the supervisory bodies of the following subsidiaries, associates and joint ventures:

- Telekom Deutschland GmbH, Bonn (since 1/2011)

### LARS HINRICHS

Member of the Supervisory Board since October 1, 2013

CEO of Cinco Capital GmbH, Hamburg

– no other seats –

### HANS-JÜRGEN KALLMEIER

Member of the Supervisory Board since October 15, 2008

Chairman of the Central Works Council at T-Systems International GmbH, Frankfurt/Main

#### Member of the supervisory bodies of the following subsidiaries, associates and joint ventures:

- T-Systems International GmbH, Frankfurt/Main (since 12/2010)

### DAGMAR P. KOLLMANN

Member of the Supervisory Board since May 24, 2012

Entrepreneur, Deputy Chairwoman of the Supervisory Board,

Hypo Real Estate Holding AG, Unterschleißheim

Former CEO of Morgan Stanley Bank, Frankfurt/Main

Former Member of the Board of Directors, Morgan Stanley Bank International Limited, London, United Kingdom

#### Seats on the supervisory bodies of other companies:

- Hypo Real Estate Holding AG, Unterschleißheim, Deputy Chairwoman of the Supervisory Board (since 8/2009)
- Deutsche Pfandbriefbank AG, Unterschleißheim, Deputy Chairwoman of the Supervisory Board (since 8/2009)
- KfW IPEX-Bank GmbH, Frankfurt/Main (since 5/2012)
- Unibail-Rodamco SE, Paris, France (since 5/2014)

#### Member of comparable supervisory bodies of companies in Germany or abroad:

- Bank Gutmann Aktiengesellschaft, Vienna, Austria, Member of the Supervisory Board (since 9/2010)
- Landeskreditbank Baden-Württemberg – Förderbank (L-Bank) (regional state bank/development bank of Baden-Württemberg), Karlsruhe, agency under public law (not a commercial enterprise within the meaning of § 100 (2), Sentence 1, no. 1 AktG), Member of the Advisory Board, purely advisory body (since 7/2004)
- Member of the Monopolies Commission (since 1/2012)

### INES KOLMSEE

Member of the Supervisory Board since January 31, 2015

Entrepreneur at Smart Hydro Power GmbH, Feldafing

#### Seats on the supervisory bodies of other companies:

- Fuchs Petrolub SE, Mannheim (from 5/2011 to 5/2015)

#### Member of comparable supervisory bodies of companies in Germany or abroad:

- Umicore SA, Brussels, Belgium (since 4/2011)
- Suez Environnement SA, Paris, France (since 5/2014)

### PETRA STEFFI KREUSEL

Member of the Supervisory Board since January 1, 2013

Head of Executive Programs and Support at T-Systems International GmbH, Frankfurt/Main

Deputy Chairwoman of the Group Executive Staff Representation Committee of Deutsche Telekom AG, Bonn

Deputy Chairwoman of the Executive Staff Representation Committee of T-Systems International GmbH, Frankfurt/Main

#### Member of the supervisory bodies of the following subsidiaries, associates and joint ventures:

- T-Systems International GmbH, Frankfurt/Main (since 12/2010)

### WALTRAUD LITZENBERGER

Member of the Supervisory Board since June 1, 1999

Chairwoman of the Group Works Council at Deutsche Telekom AG, Bonn

– no other seats –

**DR. ULRICH SCHRÖDER**

Member of the Supervisory Board since October 1, 2008  
Chairman of the Board of Managing Directors of KfW, Frankfurt/Main

**Seats on the supervisory bodies of other companies:**

- DEG – Deutsche Investitions- und Entwicklungsgesellschaft mbH, Cologne<sup>a</sup> (since 10/2009)
- Deutsche Post AG, Bonn (since 9/2008)
- 2020 European Fund for Energy, Climate Change and Infrastructure (“Marguerite Fund”), Luxembourg, Luxembourg (since 11/2009)

**MICHAEL SOMMER**

Member of the Supervisory Board since April 15, 2000  
Trade Union Secretary, former Chairman of the German Confederation of Trade Unions (DGB), Berlin

**Member of comparable supervisory bodies of companies in Germany or abroad:**

- KfW, Frankfurt/Main, Member of the Board of Supervisory Directors (from 1/2003 to 6/2014)

**SIBYLLE SPOO**

Member of the Supervisory Board since May 4, 2010  
Lawyer, Trade Union Secretary at the ver.di Federal Administration, Berlin  
– no other seats –

**KARL-HEINZ STREIBICH**

Member of the Supervisory Board since October 1, 2013  
CEO of Software AG, Darmstadt

**Seats on the supervisory bodies of other companies:**

- Deutsche Messe AG, Hanover (since 1/2013)
- Dürr AG, Bietigheim-Bissingen (since 5/2011)
- MANN+HUMMEL GMBH, Ludwigsburg (from 6/2013 to 4/2014)<sup>b</sup>
- MANN+HUMMEL HOLDING GMBH, Ludwigsburg (from 6/2013 to 4/2014)<sup>b</sup>

**Supervisory Board members who left in 2014:****DR. HANS BERNHARD BEUS**

Member of the Supervisory Board from December 15, 2011 to February 5, 2014  
State Secretary, Federal Ministry of Finance, Berlin, until January 8, 2014

**Seats on the supervisory bodies of other companies:**

- Deutsche Bahn AG, Berlin (from 3/2010 to 1/2014)
- Deutsche Bahn Mobility Logistics AG, Berlin (from 3/2010 to 1/2014)
- Gesellschaft für Entwicklung, Beschaffung und Betrieb mbH, Cologne (from 8/2012 to 1/2014)
- KfW IPEX-Bank GmbH, Frankfurt/Main (from 3/2010 to 1/2014)

**Member of comparable supervisory bodies of companies in Germany or abroad:**

- Bundesanstalt für Immobilienaufgaben (Institute for Federal Real Estate), Bonn, agency under public law (not a commercial enterprise within the meaning of § 100 (2), Sentence 1, no. 1 AktG), Chairman of the Administrative Board, purely advisory body (from 5/2011 to 1/2014)

**Supervisory Board members who left in 2015:****DR. H.C. BERNHARD WALTER**

Member of the Supervisory Board from May 27, 1999 to January 11, 2015 (†)  
Former Chairman of the Board of Managing Directors, Dresdner Bank AG, Frankfurt/Main

**Seats on the supervisory bodies of other companies:**

- Bilfinger Berger SE, Mannheim (from 7/1998 to 11/2014),  
Chairman of the Supervisory Board (from 5/2006 to 11/2014)
- Daimler AG, Stuttgart (from 5/1998 to 4/2014)

<sup>a</sup> Supervisory board seats in companies that are part of the same group, as defined in § 100 (2) Sentence 2 AktG (German Stock Corporation Act).

<sup>b</sup> Committees with identical memberships which convene in the same meeting.

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# MEMBERS OF THE BOARD OF MANAGEMENT OF DEUTSCHE TELEKOM AG IN 2014

## TIMOTHEUS HÖTTGES

Chairman of the Board of Management since January 1, 2014

Seats on the supervisory bodies of other companies:

- FC Bayern München AG, Munich (since 2/2010)

Member of the supervisory bodies of the following subsidiaries, associates and joint ventures:

- T-Mobile us, Inc., Bellevue, United States, Chairman of the Board of Directors (since 5/2013)
- EE Limited, Hatfield, United Kingdom, Member of the Board of Directors (from 4/2012 to 1/2014)
- Telekom Deutschland GmbH, Bonn (since 4/2005), Chairman of the Supervisory Board (since 7/2009)

## REINHARD CLEMENS

Board member responsible for T-Systems since December 1, 2007  
– no other seats –

## NIEK JAN VAN DAMME

Board member responsible for Germany since July 1, 2009

Member of the supervisory bodies of the following subsidiaries, associates and joint ventures:

- Deutsche Telekom Kundenservice GmbH, Bonn (since 8/2009)
- Deutsche Telekom Technischer Service GmbH, Bonn (since 9/2009), Chairman of the Supervisory Board (since 12/2009)
- Telekom Shop Vertriebsgesellschaft mbH, Bonn (since 8/2009), Chairman of the Supervisory Board (since 9/2009)
- T-Mobile Netherlands Holding B.V., The Hague, Netherlands, Chairman of the Supervisory Board (since 4/2014)

## THOMAS DANNENFELDT

Board member responsible for Finance since January 1, 2014

Member of the supervisory bodies of the following subsidiaries, associates and joint ventures:

- BUYIN S.A., Brussels, Belgium, Member of the Board of Directors (since 2/2014)
- EE Limited, Hatfield, United Kingdom, Member of the Board of Directors (since 2/2014)
- T-Mobile us, Inc., Bellevue, United States, Member of the Board of Directors (since 11/2013)
- T-Systems International GmbH, Frankfurt/Main, Chairman of the Supervisory Board (since 1/2014)

## DR. THOMAS KREMER

Board member responsible for Data Privacy, Legal Affairs and Compliance since June 1, 2012

Acting Board member responsible for Human Resources since January 2014, and interim Board member responsible for Human Resources as of May 1, 2014  
– no other seats –

## CLAUDIA NEMAT

Board member responsible for Europe and Technology since January 1, 2012  
Board member responsible for Europe since October 1, 2011

Seats on the supervisory bodies of other companies:

- Lanxess AG, Leverkusen (since 7/2013)

Member of the supervisory bodies of the following subsidiaries, associates and joint ventures:

- BUYIN S.A., Brussels, Belgium (since 10/2011), Chairwoman of the Board of Directors (since 1/2015)
- EE Limited, Hatfield, United Kingdom (from 10/2011 to 2/2014)
- HELLENIC TELECOMMUNICATIONS ORGANIZATION S.A. (OTE S.A.), Maroussi, Athens, Greece (since 10/2011)

Board of Management members who left during 2014:

## PROF. DR. MARION SCHICK

Board member responsible for Human Resources from May 3, 2012 to April 30, 2014

Member of the supervisory bodies of the following subsidiaries, associates and joint ventures:

- T-Systems International GmbH, Frankfurt/Main (from 5/2012 to 4/2014)
- Telekom Deutschland GmbH, Bonn (from 5/2012 to 4/2014)



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## GLOSSARY

**4G.** Refers to the fourth-generation mobile communications standard that supports higher transmission rates (see LTE).

**5G.** The 5G mobile communications standard is to be introduced from 2020. 5G allows cell phones to receive data from several base stations at the same time.

**All IP – All Internet Protocol.** An all-IP network makes services such as VoIP (Voice over IP), IPTV (Internet Protocol Television), data transfer, etc. available to all users anywhere at all times. The data is transmitted in switched packets using the Internet Protocol (IP).

**App.** Apps (short for applications) are programs, especially for smartphones. They are available via an online shop that is usually integrated into the smartphone's operating system, and can be installed directly on the device.

**AT&T transaction.** For details on the AT&T transaction relating to T-Mobile USA and the effects of the termination of the agreement on the sale of the former T-Mobile USA to AT&T, please refer to the 2011 Annual Report (in particular PAGES 76 and 182 ET SEQ.).

**Big data.** The storage, preparation, processing, and analysis of large volumes of data.

**Bitstream access.** Wholesale service used by alternative telephone companies to provide broadband lines.

**Call by call.** Refers to the option of making and paying for individual telephone calls or Internet connections via a different provider than the one providing the telephone line.

**Carrier.** A telecommunications network operator.

**Cash capex.** Investments in property, plant and equipment, and intangible assets (excluding goodwill) as shown in the statement of cash flows.

**Cloud computing.** Refers to the dynamic provision of infrastructure, software, or platform services online. Apart from a high level of automation and virtualization, the services provided have to be multi-client-capable and include standardized hardware and software. Customers source these services on demand and pay based on actual usage. The communication infrastructure may be the Internet (public cloud), a corporate network (private cloud), or a mix of the two (hybrid cloud). Dynamic Services is a T-Systems product for the flexible procurement of ICT resources and services.

**Connected car.** A car connected by mobile Internet that is fitted with the eCall emergency call system, for example, can send and receive e-mails, or stay informed about traffic congestion and free parking spaces, or can get a remote diagnosis from a workshop.

**Connected home.** Refers to the connection of household appliances and functions that can be controlled remotely using a smartphone or tablet.

**Connected life and work.** Refers to the convenient management of all personal data and Internet services on any screen – whether tablet, PC, cell phone, or TV set. Requires secure storage of data in the network, which can then be accessed by all devices via broadband networks.

**Contingent model.** Contract concluded over a long period of time with defined advance payment and minimum purchase requirement. In return, the reseller pays a reduced monthly charge for VDSL. This allows them to put together interesting offers for their own consumers without having to invest in fiber-optic lines of their own. This improves the utilization of Telekom Deutschland GmbH's existing VDSL network. The current "contingent model" is being developed further to reflect the network build-out in terms of availability and bandwidth.

**Cyber Security.** Protection against online crime.

**De-Mail.** The secure electronic counterpart to classic paper-based mail. With the new service, private individuals and companies can send and receive messages and documents securely, confidentially, and verifiably over the Internet.

**Desktop services.** Global desktop services involve a variety of support services, including the outsourcing of entire IT networks. In this context, Deutsche Telekom offers a full portfolio of corporate IT services, from server infrastructure and PC workstations through to application management and call center services that provide user support.

**DSC – Dynamic Services for Collaboration.** DSC enable company-wide and cross-company communications and collaboration from the cloud. The DSC package includes the Microsoft services Exchange, Lync and SharePoint from the highly secure T-Systems private cloud. Companies can access these services via their corporate network as well as via the Internet or using a mobile device from any location. Existing IT systems and applications can also be integrated into the collaboration landscape.

**Dynamic services.** Variable and needs-based ICT resources and services provided by T-Systems. These can include, for example, computing capacity, data service, and the provision of an application like SAP.

**Dynamic Workplace.** With Dynamic Workplace, T-Systems provides companies with a secure and flexible solution that makes digital workplaces available anywhere, anytime and on any device – and saves costs. This means that workplaces are no longer integral part of PCs set up in offices but are provided centrally in a T-Systems data center – mobile working in the cloud. Employees access their usual desktop via the browser. The user interface is always the same – irrespective of whether it is on the PC, laptop, smartphone or tablet.

**Entertain.** Deutsche Telekom's Internet Protocol TV service (see also IPTV). The TV signals are transported over the digital subscriber line, facilitating interactive features such as time-shift TV or access to online video stores. Entertain provides hybrid offerings which use not only the DSL line but also the satellite infrastructure for delivering TV signals.

**ERP – Enterprise Resource Planning.** Refers to systems that help deploy an organization's resources such as capital, equipment, and human resources as efficiently as possible in order to optimize business processes.

**Fiber-optic lines.** Sum of all FTTx access lines (e.g., FTTC/VDSL, vectoring, and FTTH).

**Fixed-network lines.** Lines in operation excluding internal use and public telecommunications, including IP-based lines. The totals reported in the combined management report were calculated on the basis of precise figures and rounded to millions or thousands. Percentages were calculated on the basis of the figures shown.

**Flat rate.** A flat rate plan for network access that is not linked to usage. It is important to note the contractually agreed services, e.g., transfer bandwidth, data volume.

**FMC – Fixed-mobile convergence.** Describes the convergence of fixed and mobile rate plans. Customers that have both fixed-network and mobile contracts with Deutsche Telekom.

**FTTB – Fiber To The Building or Fiber To The Basement.** In telecommunications FTTB means that optical fiber cable is terminated in the user's house (basement).

**FTTC – Fiber to the Curb.** In the FTTC architecture the optical fiber cable is not terminated inside users' homes (see FTTH) but in a cable distribution box (gray street cabinet). Existing copper technology is used for the last section of the connection to the user.

**FTTH – Fiber to the Home.** In telecommunications FTTH means that optical fiber cable is terminated right in the user's home or apartment.

**FTTx.** This includes the three options for fiber-optic roll-out FTTB, FTTC and FTTH.

**Greenhouse Gas Protocol – GHG Protocol.** The Greenhouse Gas (GHG) Protocol divides emissions into the Scope 1, Scope 2, and Scope 3 categories, depending on the degree to which they can be influenced by the reporting company.

- Scope 1 accounts for all direct GHG emissions.
- Scope 2 accounts for indirect emissions associated with the generation of electricity, steam, or heat purchased from external sources.
- Scope 3 allows for the treatment of all other indirect emissions associated with logistics, use of materials, supplies, and waste disposal, including emissions generated by service and manufacturing companies working for the reporting company and their upstream suppliers.

**Gigabit.** 1 billion bits. Unit of measurement for data transfer rates.

**Gigabyte.** 1 billion bytes. Unit of measurement for data storage.

**GSM – Global System for Mobile communications.** Global standard for digital mobile communications.

**Housing sector.** Business model: partnering between Deutsche Telekom and the housing sector.

**Hybrid line.** Combines the strengths of the DSL/VDSL fixed network and the LTE mobile network. While using the Internet at home the hybrid router transports the permanent data load with top priority via the DSL/VDSL line. During peak load the router automatically connects to the high-speed mobile network for down- and uploading.

**Hybrid router.** Routers that are able to combine the customer's fixed and mobile bandwidths.

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## ICT – Information and Communication Technology.

**Intelligent network.** Refers to a service-oriented centralized system that piggybacks onto an existing communication network, adding intelligent network components and additional features in the process.

**Interconnection – IC.** See MTR.

**IP – Internet Protocol.** Non-proprietary transport protocol in layer 3 of the OSI reference model for inter-network communications.

**IPTV – Internet Protocol Television.** Refers to the digital transfer of television programs and films over a digital data network using the Internet Protocol (IP).

**IP VPN – Internet Protocol Virtual Private Network.** A virtual private network or VPN – e.g., a company intranet – that uses the Internet Protocol. An IP VPN allows the connected Local Area Networks (LANs) of a company to swap data over a secure channel (IP tunneling). This makes it possible, for example, to provide secure access to a corporate network from any dial-up Internet access point in the world.

**Joint venture.** Two or more companies set up a joint enterprise for cooperation.

**LTE – Long Term Evolution.** New generation of 4G mobile communications technology using, among others, wireless spectrum on the 800 MHz band freed up by the digitization of TV. Powerful TV frequencies enable large areas to be covered with far fewer radio masts. LTE supports speeds of over 100 Mbit/s downstream and 50 Mbit/s upstream, and facilitates new services for mobile phones, smartphones, and tablets.

**M2M – Machine to Machine.** Communication between machines. The information is automatically sent to the recipient. For example, in an emergency, alarm systems automatically send a signal to security or the police.

**Mbit/s – Megabits per second.** Unit of data transmission speed.

**Mobile customers.** In the combined management report, one mobile communications card corresponds to one customer. The totals were calculated on the basis of precise figures and rounded to millions or thousands. Percentages were calculated on the basis of the figures shown (see also SIM card).

**MTR – Mobile Termination Rate.** Termination refers to the transportation of a call, e.g. from the competitor's network to the Deutsche Telekom network. When a call is transported to the mobile communications network, this is referred to as mobile termination. If the call is transported to the fixed network, this is called fixed-network termination, or simply interconnection (IC). Termination rates are the fee a telephone company must pay for network interconnection when a call is terminated in a third-party network.

**MVNO – Mobile Virtual Network Operator.** Company that offers mobile minutes at relatively low prices without subsidized handsets. A mobile virtual network operator does not have its own wireless network, but uses the infrastructure of another mobile operator to provide its services.

**NGA – Next-Generation Access.** Refers to access to next-generation networks such as IP networks, the optical fiber network (FTTH), and 4G mobile networks.

**NGN – Next-Generation Network.** A communication network that reflects the convergence of conventional networks (telephone networks, mobile communications networks, etc.) and IP-based networks. All services are based on the Internet Protocol. NGNs represent a fundamental shift in the architecture of public networks with packet-switched networks replacing the circuit-switched networks that were optimized for telephone services. They support voice, data, and multimedia, and are closely linked to the spread of Voice over IP (VoIP).

**Optical fiber.** Channel for optical data transmission.

**OTT player – Over-the-top player.** Providers of IP-based, platform-independent services, such as WhatsApp.

**Postpaid.** Customers who pay for communications services after receiving them (usually on a monthly basis).

**Prepay/prepaid.** In contrast to postpay contracts, prepay communication services are services for which credit has been purchased in advance with no fixed-term contractual obligations.

**PSTN – Public Switched Telephone Network.** Global public telephone network comprising elements such as telephones, connecting cables, and exchanges.

**PTC transaction.** For information on the agreement with the French company Vivendi, the Polish company Elektrim and Elektrim's creditors regarding PTC and its impact, please refer to the 2010 Annual Report (in particular PAGE 48) and the Interim Group Report for the period from January 1 to March 31, 2011 (in particular PAGES 7 and 64).

**Rating.** Assessment of the creditworthiness of securities or debtors by rating agencies. Deutsche Telekom defines a rating corridor in its finance strategy that is designed to safeguard access to the international capital markets.

**Retail.** The sale of goods and services to end users, as opposed to resale or wholesale.

**Reverse factoring.** Reverse factoring is a method of financing that enables suppliers to sell receivables.

**Roaming.** Refers to the use of a communication device or just a subscriber identity in a visited network rather than one's home network. This requires the operators of both networks to have reached a roaming agreement and switched the necessary signaling and data connections between their networks. Roaming comes into play when cell phones and smartphones are used across national boundaries.

**Router.** A coupling element that connects two or more sub-networks. Routers can also extend the boundaries of a network, monitor data traffic, and block any faulty data packets.

**Service revenues.** Revenues generated by mobile communications customers from services (i.e., revenues from voice services – incoming and outgoing calls – and data services), plus roaming revenues, monthly charges, and visitor revenues.

**SIM card – Subscriber Identification Module card.** Chip card that is inserted into a cell phone to identify it in the mobile network. Deutsche Telekom counts its customers by the number of SIM cards activated and not churned. Customer totals also include the SIM cards with which machines can communicate automatically with one another (M2M cards). The churn rate is determined and reported based on the local markets of the respective countries.

**Smart metering.** The service consists of the reading, processing, presentation, and billing of power and energy consumption, and other meters in industry and homes. Smart metering reduces costs considerably and paves the way for a mass-marketable service. In particular, the technology allows energy utilities, meter operators, and the housing sector to offer their customers innovative products and services, as it delivers consumption data virtually in real time.

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**Stakeholder.** The stakeholder approach is an extension of the shareholder value approach, a concept frequently used in business administration. In contrast to the shareholder value principle, which focuses on the needs and expectations of a company's shareholders, the stakeholder approach attempts to appreciate the company against its overall social background and reconcile the needs of the different stakeholders. In addition to shareholders, stakeholders include staff, customers, suppliers, the government, and the public at large.

**TeraStream.** A considerably simplified IP network concept that provides all services, including conventional telecommunications services (voice, IPTV, Internet access), from the cloud rather than via a network as is the case today.

**ULL – Unbundled Local Loop.** Competitors whose own networks do not reach into customers' premises can rent unbundled local loop lines from Deutsche Telekom. Their networks end at the local exchanges. The ULL bridges the distance between the local exchange and the termination point on the customer's premises or in their home, so it is also known as the "last mile."

**Utilization rate.** Systems Integration: ratio of average number of hours billed to maximum possible hours billed per period.

**Vectoring.** Vectoring is a noise-canceling technology that removes the interference between lines, enabling higher bit rates. However, in order to cancel noise, the operator must have control over all lines. This means that other operators cannot install their own technology at the cable distribution boxes.

**VPN – Virtual Private Network.** A computer network that uses a public network to transmit private data. The data is "tunneled" through the public network and is usually encrypted in the process. However, the term "private" does not necessarily imply encrypted transmission. The variant commonly used today is the IP VPN that connects users via IP tunnels.

**Wholesale.** Refers to the business of selling services to third parties who sell them to their own end customers either directly or after further processing.

**Wholesale bundled lines – IP-Bitstream Access/IP-BSA.** Wholesale product for which Deutsche Telekom leases DSL lines to the competitor and transports the datastream via its concentrator network to the associated broadband point of presence (PoP), where the datastream is handed over to the competitor. In contrast to voluntary DSL resale, IP-BSA is a wholesale service required by the regulatory authority. This product is available in conjunction with a Deutsche Telekom PSTN line or as a DSL stand-alone variant (see also Wholesale unbundled lines).

**Wholesale unbundled lines (including IP-BSA Stand Alone (IP-BSA SA).** Wholesale product not bundled with a Deutsche Telekom PSTN line, which allows competitors to offer an all-IP product range to end customers.

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This Report (particularly the section “Forecast”) contains forward-looking statements that reflect the current views of Deutsche Telekom’s management with respect to future events. They are generally identified by the words “expect,” “anticipate,” “believe,” “intend,” “estimate,” “aim,” “goal,” “plan,” “will,” “seek,” “outlook” or similar expressions and include generally any information that relates to expectations or targets for revenue, adjusted EBITDA or other performance measures.

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## CONTACTS

Deutsche Telekom AG  
Corporate Communications  
Friedrich-Ebert-Allee 140  
53113 Bonn, Germany  
Phone +49 (0) 228 181 4949  
Fax: +49 (0) 228 181 94004  
E-mail: [media@telekom.de](mailto:media@telekom.de)

[www.telekom.com](http://www.telekom.com)  
[www.twitter.com/deutschetelekom](https://www.twitter.com/deutschetelekom)

Please refer all questions relating to the T-Share to:

Phone +49 (0) 228 181 88880  
Fax +49 (0) 228 181 88899  
E-mail: [investor.relations@telekom.de](mailto:investor.relations@telekom.de)

Our Annual Report is available online at:

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## FINANCIAL CALENDAR

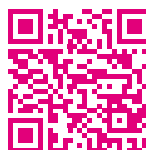
### Financial calendar<sup>a</sup>

Press conference on the 2014 financial statements and publication of the 2014 Annual Report	February 26, 2015
Group report as of March 31, 2015	May 13, 2015
2015 shareholders' meeting (Cologne)	May 21, 2015
Dividend payout <sup>b</sup>	June 17, 2015
Group report as of June 30, 2015	August 6, 2015
Group report as of September 30, 2015	November 5, 2015
Press conference on the 2015 financial statements and publication of the 2015 Annual Report	February 25, 2016

All dates are subject to change.

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

<sup>b</sup> Deutsche Telekom is again considering paying out the dividend either in cash or in the form of shares. The cash dividend is expected to be paid out on June 17, 2015. Subject to approval by the relevant bodies and the fulfillment of other legal provisions.



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

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