IMPORTANT NOTICE

NOT FOR DISTRIBUTION IN OR INTO THE UNITED STATES OR TO U.S. PERSONS EXCEPT TO PERSONS WHO ARE QUALIFIED INSTITUTIONAL BUYERS PURSUANT TO RULE 144A UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"). NOT FOR DISTRIBUTION ELSEWHERE OR OTHERWISE THAN TO PERSONS TO WHOM IT CAN LAWFULLY BE DISTRIBUTED.

IMPORTANT: You must read the following disclaimer before continuing. The following disclaimer applies to the attached offering memorandum. You are advised to read this disclaimer carefully before accessing, reading or making any other use of the attached offering memorandum. In accessing the attached offering memorandum, you agree to be bound by the following terms and conditions, including any modifications to them from time to time, each time you receive any information as a result of such access.

CONFIRMATION OF YOUR REPRESENTATION: By accessing the attached offering memorandum, you shall be deemed to have represented that (a) you consent to delivery of the attached offering memorandum and any amendments or supplements thereto by electronic transmission and (b) either (i) you are a "qualified institutional buyer" (as defined in Rule 144A under the Securities Act), or (ii) (A) you are outside the United States and are not a U.S. Person (as defined in Regulation S under the Securities Act), nor acting on behalf of a U.S. Person and, to the extent you purchase the Securities (as defined herein) described in the attached offering memorandum, you will be doing so pursuant to Regulation S under the Securities Act, and (B) the electronic mail address to which the attached offering memorandum has been delivered is not located in the United States.

The attached offering memorandum has been made available to you in electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of transmission and consequently none of Deutsche Telekom AG and Deutsche Telekom International Finance B.V., none of Citigroup Global Markets Inc., Deutsche Bank Securities Inc., Morgan Stanley & Co. LLC, Credit Suisse Securities (USA) LLC, MUFG Securities Americas Inc. and Santander Investment Securities Inc. (collectively, the "**Initial Purchasers**") or any of their respective affiliates, directors, officers, employees, representatives and agents or any other person controlling them accepts any liability or responsibility whatsoever in respect of any discrepancies between the offering memorandum distributed to you in electronic format and the hard copy version available to you on request from the Initial Purchasers.

Restrictions: The attached offering memorandum is being furnished in connection with an offering exempt from registration under the Securities Act. Nothing in this electronic transmission constitutes an offer of securities for sale in the United States or to any U.S. Person.

THE ATTACHED OFFERING MEMORANDUM IS BEING PROVIDED TO YOU ON A CONFIDENTIAL BASIS FOR INFORMATIONAL USE SOLELY IN CONNECTION WITH YOUR CONSIDERATION OF THE PURCHASE OF THE SECURITIES REFERRED TO THEREIN. YOU ARE NOT AUTHORIZED TO, AND YOU MAY NOT, FORWARD OR DELIVER THE ATTACHED OFFERING MEMORANDUM, ELECTRONICALLY OR OTHERWISE, TO ANY OTHER PERSON OR REPRODUCE SUCH OFFERING MEMORANDUM IN ANY MANNER WHATSOEVER. ANY FORWARDING, DISTRIBUTION OR REPRODUCTION OF THIS DOCUMENT AND THE ATTACHED OFFERING MEMORANDUM, IN WHOLE OR IN PART, IS UNAUTHORIZED. FAILURE TO COMPLY WITH THIS DIRECTIVE MAY RESULT IN A VIOLATION OF THE SECURITIES ACT OR THE APPLICABLE LAWS OF OTHER JURISDICTIONS.

THE NOTES TO BE ISSUED AND THE GUARANTEES OF THE NOTES (THE "**SECURITIES**") HAVE NOT BEEN, AND WILL NOT BE, REGISTERED UNDER THE SECURITIES ACT OR THE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES OR OTHER JURISDICTION. THE SECURITIES MAY NOT BE OFFERED OR SOLD IN THE UNITED STATES OR TO OR FOR THE ACCOUNT OR BENEFIT OF U.S. PERSONS (AS SUCH TERMS ARE DEFINED IN REGULATION S UNDER THE SECURITIES ACT) UNLESS REGISTERED UNDER THE SECURITIES ACT OR PURSUANT TO AN EXEMPTION FROM SUCH REGISTRATION.

The distribution of the attached offering memorandum and the offer, sale or solicitation of an offer to buy the Securities is restricted by law in certain jurisdictions. The attached offering memorandum may not be used for, or in connection with, and does not constitute, any offer to sell or solicitation of an offer to buy the Securities by anyone in any jurisdiction or under any circumstance in which such offer or solicitation is not authorized or is unlawful. Persons into whose possession the attached offering memorandum may come are required to inform themselves about and to observe such restrictions. Further information with regard to restrictions on offers, sales and deliveries of the Securities and the distribution of the attached offering memorandum and other offering material relating to the Securities is set out under "Plan of Distribution" in the attached offering memorandum.

No action has been or will be taken in any jurisdiction that would, or is intended to, permit a public offering of the Securities, or possession or distribution of the offering memorandum (in preliminary, proof or final form) or any other offering or publicity material relating to the Securities, in any country or jurisdiction where action for that purpose is required. If a jurisdiction requires that the offering be made by a licensed broker or dealer and any of the Initial Purchasers or any affiliate of the Initial Purchasers is a licensed broker or dealer in that jurisdiction, the offering will be deemed to be made by the Initial Purchasers or such affiliate on behalf of the issuer, Deutsche Telekom International Finance B.V., in such jurisdiction.

You are reminded that the attached offering memorandum has been delivered to you on the basis that you are a person into whose possession the attached offering memorandum may be lawfully delivered in accordance with the laws of the jurisdiction in which you are located. If you receive this document by e-mail, you should not reply by e-mail to this announcement. Any reply e-mail communications, including those you generate by using the "Reply" function on your e-mail software, will be ignored or rejected. If you receive this document by e-mail, your use of this e-mail is at your own risk and it is your responsibility to take precautions to ensure that it is free from viruses and other items of a destructive nature.

OFFERING MEMORANDUM CONFIDENTIAL

Deutsche Telekom International Finance B.V.

$850,000,000 2.225% Notes due January 17, 2020
$1,000,000,000 2.820% Notes due January 19, 2022
$1,250,000,000 3.600% Notes due January 19, 2027
$400,000,000 Floating Rate Notes due January 17, 2020

Guaranteed as to Payment of Principal and Interest by Deutsche Telekom AG

Pursuant to this offering memorandum, Deutsche Telekom International Finance B.V. ("Finance" or the "Issuer") is offering $850,000,000 2.225% Notes due January 17, 2020 (the "2020 Fixed Rate Notes"), $1,000,000,000 2.820% Notes due January 19, 2022 (the "2022 Fixed Rate Notes"), $1,250,000,000 3.600% Notes due January 19, 2027 (the "2027 Fixed Rate Notes" and together with the 2020 Fixed Rate Notes and the 2022 Fixed Rate Notes, the "Fixed Rate Notes") and $400,000,000 Floating Rate Notes due January 17, 2020 (the "Floating Rate Notes", and together with the Fixed Rate Notes, the "Notes"). Deutsche Telekom AG ("Deutsche Telekom" or the "Guarantor") is the guarantor of the Notes.

Finance will pay interest on the 2020 Fixed Rate Notes at an annual rate of 2.225% from January 19, 2017, semi-annually in arrears on January 17 and July 17 of each year, commencing on July 17, 2017 (short first coupon). Finance will pay interest at an annual rate of 2.820% on the 2022 Fixed Rate Notes and 3.600% on the 2027 Fixed Rate Notes, from January 19, 2017, semi-annually in arrears on January 19 and July 19 of each year, commencing on July 19, 2017. Finance will pay interest on the Floating Rate Notes at a floating rate equal to the 3-month U.S. dollar LIBOR, reset quarterly, plus a spread of 0.58%, from January 19, 2017, quarterly in arrears on January 17, April 17, July 17 and October 17 of each year, commencing on April 17, 2017 (short first coupon).

Finance may redeem the Fixed Rate Notes on the terms described in this offering memorandum under "*Description of the Notes and Guarantees—Optional Redemption*". Finance may also redeem the Notes at 100% of their principal amount plus accrued interest if certain tax events occur as described under "*Description of the Notes and Guarantees—Optional Tax Redemption*".

Investing in the Notes involves risks. See "Risk Factors" beginning on page 16.

The Notes have not been and will not be registered under the U.S. Securities Act of 1933, as amended (the "Securities Act") or any state or other securities laws. The Notes may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons, except to qualified institutional buyers ("QIBs") in reliance on the exemption from registration provided by Rule 144A under the Securities Act ("Rule 144A") and to certain non-U.S. persons in offshore transactions in reliance on Regulation S under the Securities Act ("Regulation S"). Prospective purchasers are hereby notified that sellers of the Notes may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A. The Notes are not transferable except in accordance with the restrictions described under "*Transfer Restrictions*".

2020 Fixed Rate Notes Issue Price: 99.940%
2022 Fixed Rate Notes Issue Price: 99.995%
2027 Fixed Rate Notes Issue Price: 99.875%
Floating Rate Notes Issue Price: 100.000%

plus, in each case, accrued interest from January 19, 2017 if settlement occurs after that date.

The Notes will be represented by one or more global notes registered in the name of The Depository Trust Company ("DTC"), as depositary, or a nominee of DTC. Beneficial interests in the Notes will be shown on, and transfers thereof, will be effected through, records maintained by DTC, Clearstream Banking, *société anonyme* ("Clearstream") and Euroclear Bank SA/NV ("Euroclear"), and their respective participants. See "*Book-Entry; Delivery and Form; Summary of Provisions Relating to Notes in Global Form*" and "*Transfer Restrictions*".

The Initial Purchasers (as defined in "*Plan of Distribution*") expect to deliver the Notes against payment in immediately available funds on or about January 19, 2017.

Joint Book-Running Managers

Citigroup **Deutsche Bank Securities** **Morgan Stanley**

Credit Suisse **MUFG** **Santander**

January 9, 2017

We are responsible for the information contained in this offering memorandum. We have not authorized anyone to give you any other information, and we take no responsibility for any other information that others may give you. You should assume that the information appearing in this offering memorandum is accurate as of the date on the front cover of this offering memorandum only. Our business, financial condition, results of operations and prospects may have changed since that date.

This offering memorandum is confidential. You are authorized to use this offering memorandum solely for the purpose of considering the purchase of the Notes described in this offering memorandum. You may not reproduce or distribute this offering memorandum, in whole or in part, and you may not disclose any of the contents of this offering memorandum or use any information herein for any purpose other than considering a purchase of the Notes. You agree to the foregoing by accepting delivery of this offering memorandum.

Each investor in the Notes will be deemed to make certain representations, warranties and agreements regarding the manner of purchase and subsequent transfers of the Notes. These representations, warranties and agreements are described in "*Transfer Restrictions*".

The Initial Purchasers make no representation or warranty, expressed or implied, as to the accuracy or completeness of such information, and nothing contained in this offering memorandum is, or shall be relied upon as, a promise or representation by the Initial Purchasers. Neither we, nor the Initial Purchasers, nor any of our or their respective representatives make any representation to any offeree or purchaser of the Notes offered hereby regarding the legality of an investment by such offeree or purchaser under applicable legal investment or similar laws. You should consult with your own advisers as to legal, tax, business, financial and related aspects of a purchase of the Notes. Notwithstanding anything herein to the contrary, investors may disclose to any and all persons, without limitation of any kind, the U.S. federal or state income tax treatment and tax structure of the offering and all materials of any kind (including opinions or other tax analyses) that are provided to the investors relating such tax treatment and tax structure. However, any information relating to the U.S. federal income tax treatment or tax structure shall remain confidential (and the foregoing sentence shall not apply) to the extent reasonably necessary to enable any person to comply with applicable securities laws. For this purpose, "tax structure" means any facts relevant to the U.S. federal or state income tax treatment of the offering but does not include information relating to the identity of the issuer of the securities, the issuer of any assets underlying the securities, or any of their respective affiliates that are offering the securities.

In connection with the issue of the Notes, one or more of Citigroup Global Markets Inc., Deutsche Bank Securities Inc. and Morgan Stanley & Co. LLC (the "Stabilizing Manager(s)") (or persons acting on behalf of any Stabilizing Manager(s)) may over-allot Notes or effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail. However, there is no assurance that the Stabilizing Manager(s) (or persons acting on behalf of a Stabilizing Manager) will undertake stabilization action. Any stabilization action may begin on or after the date on which adequate public disclosure of the final terms of the offer of the Notes is made and, if begun, may be ended at any time but must end no later than the earlier of 30 days after the issue date of the Notes and 60 days after the date of the allotment of the Notes. Any stabilization action or over-allotment must be conducted by the relevant Stabilizing Manager(s) (or person(s) acting on behalf of any Stabilizing Manager(s)) in accordance with all applicable laws and rules.

NOTICE TO INVESTORS IN THE UNITED KINGDOM

This offering memorandum is only being distributed to and is only directed at (i) persons who are outside the United Kingdom or (ii) investment professionals falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the "Order") or (iii) high net worth companies, and other persons to whom it may lawfully be communicated, falling within Article 49(2)(a) to (d) of the Order (all such persons together being referred to as "relevant persons"). The Notes are only available to, and any invitation, offer or agreement to subscribe, purchase or otherwise acquire such Notes will be engaged in only with, relevant persons. Any person who is not a relevant person should not act or rely on this document of any of its contents.

NOTICE TO INVESTORS IN THE EUROPEAN ECONOMIC AREA

In relation to each Member State of the European Economic Area (the "EEA"), each initial purchaser has represented, warranted and agreed that it has not made and will not make an offer of Notes to the public in that Member State except that it may make an offer of Notes to the public in that Member State:

(a) to any legal entity which is a qualified investor as defined in the Prospectus Directive;

(b) to fewer than 150 natural or legal persons (other than qualified investors as defined in the Prospectus Directive), as permitted under the Prospectus Directive, subject to obtaining the prior consent of the relevant Initial Purchaser or Initial Purchasers nominated by the Issuer for any such offer; or

(c) in any other circumstances falling within Article 3(2) of the Prospectus Directive;

provided that no such offer of Notes shall require the Issuer, the Guarantor or any Initial Purchasers to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive, in each case, in relation to such offer. Neither the Issuer nor the Guarantor nor the Initial Purchasers have authorized, nor do they authorize, the making of any offer of Notes in circumstances in which an obligation arises for the Issuer, the Guarantor or the Initial Purchasers to publish or supplement a prospectus for such offer.

For the purposes of this provision, the expression an "offer of Notes to the public" in relation to any Notes in any Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe the Notes, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State and the expression "Prospectus Directive" means Directive 2003/71/EC (as amended by Directive 2010/73/EU), and includes any relevant implementing measure in the Member State.

This EEA selling restriction is in addition to any other selling restrictions set out under "*Plan of Distribution—Selling restrictions*" in this offering memorandum.

NOTICE TO INVESTORS IN CANADA

The Notes may be sold in Canada only to purchasers purchasing, or deemed to be purchasing, as principal that are accredited investors, as defined in National Instrument 45-106 Prospectus Exemptions or subsection 73.3(1) of the Securities Act (Ontario), and are permitted clients, as defined in National Instrument 31-103 Registration Requirements, Exemptions and Ongoing Registrant Obligations. Any resale of the Notes must be made in accordance with an exemption from, or in a transaction not subject to, the prospectus requirements of applicable securities laws.

Securities legislation in certain provinces or territories of Canada may provide a purchaser with remedies for rescission or damages if this offering memorandum (including any amendment thereto) contains a misrepresentation, provided that the remedies for rescission or damages are exercised by the purchaser within the time limit prescribed by the securities legislation of the purchaser's province or territory. The purchaser should refer to any applicable provisions of the securities legislation of the purchaser's province or territory for particulars of these rights or consult with a legal advisor.

Pursuant to section 3A.3 of National Instrument 33-105 Underwriting Conflicts (NI 33-105), the Initial Purchasers are not required to comply with the disclosure requirements of NI 33-105 regarding underwriter conflicts of interest in connection with this offering.

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Condensed Consolidated Interim Financial Statements as of and for the Nine-Month Period Ended September 30, 2016, including the Review Report of PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft ("PwC")

Consolidated Financial Statements as of and for the Year Ended December 31, 2015, including the Independent Auditor's Report of PwC

Consolidated Financial Statements as of and for the Year Ended December 31, 2014, including the Independent Auditor's Report of PwC

DEFINED TERMS AND FINANCIAL INFORMATION

As used in this offering memorandum, unless the context otherwise requires, the terms “we”, “us”, “our”, “Company”, and “Group” refer to Deutsche Telekom AG and its consolidated subsidiaries. The “Guarantor” and “Deutsche Telekom” refer to Deutsche Telekom AG.

As used in this offering memorandum, “euro”, “EUR” or “€” means the single unified currency that was introduced in the Federal Republic of Germany (the “Federal Republic”) and ten other participating Member States of the European Union (the “EU”) on January 1, 1999. “U.S. dollar”, “USD” or “$” means the lawful currency of the United States of America. “British pounds sterling”, “GBP” or “£” means the lawful currency of the United Kingdom.

Unless otherwise indicated, the financial information contained in this offering memorandum has been prepared in accordance with the requirements of the International Financial Reporting Standards (“IFRS”) as adopted for use in the EU by the European Commission.

Rounding adjustments have been made in calculating some of the financial information included in this offering memorandum. As a result, figures shown as totals in some tables may not be exact arithmetic aggregations of the figures that comprise them.

In this offering memorandum, increases in negative numbers are expressed as positive percentages.

AVAILABLE INFORMATION

For so long as any of the Notes are “restricted securities” within the meaning of Rule 144(a)(3) under the Securities Act, during any period during which the Guarantor is neither subject to Sections 13 or 15(d) of the U.S. Securities Exchange Act of 1934, as amended (the “Exchange Act”) nor exempt from reporting pursuant to Rule 12g3-2(b) under the Exchange Act, the Issuer and the Guarantor will make available on request to each holder in connection with any resale thereof and to any prospective purchaser of such Notes from such holder, in each case upon request, the information specified in and meeting the requirements of Rule 144A(d)(4) under the Securities Act.

A copy of the fiscal and paying agency agreement to be entered into by Deutsche Telekom, Finance and Citibank, N.A. (“Citibank”), as fiscal agent, is available to holders of the Notes upon request, at no charge, from Citibank, N.A., Agency & Trust, 388 Greenwich Street, 14th Floor, New York, New York 10013, United States of America, and from Deutsche Telekom AG, Friedrich-Ebert-Allee 140, 53113 Bonn, Germany.

MARKET, RANKING AND OTHER DATA

The data included in this offering memorandum regarding markets, including the size of certain market segments and the Guarantor’s position within these markets, are based on independent industry publications, reports of government agencies or other published industry sources and the Guarantor’s estimates based on its management’s knowledge and experience in the market segments in which it operates. The Guarantor’s estimates are based on information obtained from customers, suppliers, trade and business organizations and other contacts in the market segments in which it operates. The Guarantor has not independently verified any of the data from third-party sources nor has it ascertained the underlying economic assumptions relied upon therein. The Guarantor believes these estimates to be accurate as of the date of this offering memorandum. However, this information may prove to be inaccurate because of the methods used to obtain some of the data for these estimates or because this information cannot always be verified with complete certainty due to the limits on the availability and reliability of raw data, the voluntary nature of the data gathering process and other inherent limitations and uncertainties.

World Wide Web addresses contained in this offering memorandum are for explanatory purposes only and they (and the content contained therein) do not form a part of, and are not incorporated by reference into, this offering memorandum.

FORWARD-LOOKING STATEMENTS

This offering memorandum contains forward-looking statements. Forward-looking statements are statements that are not historical facts. Examples of forward-looking statements include statements concerning:

- plans, objectives and expectations relating to future operations, products and services;
- expectations of future financial performance and their underlying assumptions, including, but not limited to, statements describing our expectations of future revenue, adjusted EBITDA and free cash flow development;
- our prospective share of new and existing markets;
- plans, objectives and expectations for our cost savings and workforce reduction initiatives and the impact of other significant strategic, labor or business initiatives, including acquisitions, dispositions and business combinations, and investments in networks and new spectrum and other expansion initiatives;
- the potential impact of regulatory actions on our financial condition and operations;
- our shareholder remuneration policy and the payment of dividends and/or carrying out of possible share repurchases;
- the possible outcomes and effects of litigation, investigations, contested regulatory proceedings and other disputes;
- future general telecommunications sector and macroeconomic growth rates; and
- our future revenues, expenditures and performance.

Forward-looking statements generally are identified by the words “expect”, “anticipate”, “believe”, “intend”, “estimate”, “aim”, “goal”, “plan”, “will”, “will continue”, “seek”, “outlook”, “guidance” and similar expressions.

Forward-looking statements are based on current plans, estimates and projections. You should consider them with caution. Forward-looking statements speak only as of the date they are made, and we undertake no obligation to update any forward-looking statement in light of new information or future events. Forward-looking statements involve inherent risks and uncertainties, most of which are difficult to predict and are generally beyond our control. We caution you that a number of important factors could cause actual results or outcomes to differ materially from those expressed in, or implied by, forward-looking statements, in particular forward-looking statements related to our expectations of future revenue, adjusted EBITDA and free cash flow development. These factors include, among others:

- changes in general economic and business conditions, including a deterioration in the economic environment, in the markets in which we and our subsidiaries and associated companies operate;
- the level of demand for telecommunications services in the markets we serve, particularly for wireless telecommunications services, broadband access lines, voice and data traffic, new higher-value products and services and new rate offerings;
- changes in government policies and new legislation;
- regulatory developments and changes, including with respect to the levels of tariffs, terms of interconnection, customer access, international settlement arrangements and the availability and allocation of radio and television spectrum for mobile telecommunications use;
- scarcity and cost of additional wireless spectrum;
- our ability to secure and retain the licenses needed to offer new and existing services and the cost of these licenses and related network infrastructure build-outs, particularly with respect to advanced services;
- competitive forces, including pricing pressures, technological developments and alternative routing developments, all of which affect our ability to gain or retain market share and revenues in the face of competition from existing and new market entrants;

- the effects of our customer acquisition and retention initiatives, particularly in the fixed-line voice telephony business, the mobile telecommunications business and our interconnection business;
- the effects of industry consolidation on the markets in which we operate, particularly with respect to our mobile and leased lines businesses;
- the success of new business, operating and financial initiatives, many of which involve substantial start-up costs and are untested, and of new systems and applications, particularly with regard to the integration of service offerings;
- our ability to achieve cost savings and realize productivity improvements, particularly with respect to our workforce-reduction initiatives, while at the same time enhancing customer service quality;
- our ability to retain and motivate key personnel;
- the impact of other significant strategic or business initiatives, including acquisitions, dispositions and business combinations;
- our ability to attract and retain qualified personnel, particularly in view of our cost reduction efforts;
- concerns over health risks associated with the use of wireless mobile devices and other health and safety risks related to radio frequency emissions;
- risks of infrastructure failures or damage due to external factors, including natural disasters, intentional wrongdoing, sabotage, acts of terrorism or similar events;
- the outcome of litigation, disputes and investigations in which we are involved or may become involved;
- risks and uncertainties relating to our international operations, including continued elevated levels of political uncertainty;
- risks and costs associated with integrating our acquired businesses and with selling or combining businesses or other assets;
- risks and uncertainties related to the development and implementation of our strategy;
- the progress of our domestic and international investments, joint ventures, partnerships and alliances;
- the effects of foreign exchange rate fluctuations, particularly in connection with subsidiaries operating outside the Eurozone;
- our ability to execute large-scale programs to reshape our information technology;
- instability and volatility in worldwide financial markets;
- the availability, terms and deployment of capital, particularly in view of our financing alternatives, actions of the rating agencies, developments in the banking sector and the impact of regulatory and competitive developments on our capital outlays; and
- the level of demand in the market for our debt obligations, and for the debt obligations of our subsidiaries and associated companies, and our shares, as well as for assets that we may decide to sell, which may affect our financing and acquisition strategies.

If these factors or other risks and uncertainties materialize, or if the assumptions underlying any of these statements prove incorrect, our actual performance and future actions may materially differ from those expressed or implied by forward-looking statements. We can offer no assurance that our estimates or expectations will be achieved or that we will be able to achieve our policy aims. When reviewing forward-looking statements contained in this document, investors and others should carefully consider the foregoing factors, as well as other uncertainties and events and their potential impact on our operations and businesses. You should refer to "*Risk Factors*" in this offering memorandum, for additional information on these and other risks and uncertainties.

LIMITATION ON ENFORCEMENT OF U.S. LAWS AGAINST THE GUARANTOR, THE ISSUER, THEIR MANAGEMENT AND OTHERS

Deutsche Telekom is a stock corporation (*Aktiengesellschaft*) organized under the laws of the Federal Republic of Germany, and Finance is a private company with limited liability for an unlimited duration, established under the laws of The Netherlands. The members of Deutsche Telekom's and Finance's respective supervisory and management boards are citizens or residents of countries other than the United States and their assets may be located outside the United States. As a result, you may not be able to effect service or process within the United States on such persons or upon Deutsche Telekom or Finance, or to enforce judgments of courts of the United States against them, whether or not predicated upon the civil liability provisions of the securities laws of the United States or any state or territory within the United States.

Under German law, a stock corporation may indemnify its employees, and, under certain circumstances, German labor law requires a stock corporation to do so. However, a stock corporation may not, as a general matter, indemnify members of the board of management or the supervisory board. Certain limited exceptions may apply if the indemnification is in the legitimate interest of the stock corporation. Deutsche Telekom's articles of incorporation do not contain provisions regarding the indemnification of its directors and officers. A German stock corporation may purchase directors' and officers' insurance. Deutsche Telekom has obtained liability insurance for members of its supervisory board (the "Supervisory Board") and its board of management (the "Board of Management") and certain of its officers. This includes insurance against liabilities under the Securities Act.

The laws of The Netherlands make no compulsory provision for the indemnification of members of the supervisory or management boards of a Dutch limited liability company. Finance's articles of incorporation do not contain provisions regarding the indemnification of its directors and officers. Deutsche Telekom has obtained liability insurance for members of Finance's supervisory board and its managing directors, including insurance against liabilities under the Securities Act.

The United States and Germany do not currently have a treaty providing for reciprocal recognition and enforcement of judgments in civil and commercial matters. In general, the enforcement of a final judgment of a United States court requires a declaration of enforceability by a German court in a special proceeding. Therefore, a final judgment for the payment of money rendered by a federal or state court in the United States based on civil liability, whether or not predicated solely upon United States federal securities laws, may not be enforceable, either in whole or in part, in Germany. In addition, awards of punitive damages in actions brought in the United States or elsewhere are likely to be unenforceable in Germany.

The United States and The Netherlands do not currently have a treaty or convention providing for reciprocal recognition and enforcement of judgments, other than arbitration awards, in civil and commercial matters. Accordingly, a judgment rendered by a court in the United States will not be automatically recognized and enforced by the Dutch courts. However, if the party in whose favor a judgment for the payment of money has been rendered by a competent court in the United States brings a new suit in a competent Dutch court, such party may submit to such court in The Netherlands the judgment which has been rendered in the United States. According to current practice, based on case law, the Dutch court may be expected to recognize, give res judicata effect to and render a judgment in accordance with the foreign judgment if and to the extent the following conditions are met: (i) it finds that the jurisdiction of the foreign court has been based on grounds which are internationally acceptable and that proper legal procedures have been observed, (ii) the foreign judgment is not in conflict with a decision rendered by a Dutch court between the same parties, nor with an earlier judgment rendered by a foreign court in proceedings involving the same cause of action and between the same parties, provided that the earlier decision can be recognized in The Netherlands, (iii) the foreign decision is — according to the law of its country of origin — formally capable of being enforced (*e.g.* is readily enforceable, has not been annulled in appeal or its enforceability has not been subject to a certain time frame) and except to the extent that the foreign judgment contravenes Dutch public policy.

SPECIAL NOTE ON NON-GAAP FINANCIAL MEASURES

In this offering memorandum, we have presented EBITDA, adjusted EBITDA, free cash flow and net debt, which are non-GAAP financial measures. A non-GAAP financial measure is generally defined as one that purports to measure historical or future financial performance, financial position or cash flows but excludes or includes amounts that would not be so adjusted in the most comparable GAAP measure (which for these purposes we mean the most comparable measure presented in accordance with International Financial Reporting Standards, or IFRS, as adopted by the European Union). Our non-GAAP financial measures are not governed by IFRS and other companies may not compute these non-GAAP measures using the same method as Deutsche Telekom. Therefore, these measures may not be comparable with measures with the same or similar title that are reported by other companies.

The non-GAAP measures in this offering memorandum should not be viewed in isolation as an alternative to profit (loss) from operations, net profit (loss), net cash from operating activities, the financial liabilities reported in our consolidated balance sheet or other financial information presented in accordance with IFRS. We urge you to review the reconciliations of the non-GAAP measures to IFRS financial measures and other financial information contained in this offering memorandum. We also urge you not to rely on any single financial measure to evaluate our business but instead to form your view on our business with reference to our audited annual consolidated financial statements included elsewhere in this offering memorandum and the other information we present in this offering memorandum.

EBITDA

We define EBITDA as profit (loss) from operations (EBIT) plus depreciation, amortization and impairment losses. We base our definition of EBITDA on profit (loss) from operations because this method of computation allows EBITDA to be derived in a uniform manner on the basis of a measure of earnings that is published for the operating segments and the Group as a whole. For a reconciliation of EBITDA to profit from operations, see "*Development of Our Business—Reconciliation of EBITDA and Adjusted EBITDA*".

Special Factors

EBITDA at the Group and segment levels was affected by a number of special factors relating to our operating activities in the reporting period as well as the prior-year periods. We believe that these special factors make it more difficult to compare EBITDA at the Group and segment levels with corresponding figures for prior periods. Adjustments are made irrespective of whether the relevant income and expenses are reported in profit (loss) from operations, profit (loss) from financial activities or tax expense.

We have grouped the special factors affecting EBITDA into the following five categories.

- Staff-related measures comprise expenses related to staff reduction initiatives or other programs to reduce headcount, including severance payments and early retirement.
- Non-staff-related restructuring comprises expenses relating to restructuring programs or other costs unrelated to our operations, such as costs associated with terminating contracts.
- Effects on earnings from business combinations and other transactions.
- Impairment losses.
- Other includes items that are unrelated to our operations.

Adjusted EBITDA

We define adjusted EBITDA as EBITDA excluding the effect of the special factors described above.

Our senior operating decision-makers use adjusted EBITDA as a performance indicator for managing our business activities, assessing our operating performance and measuring the performance of our operating segments. They believe that adjusted EBITDA permits them to better evaluate and compare developments over several reporting periods because the items excluded in calculating adjusted EBITDA have, in their view, little or no bearing on our underlying daily operating performance. However, adjusted EBITDA should be viewed in addition to, and not as a substitute for, the information prepared in accordance with IFRS that is contained in this offering memorandum. For a reconciliation of adjusted EBITDA to profit from operations, see "*Development of Our Business—Reconciliation of EBITDA and Adjusted EBITDA*".

Free Cash Flow (before dividend payments and spectrum investment)

We define free cash flow as net cash from operating activities:

- less net cash outflows for investments in intangible assets (excluding goodwill and before spectrum investment) and property, plant and equipment;

- plus proceeds from the disposal of intangible assets (excluding goodwill) and property, plant and equipment.

Our management uses free cash flow as an indication of the cash generating ability of our businesses and our ability to pay for discretionary and non-discretionary expenditures not included in the measure, such as payments pursuant to our shareholder remuneration policy, debt repayments or acquisitions. However, free cash flow should not be used to determine the financial position of the Group or considered as a substitute for any IFRS financial measure. You should not assume that free cash flow is freely available for discretionary application by management, since a number of expenditures not included in the measure are non-discretionary. For a reconciliation of free cash flow to net cash from operating activities, see "*Development of Our Business—Condensed Consolidated Statement of Cash Flows and Reconciliation of Free Cash Flow*".

Net Debt

We define net debt as total financial liabilities minus accrued interest, other liabilities, cash and cash equivalents, current financial assets available for sale or held for trading, derivative financial assets, and other financial assets. Other financial assets include all cash collateral posted for negative fair values of derivatives as well as other interest-bearing financial assets. For a reconciliation of net debt to financial liabilities, see "*Development of Our Business—Financial Liabilities*".

EXCHANGE RATE INFORMATION

The following table shows, for the periods indicated, the average, high and low exchange rates for euros, expressed in U.S. dollars per EUR 1.00, as published by the European Central Bank:

Year or Month	Average	High	Low
		(in $ per €)	
2011	1.3920	1.4882	1.2889
2012	1.2848	1.3454	1.2089
2013	1.3281	1.3814	1.2768
2014	1.3285	1.3953	1.2141
2015	1.1095	1.2043	1.0552
2016	1.1069	1.1569	1.0364
July	1.1069	1.1157	1.0982
August	1.1212	1.1339	1.1078
September	1.1212	1.1296	1.1146
October	1.1026	1.1236	1.0872
November	1.0799	1.1095	1.0548
December	1.0543	1.0762	1.0364
2017			
January (through January 6, 2017)	1.0475	1.0589	1.0385

On January 6, 2017, the exchange rate was USD 1.0589 per EUR 1.00.

SUMMARY

Deutsche Telekom AG

With approximately 163 million mobile customers, 28.5 million fixed-network and 18.2 million broadband lines (each as of September 30, 2016), we are one of the leading integrated telecommunications companies worldwide. We have an international focus and are represented in more than 50 countries. In the first nine months of 2016, we generated nearly two-thirds of our revenue, amounting to EUR 35.2 billion, outside of our home market of Germany.

We have organized our business activities into the following four operating segments:

- Germany, which comprises all of our fixed-network and mobile activities in Germany and also includes wholesale telecommunications services for our Group's other operating segments provided to third parties;
- the United States, which comprises all of our mobile activities in the U.S. market conducted through our majority owned subsidiary T-Mobile US, Inc. ("T-Mobile US");
- Europe, which comprises:
  - all of our fixed-network and mobile operations in Greece, Romania, Hungary, Poland, the Czech Republic, Croatia, the Netherlands, Slovakia, Austria, Albania, the F.Y.R.O Macedonia and Montenegro;
  - information and communication technology ("ICT") solutions for business customers in most of these countries; and
  - our International Carrier Sales & Solutions unit, which mainly provides wholesale telecommunications services for our Group's other operating segments provided to third parties, our Group Technology unit, which aims to provide efficient and customized technologies, platforms, and services for mobile and fixed-network communications; and our Global Network Factory unit, which designs and operates a global network for providing wholesale customers with voice and data communication; and
- Systems Solutions, which bundles business with information and communications technology products and solutions for large multinational corporations and public institutions under the T-Systems brand.

As of January 1, 2017, we realigned our organizational structure and established Group Development as a new operating segment in addition to the new Board department Technology and Innovation (see "*Directors, Senior Management and Employees—The Board of Management*"). This new operating segment will manage selected investments of the Group, with the goal of increasing their values, and will comprise the Group functions mergers & acquisitions and strategic portfolio management.

Our Group Headquarters and Shared Services function includes our service headquarters and our subsidiaries that are not allocated to the operating segments described above.

Our registered address is Friedrich-Ebert-Allee 140, 53113 Bonn, Germany, and our telephone number is +49-228-181-0.

For more detailed information about our business, please refer to the sections entitled "*Description of Our Business and Operations*" and "*Development of Our Business*" in this offering memorandum.

Deutsche Telekom International Finance B.V.

We incorporated Finance in The Netherlands on October 30, 1995. Finance is our wholly owned subsidiary whose principal purpose is raising funds for us. Deutsche Telekom provides a full and unconditional guarantee for all liabilities issued by Deutsche Telekom International Finance B.V. The issued share capital of Finance amounts to EUR 500,000 and consists of 1,000 shares of common stock at a par value of EUR 500.

Finance's corporate seat and registered address is Stationsplein 8 K, 6221 BT Maastricht, The Netherlands, and its telephone number is +31-43-799-9050.

Our Risks and Challenges

Our business is subject to many material risks and challenges. For a detailed discussion of these risks as well as other considerations relevant to an investment in the Notes, see "*Risk Factors*" and other information included in the offering memorandum.

Our key risks and challenges include the following:

- ***Worldwide Economic Conditions:*** Recent moderate economic growth in Germany, Europe and the United States and uncertainties about prospects for future growth, including a further financial or debt crisis or a potential slowdown in consumer spending, could adversely affect our customers' purchases of our products and services in each of our operating segments, which could have a negative impact on our operating results and financial condition.

- ***Political Uncertainty:*** Continued elevated levels of political uncertainty could have unpredictable consequences for the markets in which we operate and for the greater economy, potentially leading to declines in business levels and losses across our businesses.

- ***Regulation and Other Government Intervention:*** We are subject to regulatory and legislative action by regulatory authorities, which may increase our costs of providing products or services, require us to change our business operations, products, or services or subject us to material adverse impacts if we fail to comply with such regulations.

- ***Spectrum:*** The scarcity and cost of additional wireless spectrum and regulations relating to spectrum use, may adversely affect our business strategy and financial planning.

- ***Competition:*** We face intense competition in all areas of our business, which could lead to reduced prices for our products and services and a decrease in market share in certain service areas, thereby adversely affecting our revenues and net profit.

- ***Market Acceptance and Technological Change:*** We may not realize either the expected level of demand for our products and services, or the expected level or timing of revenues generated by those products and services, as a result of lack of market acceptance or technological change, which could adversely affect our cash flows and results of operations.

- ***Litigation:*** We are continuously involved in disputes and litigation with government agencies, competition authorities, competitors and other parties. The ultimate outcome of such legal proceedings is generally uncertain. When finally concluded, they may have a material adverse effect on our results of operations and financial condition.

- ***Cyber-security:*** If our efforts, or those of third party service providers, to maintain the privacy and security of our customer, confidential, or sensitive information are not successful at preventing a significant data breach or cyber-attack, we could incur substantial additional costs, become subject to litigation, enforcement actions or regulatory investigation, and suffer reputational damage.

Selected Financial Data

The following table presents selected consolidated financial and operating information. This selected consolidated financial and operating information should be read together with the section of this offering memorandum entitled "*Development of Our Business*", and our consolidated financial statements and the notes that are included elsewhere in this offering memorandum.

This selected consolidated financial information is extracted or derived from our consolidated financial statements as of and for the year ended December 31, 2015 and 2014 (together, the "Consolidated Financial Statements") or from our condensed consolidated interim financial statements as of and for the nine-month period ended September 30, 2016 (the "Condensed Consolidated Interim Financial Statements"). The Consolidated Financial Statements have been audited by PwC. The Condensed Consolidated Interim Financial Statements have been reviewed by PwC. The Consolidated Financial Statements and the Condensed Consolidated Interim Financial Statements have been included elsewhere in this offering memorandum.

	As of and for the nine months ended September 30,		As of and for the year ended December 31,		
	2016	2015	2015	2014	2013
	(billions of €, except as otherwise indicated)				
	(unaudited)		(audited, except as otherwise indicated)		
Income Statement Data					
Net revenue	53.6	51.4	69.2	62.7	60.1
Domestic	18.3	18.7	25.1	25.0	25.4
International	35.2	32.7	44.2	37.7	34.7
Profit from operations	8.2	5.1	7.0	7.2	4.9
Profit (loss) attributable to owners of the parent (net profit (loss))	4.8	2.3	3.3	2.9	0.9
Cash Flow Data					
Net cash from operating activities	12.0	11.1	15.0	13.4	13.0
Net cash used in investing activities	(10.3)	(9.5)	(15.0)	(10.8)	(9.9)
Net cash used in financing activities	(1.0)	(5.0)	(0.9)	(3.4)	1.0
Ratios and Selected Data[1]					
Cash capex[2]	(10.5)	(11.6)	(14.6)	(11.8)	(11.1)
Number of employees averaged over the period (full-time employees excluding trainees) (thousands)	221	227	226	228	230
Net revenue per employee (thousands of euro)[3]	242.1	226.8	305.9	274.5	261.8
Earnings per share—basic and diluted (euro)[4]	1.04	0.51	0.71	0.65	0.21
Adjusted weighted average number of ordinary shares outstanding (basic) (millions)[5]	4,615	4,543	4,553	4,476	4,370
Total number of ordinary shares at the reporting date (millions)	4,677	4,607	4,607	4,536	4,451
Dividend per share (euro)[6]	n.a.	n.a.	0.55	0.50	0.50
Dividend per share (U.S. dollar)[7]	n.a.	n.a.	0.76	0.61	0.54

n.a. – not applicable

1 Unaudited.
2 Cash outflows for investments in intangible assets and property, plant and equipment in accordance with the statement of cash flows.
3 Calculated on the basis of the average number of employees for the year, excluding trainees, apprentices and student interns.
4 Basic earnings per share is based on the time-weighted number of all ordinary shares outstanding.
5 Adjusted weighted average number of ordinary shares outstanding is determined by deducting the weighted average number of treasury shares held by Deutsche Telekom from the total number of ordinary shares outstanding.
6 Dividends per share are presented on the basis of the year in respect of which they are declared, not the year in which they are paid.
7 Dividend amounts have been translated into U.S. dollars (using exchange rates published by the European Central Bank) using the applicable rate on December 31 for each of the years indicated. As a result, the actual U.S. dollar amount at the time of payment may vary from the amount shown here.

	As of September 30,		As of December 31,		
	2016	2015	2015	2014	2013
	(billions of €)				
	(unaudited)		(audited)		
Data from the Statement of Financial Position					
Total assets	143.1	135.2	143.9	129.4	118.1
Total financial liabilities	62.3	57.1	62.4	55.2	51.6
Shareholders' equity	37.6	36.5	38.2	34.1	32.1

Summary of the Offering

The following summary contains basic information about the Notes and is not intended to be complete. It does not contain all of the information that is important to you. For a more complete understanding of the Notes, please refer to the section of this offering memorandum entitled "Description of the Notes and Guarantees".

Notes offered .... $850,000,000 aggregate principal amount of 2.225% Notes due January 17, 2020.
$1,000,000,000 aggregate principal amount of 2.820% Notes due January 19, 2022.
$1,250,000,000 aggregate principal amount of 3.600% Notes due January 19, 2027.
$400,000,000 aggregate principal amount of Floating Rate Notes due January 17, 2020.

Issuer .... Deutsche Telekom International Finance B.V.

Guarantee .... Deutsche Telekom will unconditionally and irrevocably guarantee to each holder of the Notes the due and punctual payment of the principal and interest relating to the Notes including any additional amounts described below. Each Guarantee will be a direct unsubordinated unsecured obligation of Deutsche Telekom AG. The Guarantee is described under "*Description of the Notes and Guarantees—Guarantees*".

Fiscal and Paying Agency Agreement .... The Notes will be issued under a fiscal and paying agency agreement (the "Agreement"), among Deutsche Telekom, Finance and Citibank as fiscal agent. The Agreement is more fully described under "*Description of the Notes and Guarantees*".

Date interest starts accruing .... January 19, 2017.

Issue prices .... 99.940% of the principal amount of the 2020 Fixed Rate Notes.
99.995% of the principal amount of the 2022 Fixed Rate Notes.
99.875% of the principal amount of the 2027 Fixed Rate Notes.
100.000% of the principal amount of the Floating Rate Notes.

Maturity dates .... January 17, 2020 for the 2020 Fixed Rate Notes.
January 19, 2022 for the 2022 Fixed Rate Notes.
January 19, 2027 for the 2027 Fixed Rate Notes.
January 17, 2020 for the Floating Rate Notes.

Interest rates .... 2.225% per annum for the 2020 Fixed Rate Notes.
2.820% per annum for the 2022 Fixed Rate Notes.
3.600% per annum for the 2027 Fixed Rate Notes.
3-month U.S. dollar LIBOR, reset quarterly, plus a spread of 0.58% for the Floating Rate Notes.

Interest payment date .... *2020 Fixed Rate Notes:* Every January 17 and July 17, commencing on July 17, 2017 (short first coupon).

2022 Fixed Rate Notes and 2027 Fixed Rate Notes: Every January 19 and July 19, commencing on July 19, 2017.

If any payment with respect to the Fixed Rate Notes is due on a day that is not a Business Day (as defined below), we will make the required payment on the next succeeding Business Day, and no additional interest will accrue in respect of the payment made on that next succeeding Business Day.

Floating Rate Notes: Every January 17, April 17, July 17 and October 17, commencing on April 17, 2017 (short first coupon). If any interest payment date with respect to the Floating Rate Notes would otherwise be a day that is not a London and New York Business Day (as defined below), such interest payment date will be the next succeeding London and New York Business Day unless that London and New York Business Day is in the next succeeding calendar month, in which case the interest payment date will be the immediately preceding London and New York Business Day. If the maturity date in respect of the Floating Rate Notes or any date fixed for redemption of the Floating Rate Notes is not a London and New York Business Day, the

payment of principal and interest will not be made until the next following London and New York Business Day, and no further interest will be paid in respect of the delay in such payment,

Interest determination for the Floating Rate Notes .... Citibank, N.A., as calculation agent (the "Calculation Agent"), in consultation with the Issuer, will determine the annual interest rate applicable for each interest period to the Floating Rate Notes on the second London Business Day (as defined below) prior to the commencement of the relevant interest period for the Floating Rate Notes (the "Interest Determination Date").

Interest Period for the Floating Rate Notes .... The interest period for the Floating Rate Notes will be each period from (and including) an interest payment date for the Floating Rate Notes, or in the case of the initial interest period, from (and including) the issue date of the Floating Rate Notes to (but excluding) the following interest payment date and, in the case of the final interest period, from and including the interest payment date immediately preceding the maturity date of the Floating Rate Note to (but excluding) such maturity date.

LIBOR........................ The 3-month U.S. dollar LIBOR will be the offered quotation (expressed as a percentage rate per annum) for deposits in U.S. dollars having a maturity of 3 months that appears on the Screen Page as of 11:00 a. m. (London time) on the Interest Determination Date as determined by the Calculation Agent (in consultation with the Issuer).

"Screen Page" means Reuters screen page LIBOR01 or any successor page. The Reuters screen "LIBOR01" is the display designated as the Reuters screen "LIBOR01", or such other page as may replace the Reuters screen "LIBOR01" on that service or such other service or services as may be nominated by the British Bankers' Association for the purpose of displaying London interbank offered rates for U.S. dollar deposits.

If the Screen Page is not available or if, no such quotation appears as at such time, the Calculation Agent (in consultation with the Issuer) shall request each of the Reference Banks to provide the Calculation Agent with its offered quotation (expressed as a percentage rate per annum) for deposits in U.S. dollars for the relevant interest period to leading banks in the London interbank market at approximately 11:00 a.m. (London time) on the Interest Determination Date and in a principal amount that is representative for a single transaction in U.S. dollars in such market at such time. If two or more of the Reference Banks provide the Calculation Agent with such offered quotations, the interest rate for such Interest Period shall be the arithmetic mean of such offered quotations (rounded if necessary to the nearest one hundred-thousandth of a percentage point, with 0.000005 being rounded upwards) of such offered quotations.

If fewer than two such quotations are so provided, the interest rate on such Interest Determination Date will be the arithmetic mean calculated by the Calculation Agent (in consultation with the Issuer) (rounded if necessary to the nearest one hundred-thousandth of a percentage point, with 0.000005, being rounded upwards) of the rates quoted at approximately 11:00 a.m., in New York, on such Interest Determination Date by three major banks (which may include affiliates of the agents) in New York selected by the Calculation Agent (in consultation with the Issuer) for, loans in the U.S. dollars for the relevant interest period and in a principal amount that is representative for a single transaction U.S. dollars in such market at such time; provided, however, that if the banks so selected by the Calculation Agent (in consultation with the Issuer) are not quoting as mentioned in this sentence, the interest rate determined as of such Interest Determination Date shall be the interest rate in effect on such Interest Determination Date.

As used above, "Reference Banks" means four major banks in the London interbank market.

Additional Amounts .... The Issuer or the Guarantor may be required to withhold amounts from payments on the principal or interest on the Notes or any amounts to be paid under the Guarantees, as the case may be, for taxes or any other governmental charges. If Germany or The Netherlands requires a withholding of this type, the Issuer or the Guarantor, as the case may be, will, subject to some exceptions (as more fully described below under "*Description of the Notes and Guarantees—Additional Amounts*"), pay additional amounts in respect of those payments of principal and interest so that the amount you receive after such taxes and governmental charges will equal the amount that you would have received if no such taxes and governmental charges had been applicable.

Optional Redemption .... The Issuer may redeem any series of Fixed Notes, in whole or in part, under the circumstances described in "*Description of the Notes and Guarantees—Optional Redemption*".

The Issuer will give notice to DTC of any redemption it proposes to make at least 30 days, but not more than 60 days, before the redemption date. Notice by DTC to participating institutions and by these participants to street name holders of indirect interests in the series of debt securities will be made according to arrangements among them and may be subject to statutory or regulatory requirements.

Optional Tax Redemption .... In the event of various tax law changes after the date of this offering memorandum and other limited circumstances that would require the Issuer or the Guarantor to pay Additional Amounts or deduct or withhold tax on any payment to the Issuer to enable the Issuer to make any payments in relation to the Notes, subject to certain exceptions, the Issuer (or, if applicable, the Guarantor) may redeem the Notes at any time at its option, as a whole or in part, upon not less than 30 nor more than 60 days' prior notice, at a redemption price equal to 100% of the principal amount of the notes then outstanding plus accrued and unpaid interest (and all Additional Amounts, if any) to (but excluding) the redemption date.

Limitation on Liens .. So long as any of the Notes remain outstanding, neither the Issuer nor the Guarantor may become obligated on any present or future Capital Market Indebtedness (as defined under "*Description of the Notes and Guarantees—Limitation on liens*") that is secured by a lien on the whole or any part of its present or future assets, unless an equivalent or higher-ranking lien on the same property is granted to the holders of the Notes.

Substitution of Issuer; Consolidation, Merger and Sale of Assets ...... Each of the Issuer and the Guarantor, without the consent of the holders of the Notes, is generally permitted to consolidate or merge into, or sell, transfer, lease or convey all or substantially all of their respective assets to, any corporation and the Issuer may at any time substitute for the Issuer either the Guarantor or any Subsidiary (as defined under "*Description of the Notes and Guarantees—Substitution of Issuer; Consolidation, Merger and Sale of Assets*") of the Guarantor as principal debtor under the Notes, under the circumstances described in "*Description of the Notes and Guarantees— Substitution of Issuer; Consolidation, Merger and Sale of Assets*".

Cross-default .... None.

Calculation of interest .... *Fixed Rate Notes:* Interest on the Fixed Rate Notes will be calculated on the basis of a 360-day year consisting of twelve 30-day months.

Floating Rate Notes: Interest on the Floating Rate Notes will be calculated on the basis of the actual number of calendar days in the calculation period divided by 360.

Business day .... A "Business Day" means a day (other than a Saturday or Sunday) on which commercial banks are open for business (including dealings in foreign exchange and foreign currency) in New York City.

A “London and New York Business Day” means a day (other than a Saturday or Sunday) on which commercial banks are open for business (including dealings in foreign exchange and foreign currency) in London and New York.

A “London Business Day” means a day (other than a Saturday or Sunday) on which commercial banks are open for business (including dealings in foreign exchange and foreign currency) in London.

Securities codes

	2020 Fixed Rate Notes	2022 Fixed Rate Notes
CUSIP (Rule 144A):	25156P AW3	25156P AY9
CUSIP (Regulation S):	N27915 AN2	N27915 AQ5
ISIN (Rule 144A):	US25156PAW32	US25156PAY97
ISIN (Regulation S):	USN27915AN24	USN27915AQ54
Common Code (Rule 144A):	155133996	155134186
Common Code (Regulation S):	155098759	155099879

	2027 Fixed Rate Notes	Floating Rate Notes
CUSIP (Rule 144A):	25156P BA0	25156P AX1
CUSIP (Regulation S):	N27915 AS1	N27915 AP7
ISIN (Rule 144A):	US25156PBA03	US25156PAX15
ISIN (Regulation S):	USN27915AS11	USN27915AP71
Common Code (Rule 144A):	155134216	155134097
Common Code (Regulation S):	155099933	155099402

Denomination Minimum denominations of $150,000 and integral multiples of $1,000 in excess thereof.

Regular record dates for interest In the case of the Fixed Rate Notes, the Business Day immediately preceding the relevant interest payment date.

In the case of the Floating Rate Notes, the record date will be on the 15th day (whether or not a London and New York Business Day) preceding the relevant interest payment date.

Defeasance The Notes are subject to the provisions on defeasance that are described under “*Description of the Notes and Guarantees—Discharge and Defeasance*” and “*Description of the Notes and Guarantees—Covenant Defeasance*”.

Ranking The Notes and Guarantees are not secured by any property or assets of Finance or Deutsche Telekom and will rank equally with all of their respective other unsecured and unsubordinated indebtedness.

Form of the Notes The Notes will initially be issued to investors in book-entry form only. Fully-registered Global Notes (as defined herein) representing the total aggregate principal amount of the Notes will be issued and registered in the name of a nominee for DTC, the securities depositary for the Notes, for credit to accounts of direct or indirect participants in DTC, including Euroclear and Clearstream. Unless and until Notes in definitive certificated form are issued, the only Holder will be Cede & Co., as nominee of DTC, or the nominee of a successor depositary. Except as described in this offering memorandum, a beneficial owner of any interest in a Global Note will not be entitled to receive physical delivery of definitive Notes. Accordingly, each beneficial owner of any interest in a global Note must rely on the procedures of DTC, Euroclear, Clearstream, or their participants, as applicable, to exercise any rights under the Notes.

Governing law The Notes, the Guarantees and the Agreement will be governed by, and construed in accordance with, the laws of the State of New York.

Additional issues The Issuer may, from time to time, without notice to or the consent of the Holders, create and issue additional notes, maturing on the same maturity date and having the same terms and conditions as the previously outstanding Notes of that series (the Fixed Rate Notes or the Floating Rate Notes) in all respects (or in all respects except for the issue date and the amount and the date of the first payment of interest thereon) in accordance with applicable laws and regulations and pursuant to the Agreement (including with respect to the Guarantor and the Guarantees). Additional Notes issued in this manner shall be consolidated with and form a single

	series with previously outstanding Notes. Any Additional Notes shall be issued under a separate CUSIP or ISIN number unless the Additional Notes are issued pursuant to a "qualified reopening" of the original series or are otherwise treated as part of the same "issue" of debt instruments as the original series for U.S. federal income tax purposes.
Fiscal agent, paying agent, transfer agent and registrar	Citibank, N.A.
Calculation Agent	Citibank, N.A.
Notices	So long as any Notes are represented by a global note and such global note is held on behalf of a clearing system, notices to the holders of Notes may be given by delivery of the relevant notice to that clearing system for communication by it to entitled accountholders or, if any such delivery is not practicable, by publication in a leading English language daily newspaper having general circulation in Europe. Any such notice will be deemed to have been given on the date of first publication or, if published more than once or on different dates, on the first date on which publication is made.
Listing and admission to trading	The Notes will not be listed on any securities exchange.

RISK FACTORS

Before deciding to purchase the Notes, prospective investors should carefully review and consider the following risk factors and the other information contained in this offering memorandum, in particular the information contained in "Legal Proceedings". The occurrence of one or more of these risks alone or in combination with other circumstances may have a material adverse effect on our business, results of operations, financial condition and cash flows, and may affect our ability to fulfill our obligations under the Notes and the Guarantees. The order in which the risks are presented does not reflect the likelihood of their occurrence or the magnitude or significance of the individual risks. Investing in the Notes could involve additional risks and uncertainties of which we may not currently be aware, or which we may currently not consider material. An investment in the Notes is only suitable for investors experienced in financial matters who are in a position to fully assess the risks relating to such an investment and who have sufficient financial means to absorb any potential loss stemming therefrom. The following discussion contains a number of forward-looking statements. Please refer to the "Forward-Looking Statements" discussion in this offering memorandum for cautionary information.

Risks Related to our Business

Recent moderate economic growth in Germany, Europe and the United States and uncertainties about prospects for growth going forward, including a potential slowdown in consumer spending, could adversely affect our customers' purchases of our products and services in each of our operating segments, which could have a negative impact on our operating results and financial condition.

Our business is mainly influenced by general economic conditions in our core markets of Germany, Europe and the United States. Although economic data appear to have recently stabilized or improved somewhat in many of the countries in which we operate, we remain subject to the risk of a protracted period of low or negligible global growth as recent economic and political developments have contributed to considerable uncertainty concerning the economic situation going forward. In Europe, potential future changes to monetary policy, renewed doubts about the future of the Eurozone (as well as questions about the EU more generally in the wake of the recent referenda in the United Kingdom and Italy), insufficient deleveraging in the private and public sectors, a halt in implementing structural and financial reforms and an elevated level of political uncertainty could adversely affect our operations. In some of the European countries in which we operate, such as Greece, Croatia and Slovakia, structural unemployment remained unabatedly high, especially among older persons of working age. In the United States, where we have experienced a large portion of our revenue growth in recent periods, economic data have improved somewhat recently, which in turn appears to be prompting the Federal Reserve to embark on a course of raising interest rates at least through 2017. Should an economic contraction or a protracted period of stagnation occur, monetary policymakers in Europe and the United States have few tools left to combat these developments. Against this backdrop, persistent economic weakness, especially in the emerging economies but also in Europe, could negatively impact global trade and the markets of our operating segments. These trends could also be exacerbated by geopolitical crises, resulting for example, from terrorist attacks, the inflow of large numbers of refugees into Europe or continued instability in the Middle East, or increased political uncertainty arising from the success of populist movements in European countries.

In particular, this situation poses risks to our operations in some of our core countries. For example, consumers and business customers could increasingly curtail their consumption of our services in an atmosphere of continued economic distress and continued or increasing uncertainty. National austerity measures in response to declining economic output could also have further negative effects on telecommunications consumption, caused by both reduced government demand and declines in disposable income in the private sector. Our operating business also faces the risks of unannounced tax increases or special taxes, particularly in our Southern and Eastern European markets. For example, special taxes were recently levied on telecommunications services in Romania and Greece. These developments could, in turn, negatively impact our revenue and earnings development, including in the future growth areas (such as connected car and healthcare, as well as in cutting-edge digital innovation areas such as cloud computing and cyber security) on which we plan to focus, and jeopardize the attainment of our growth targets, such as those relating to data services in mobile telecommunications, or those relating to broadband products and services.

Continued elevated levels of political uncertainty could have unpredictable consequences for the markets in which we operate and for the greater economy, potentially leading to declines in business levels and losses across our businesses.

The last several years have been characterized by increased political uncertainty as Europe in particular has been impacted by the European sovereign debt crisis, the outcomes of the referenda in the UK on EU membership and in Italy on constitutional reform, the refugee crisis and the increasing attractiveness to voters of populist movements. Although the severity of the European debt crisis appeared to have abated somewhat over recent years as the actions by the European Central Bank, the rescue packages and the economic recovery appeared to have stabilized the situation in Europe, political uncertainty has continued to be at an elevated level in recent periods and could trigger the unwinding of

aspects of European integration that have benefitted our businesses. In many European countries, populist or anti-austerity political parties or movements have garnered increased popular support. In particular, the political situation in Greece could again worsen if the current governing coalition loses its marginal majority or the Greek population becomes more resistant to austerity measures, such as those related to the reform of the pension system. In addition, the United Kingdom's potential exit from the EU or any potential similar attempts by other EU countries could, depending on political situation surrounding such an exit, adversely affect European and global economic or market conditions. Against this backdrop, the prospects for national structural reform and further integration among EU member states, both viewed as important tools to reduce the Eurozone's vulnerabilities to future crises, appear to have worsened. These trends may ultimately result in material reductions in our business levels as our customers rein in their spending in light of decreased economic output and increased uncertainty, which would materially adversely affect our operating results and financial condition.

We are subject to regulatory and legislative action by regulatory authorities, which may increase our costs of providing products or services, require us to change our business operations, products, or services or subject us to material adverse impacts if we fail to comply with such regulations.

We are subject to strict regulation in all of our fixed-line and mobile markets in Europe and the United States. The various regulatory authorities having jurisdiction over us in the countries in which we provide telecommunications services regularly intervene in the offerings and in the pricing of our fixed-line and mobile products and services. Regulation can impair our ability to grow and to react to the initiatives of competitors and technological change. In addition, regulation of companies that offer competing services can impact our business indirectly.

These regulatory authorities, including the European Commission, the German Federal Network Agency (*Bundesnetzagentur*), the U.S. Federal Communications Commission ("FCC") and other authorities, regulate the licensing, construction, modification, operation, ownership, sale and interconnection of fixed-line and wireless network communications systems. They also have the authority to assign wireless spectrum (often in cooperation with the relevant ministry or government department) to supervise the efficient use of frequencies, and to impose universal service obligations. We are subject to regulatory oversight by various regulatory authorities in a number of jurisdictions, as well as judicial review and actions, on issues related to the telecommunications industry that include, but are not limited to: network access, including bitstream access, very high-speed digital subscriber line ("VDSL") and vectoring; traffic management; regulation of charges, such as monthly line rental, termination rates and roaming; spectrum allocation and licensing; pole attachments; inter-carrier compensation; Universal Service Fund ("USF"); net neutrality; special access; emergency dialing services; consumer protection; consumer privacy and cyber security. We are also subject to regulations in connection with other aspects of our business, including handset financing and insurance activities. Recent initiatives by the FCC, the European Commission, the German Federal Network Agency and other regulatory authorities suggest that the regulatory framework in which we operate remains in flux and that we will continue to have to adjust to a constantly changing regulatory environment.

The regulatory authorities having jurisdiction over our activities may adopt regulations or take enforcement or other actions that could adversely affect our business, impose new costs, or require changes in current or planned operations. Furthermore, we could be subject to fines, forfeitures and other penalties (including, in extreme cases, the revocation of our spectrum and other licenses) for failure to comply with governmental regulations, even if any such non-compliance was unintentional. The loss of any licenses, or any related fines or forfeitures, could adversely affect our business, results of operations and financial condition.

For further information regarding the matters discussed in this section and other aspects of the regulatory environments to which our businesses are subject, see "*Regulation*".

Europe

Throughout the EU, national telecommunications laws are based on the Regulatory Framework for Electronic Communications in the EU ("EU Framework"). Since the largest part of our business is undertaken in the EU, our operations are, to a large extent, subject to the EU Framework and related telecommunications regulations. The most significant regulatory impact on our business comes from the EU Framework's special requirements applicable to providers with significant market power. Obligations in relation to network access, price setting, separate accounting for interconnection services, publication and non-discrimination, can be imposed on those operators that are designated by the relevant national regulatory authority ("NRA") as having significant market power in an electronic communications market (see "*Regulation—The EU Regulatory Framework for Electronic Communications—Special Requirements Applicable to Providers with Significant Market Power*").

As part of what is known as the Digital Single Market (DSM) strategy, the European Commission announced regulatory initiatives in May 2015. These include, most notably, a complete review of the applicable EU legal framework

for telecommunications with a view to facilitate and improve the delivery of digital services which use telecommunications networks as the "essential underlying infrastructure". The process comprises a review of the current ex-ante regulation for network access, a reform of universal service regulation and a renewed initiative to create a more harmonized framework for the allocation and assignment of mobile spectrum. Following their publication by the European Commission in September 2016, the proposals will be debated in the EU Parliament and the Council and the new rules are expected to be adopted in 2018. Although reform of digital service regulation has in recent years increasingly encompassed telecommunications services, and competition in the markets in which we operate has accordingly increased, we expect only very limited deregulation of sector-specific rules applicable to telecommunications companies with a strong market position like Deutsche Telekom. In some respects, we expect the regulatory burden on us may increase, for example in the field of consumer protection. At present certain measures are contemplated by the European Commission under the Digital Single Market strategy to create new conditions for digital networks and services including, among others, initiatives for an appropriate regulatory framework for platforms and intermediaries and proposals related to media regulation. These initiatives and proposals could have consequences for certain media content requirements for some of our distribution platforms. This might restrict our ability to provide media services, including the delivery of content, and could also result in additional costs due to technical implementation measures needed to comply with increased regulation.

In addition, we expect the new regulation on roaming charges and mobile call termination charges described below to have a negative effect on our revenues and our ability to invest in mobile networks.

On November 25, 2015, the EU Parliament and the Council adopted Regulation (EU) 2015/2120 concerning the single market for electronic communications, which contains provisions on the open internet access ("net neutrality"), international roaming and end-user protection, including transparency obligations. With regard to international roaming, Regulation (EU) 2015/2120, which took effect on April 30, 2016, provides for an initial reduction of roaming rates to the level of national rates plus a strictly limited surcharge. With effect from June 15, 2017, surcharges for roaming services within the EU will be eliminated entirely (commonly known as "Roam like at Home"), unless permitted under implementing rules on fair usage policy, which were published by the European Commission on December 15, 2016. The European Council and the European Parliament are expected to approve further rules on wholesale roaming regulation on or prior to June 15, 2017. Such further wholesale roaming regulation could increase risks of arbitrage-based business models based on international roaming. The introduction of Roam like at Home will have a corresponding negative effect on our revenues and will result in substantial implementation costs. On June 15, 2016, the European Commission published its legislative proposal for the future regulation of inter-operator tariffs ("IOTs"), which network operators charge to other network operators when their roaming customers use the other operator's network. It proposes substantial cuts in the regulated wholesale roaming rates for data, as well as more moderate cuts for the prices of voice and SMS wholesale roaming services. In reviewing the European Commission's proposals, the European Parliament and the Council have proposed further cuts. A general reduction in regulated IOTs would also give rise to arbitrage risks — *i.e.*, risks from the misuse of the international roaming mechanism to circumvent national terms and conditions — for us and our international subsidiaries.

In addition, we expect various reviews of, and legislative initiatives and court proceedings pertaining to, call termination rates, which will likely result in further reductions of the mobile call termination fees that we may charge in the EU countries in which we operate.

Germany

German telecommunications regulation has a particularly significant impact on our business due to the significant share of our operations that is based or conducted in Germany. German telecommunications regulation is based on the EU Framework, as in all EU Member States, and is mainly derived from the German Telecommunications Act (*Telekommunikationsgesetz*) and implemented by the Federal Network Agency (*Bundesnetzagentur*).

We believe that, for the foreseeable future, the Federal Network Agency is likely to view us as a provider with significant market power in the fixed network and in other markets, including most of those in which we held monopoly rights in the past. Additionally, we have been determined to be a provider with significant market power in the German market for mobile voice call termination. There is a significant risk that the strict regulatory provisions of the German Telecommunications Act relating to providers deemed to have significant market power will continue to be applied in the future to our activities in the markets described above. Considering that in many markets our competitors are unlikely to gain significant market power in the near future, we expect that we will have to compete in important markets with providers not subject to those regulatory obligations. Therefore, these competitors may have more flexibility than we have in terms of the selection of services offered and customers served, pricing and the granting of network access. In addition, a draft regulation presented by the Federal Network Agency in February 2014 designed to achieve more transparency and greater cost control in telecommunications services may also materially affect our operations in Germany. The extensive requirements provide consumers and other end users with the opportunity, for example, to check their Internet speeds in the mobile and fixed networks upon request. As presently drafted, these new regulations would

lead to a substantial increase in costs for our operations in Germany. The Federal Network Agency's draft regulation is expected to be adopted around the end of 2016, following agreement with the relevant ministries.

In addition to the regulatory risks described above, there are also uncertainties in Germany arising from the fact that administrative courts can reverse rate rulings made by the Federal Network Agency. In such cases, the Federal Network Agency must then make a decision again with respect to the rates for past periods. It is generally unclear in such cases whether, to what extent and in which direction rates will be ultimately revised.

United States

In the United States, the FCC's new net neutrality rules became effective in June 2015, with the exception of enhanced transparency requirements. The rules include a new Internet Service Provider (ISP) conduct standard, prohibiting actions that harm consumers or edge providers, subject to case-by-case review by the FCC. The new rules potentially subject some of the initiatives and practices of our majority owned subsidiary T-Mobile US, Inc. ("T-Mobile US"), such as Binge On relating to mobile video streaming offerings in the United States and our network management practices, to heightened scrutiny by federal and state regulators, the public and edge providers regarding whether such initiatives or practices are compliant. In connection with the adoption of these rules, the FCC also reclassified broadband service as a common carriage service governed by Title II of the U.S. Communications Act of 1934 ("Communications Act"). However, the FCC simultaneously decided to forbear from applying all of the provisions of Title II or its own regulations promulgated under Title II that it felt could harm consumers or the industry, such as price regulation. This decision could be reversed in the future if the FCC decided to initiate a new rulemaking, and end its policy of forbearance. Reversal of this forbearance could substantially impact T-Mobile US by imposing compliance costs and restrictions on the services the company delivers.

When the FCC declared broadband a common carriage service it thereby deprived its sister agency the Federal Trade Commission ("FTC") of its consumer protection and privacy authority over broadband providers, and initiated a rulemaking process to establish consumer privacy rules for broadband providers. The Notice of Proposed Rulemaking was adopted in early 2016, and contains proposed regulations on data security, data breach notifications and requirements that customers opt-in to programs that allow the carrier to share customers' data with affiliates. These regulations will only apply to the regulated carriers and not OTT competitors, so they could hamper opportunities to profit from data sharing. Depending upon the nature of the regulations ultimately adopted, such new requirements could impose costs on the company as well as restrict its ability to market its services.

Additionally, the FTC and other federal agencies have asserted that they have jurisdiction over some consumer protection and elimination and prevention of anticompetitive business practices with respect to the provision of non-common carrier services. We cannot assure you that the FCC, FTC, or any other federal, state or local agencies will not adopt regulations or take other enforcement or other actions that would adversely affect T-Mobile US's business, impose new costs, or require changes in current or planned operations. States are also increasingly focused on the quality of service and support that wireless communication providers provide to their customers and several states have proposed or enacted new and potentially burdensome regulations in this area. A number of state Public Utility Commissions and state legislatures have introduced proposals in recent years seeking to regulate carriers' business practices. T-Mobile US also faces potential investigations by, and inquiries from or actions by state Public Utility Commissions and state Attorneys General. We also cannot assure you that the U.S. Congress will not amend the Communications Act, from which the FCC obtains its authority and which serves to limit state authority, or enact other legislation in a manner that could be adverse to T-Mobile US's business. Enactment of additional state or federal regulations may increase T-Mobile US's costs of providing services (including, through universal service programs, requiring us to subsidize wireline competitors) or require us to change T-Mobile US's services. Failure to comply with applicable regulations could have a material adverse effect on T-Mobile US's business, financial condition and results of operations.

Moreover, the offering of financial services products by T-Mobile US to its customers, such as financing of devices, including through its Equipment Installment Plan and JUMP! On Demand program, has expanded T-Mobile US's regulatory compliance obligations. If it fails to remain compliant with any such financial services or consumer protection regulations, then it faces the risk of:

- Increased consumer complaints and potential examinations or enforcement actions by federal and state regulatory agencies, including but not limited to the Consumer Financial Protection Board, Federal Deposit Insurance Corporation and the FTC; and

- Regulatory fines, penalties, enforcement actions, civil litigation and/or class action lawsuits.

In addition, with respect to United States federal telecommunications regulation more generally, we currently face some level of uncertainty, as following the outcome of the November 2016 presidential and congressional elections

in the United States there is the possibility that regulatory proposals previously initiated or adopted may not be adopted, may be adopted in a form other than as previously proposed or might be reversed, as the case may be.

The scarcity and cost of additional wireless spectrum and regulations relating to spectrum use, may adversely affect our business strategy and financial planning.

We will need to acquire additional spectrum in order to continue our customer growth, expand into new regions, maintain our quality of service, meet increasing customer demands and deploy new technologies. We will be at a competitive disadvantage and possibly experience erosion in the quality of service in certain markets if we fail to gain access to necessary spectrum before reaching capacity, especially low band spectrum.

The continued interest in, and aggregation of, spectrum may reduce our ability to acquire spectrum from other carriers or otherwise negatively impact our ability to gain access to spectrum through other means. As a result, we may need to acquire spectrum through government auctions and/or enter into spectrum sharing arrangements, which are subject to certain risks and uncertainties.

In the United States, the FCC commenced an auction for spectrum in the 600 MHz band on May 31, 2016 known as the Broadcast Television Spectrum Incentive Auction (BIA). The auction is ongoing and includes several stages of reverse auctions, in which broadcasters offer to voluntarily relinquish some or all of their spectrum usage rights, and several stages of forward auctions of new licenses for mobile broadband services. Award processes are also being prepared in several countries in which our subsidiaries operate. According to our current expectations, frequency auctions will take place continuously over the coming years with a stronger focus starting in 2018 in the service areas of almost all of our subsidiaries. Any material delay in planned government auctions could adversely impact our ability to implement our plans and efforts to improve our network. Additionally, we may be unable to secure the spectrum we need in the upcoming auctions, or in any other government auction we may elect to participate in, on favorable terms or at all. In addition, in the United States, the FCC has encountered resistance to its plans to make additional spectrum available, which has created uncertainty about the timing and availability of spectrum through government auctions.

The various national regulators having jurisdiction over our operations in the countries in which we provide wireless services may impose conditions on the use of new wireless broadband mobile spectrum, including new restrictions or rules governing the use or access to current or future spectrum. This could increase pressure on capacity. Additional conditions that may be imposed by our regulatory authorities include heightened build-out requirements, limited renewal rights, clearing obligations, or open access or net neutrality requirements that may make it less attractive or more costly to acquire spectrum. In addition, rules may be established for future government spectrum auctions that may negatively impact our ability to obtain spectrum at reasonable cost or at all or in appropriate configurations or coverage areas.

If we cannot acquire required spectrum from the government or otherwise, if competitors acquire spectrum that will allow them to provide services competitive with our services, or if we cannot deploy services over acquired spectrum on a timely basis without burdensome conditions, at reasonable cost, and while maintaining network quality levels, then our ability to attract and retain customers and our associated financial performance could be materially adversely affected.

Our fixed-line and wireless network authorizations and licenses are subject to renewal and may be revoked in the event that we violate applicable laws.

Our existing fixed-line and wireless authorizations and licenses are subject to renewal upon the expiration of the relevant periods for which they are granted. While historically regulatory authorities have approved our authorization and license renewal applications, the applicable legal frameworks provide that authorizations or licenses may be revoked for cause and authorization and license renewal applications denied if the competent regulatory authorities determine that a renewal would not serve the public interest. In addition, our authorizations and licenses are subject to our compliance with applicable legal requirements, and in particular in the United States, are subject to our compliance with the terms set forth in the agreement pertaining to national security among Deutsche Telekom, the Federal Bureau of Investigation, the Department of Justice, the Department of Homeland Security and T-Mobile US. Our failure to comply with the legal requirements applicable to us or our subsidiaries, or the agreement described above could result in fines, injunctions and other penalties, including potential revocation or non-renewal of our spectrum and other authorizations or licenses. If we fail to timely file to renew any authorization or license, or fail to meet any regulatory requirements for renewal we could be denied a license renewal. In Germany, the Federal Network Agency awards spectrum for wireless network services for certain predetermined periods of time, subject to renewal. One-time and regular rates charged by telecommunications services providers to their customers or competitors are also approved only for certain pre-determined periods of time, subject to re-examination after the expiration of that period. In the United States, many of our wireless licenses are subject to interim or final construction requirements and there is no guarantee that the FCC will find our construction, or

the construction of prior licensees, sufficient to meet the build-out or renewal requirements. The FCC has pending a rulemaking proceeding to reevaluate, among other things, its wireless license renewal showings and standards and may in this or other proceedings promulgate changes or additional substantial requirements or conditions to its renewal rules, including revising license build out requirements. Accordingly, we cannot assure you that the competent regulatory authorities will renew our licenses upon their expiration. If any of our licenses were to be revoked or not renewed upon expiration, we would not be permitted to provide services under that license, which could have a material adverse effect on our business, results of operations and financial condition.

We face intense competition in all areas of our business, which could lead to reduced prices for our products and services and a decrease in market share in certain service areas, thereby adversely affecting our revenues and net profit.

Germany

In Germany, fixed-line network voice telephony service revenues and prices have continued to decline, primarily due to intense competition and adverse decisions imposed by the NRAs. The market for fixed-network broadband is characterized by a large number of competitors and different infrastructures, and we have observed increasing shares of cable network operators, which are able to provide telecommunications services. In the broadband market, we also observe that the market shares of regional network operators are growing, in particular in Germany, and that they are increasing their market coverage by building out their own infrastructure. In certain regions, our competitors are extending their own fiber-optic network to homes so that they are independent of our network in the local loop.

Competitive pressure is also increasing from competitors that have traditionally operated outside the telecommunications sector, such as major consumer electronics companies and Internet service providers. Furthermore, the switch of mobile operators' focus from pure mobile services towards fixed-line offerings, regulatory actions by the Federal Network Agency and the increasing quality and acceptance of Voice over Internet Protocol ("VoIP") services will increase pressure on our market shares, revenues and margins.

Additional local and regional network operators are expanding their presence to include other major cities and regions. In the future, we could face even fiercer competition and lose further market share if our competitors were to combine their businesses.

The German markets for Internet access and portal services, especially within the broadband market, have been, and will continue to be, highly competitive and are increasingly saturated. Prices for broadband flat rates have been steadily declining. Our future competitive position in the broadband/fixed-network business in Germany will be affected by pricing, network speed and reliability, services offered, customer support and our ability to be technologically adept and innovative. The regulatory environment can also exert a significant influence on the level of competition. We expect that our competitors will continue to pursue new broadband customers aggressively. In addition, a weaker economy may increase pressure on our revenues and margins in these markets. Furthermore, regulatory decisions have required us to offer to our competitors an IP bitstream access product, which enables our competitors to expand their operations throughout Germany without building their own infrastructure.

Part of the challenge in the fixed-network business in Germany continues to be the improvement of our reputation for customer service while implementing cost-saving measures. If we do not continue to improve our customer service sustainably, there is a risk of a negative impact on customer loyalty that could lead to higher losses of customers.

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 providers that are pursuing aggressive pricing policies and are expanding in Germany and other European markets, as resellers and "no-frills" operators, such as "Drillisch", offer discount rates without significant minimum-contract term obligations. With our "Congstar" brand, we also participate in this market. Competition in the German mobile telecommunications segment with established players such as Vodafone and O_2 is also intense and can be expected to increase further in the future.

As the German market for mobile telecommunications has become increasingly saturated, the focus of competition has been shifting from customer acquisition to customer retention, and increasing the quality and value of existing customers. Accordingly, if we are unable to increase revenues through increased quality and better value to our customers, we may not be able to compensate by increasing our market share. Going forward, pure eSIM smartphone offerings, which would give consumers the option to switch provider and plan without having to request a new SIM card, could put even more downward pressure on prices for mobile voice telephony and mobile data services.

Europe

Competition in the European mobile telecommunications markets run by our Europe operating segment is intense and can be expected to increase in the future. For example, persistently intense competition in the local telecommunications market in the Netherlands negatively impacted our revenues in the first nine months of 2016. Even though partnerships and consolidations in the industry, for example, in Austria, are providing impetus for some stabilization in pricing, new players continue to enter the market through spectrum auctions and wholesale agreements. Growing competition results, to a different extent in each regional market, from the market entry of alternative carriers (such as cable TV operators) or low cost carriers (such as Mobile Virtual Network Operators or “MVNOs”), technology shifts (such as IP-based telecommunications networks) and from market consolidation. In addition, the risk remains that smaller competitors will take unforeseen, aggressive pricing measures. In particular, providers are positioning themselves through low-price bundled products and MVNOs are using aggressive pricing, e. g., RCS and RDS in Romania and Play in Poland. In addition, over-the-top (“OTT”) players such as WhatsApp, which offer audio, video, and other media over the Internet without the involvement of a multiple-system operator in the control or distribution of the content, are increasingly replacing traditional voice and text messaging solutions.

If prices for mobile telecommunications services continue to decline through competition and/or regulation more than anticipated and this decline is not compensated for by higher usage, we may be unable to achieve our planned objectives, including our strategic targets. In addition, operators’ expansion of convergent product offerings from fixed-line to mobile sectors (or vice versa) may result in a competitive disadvantage for our mobile telecommunications operations in countries in which we offer only mobile communications services. Moreover, technologies such as W-LAN, WiMax and VoIP, which can be used with existing hardware and platforms, could drive voice and data traffic from mobile networks, which could lead to significant price and revenue reductions.

Demand for telecommunications services continues to be affected by the potential of continued economic stagnation and tepid economic growth in European economies. In addition, special taxes levied on telecommunications services, such as those in Romania and Greece for example, and the costs of spectrum auctions, for instance in Poland, impacted the telecommunications industry in a number of our footprint countries.

As European markets have become increasingly saturated, the focus of competition has been shifting from customer acquisition to customer retention, and increasing the quality and value of existing customers. Accordingly, if we are unable to offer increased quality and better value to our customers, our market share and revenues may not grow as we have anticipated in our plans and strategic targets.

United States

In the United States, two of our main national competitors — AT&T and Verizon Wireless — are significantly larger than T-Mobile USA, while the other national competitor — Sprint — is about our size. 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. In particular, our largest competitors’ scale could afford them significant structural and competitive advantages in this market and enable them to react more quickly to challenges, to invest more effectively in market opportunities and to spend more on customer acquisition. They may be in a better position to enter into exclusive handset, device, or content arrangements, execute pervasive advertising and marketing campaigns, or otherwise improve their cost position relative to ours. In addition, the refusal of our large competitors to provide critical access to resources and inputs, such as roaming services on reasonable terms, may improve their position within the wireless broadband mobile services industry. This situation presents T-Mobile USA with a long-term challenge to compete effectively in terms of pricing, products, coverage and the introduction of new technologies and services.

We expect the consolidation of the U. S. telecommunications market to continue as growth has slowed as a result of high market penetration. The U. S. mobile market continues to be characterized by intense competition among mobile carriers. Competitive factors within the U. S. mobile market that can drive consolidation (as well as putting pressure market participants more generally) 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. Customer attrition, also known as churn, may increase as the wireless industry shifts away from service contracts. We also expect that our customers’ growing appetite for data services will place increased demands on our network capacity. These competition and capacity issues will continue to put pressure on pricing and margins as companies compete for potential customers. Our ability to compete will depend on, among other things, continued absolute and relative improvement in network quality and customer services, effective marketing and selling of products and services, attractive pricing, and cost management, all of which will involve significant expenses.

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. Some players operate using alternative business models that have the potential to negatively affect T-Mobile USA's ability to attract and retain customers, such as MVNOs, which rely on the networks of one or more of the four national carriers to transport their mobile and data traffic. In addition to traditional competitors, the entrance and influence of manufacturers, service providers, cable providers and other new market participants, could put further pressure on the wireless industry in general and T-Mobile USA. In particular, industries are converging as video, mobile and broadband companies compete to deliver content as the next generation of offerings. For example, AT&T agreed in October 2016, subject to regulatory approval, to acquire media company Time Warner. Companies like Comcast and AT&T will have the scale and assets to aggressively compete in a converged wireless industry.

The incumbent wireless industry is experiencing disruptive innovation on many fronts. For example, Smartphone penetration is near 80% of the U.S. mobile market. While smartphone use is expected to continue to grow, tablet sales and other "smart" devices, such as watches and Internet-enabled devices embedded in non-communications devices (referred to as "the Internet of things"), have gained traction. Rapid penetration of smartphones and tablets and the associated increases in data usage will require carriers to invest in device subsidization and network improvements.

As price competition for contract customers becomes greater, comprehensive coverage and quality as well as attractive "smartphone" offerings will be key to T-Mobile USA's sustained commercial success. In the future, we will require additional spectrum in order to meet the rising demand for capacity. If T-Mobile USA cannot acquire sufficient spectrum, the quality of our services may deteriorate due to saturated frequency capacities. The scarcity and cost of additional wireless spectrum, and regulations relating to spectrum use, may adversely affect our business strategy and financial planning. T-Mobile USA is currently participating in an auction to acquire more spectrum to enhance its portfolio.

Systems Solutions

Our Systems Solutions business is subject to risks associated with the general and regional economies of its customers and the willingness and ability of its customers to invest in information and communications technology services and products. The ICT market is characterized by long sales cycles, intense competition, declining prices and restraint in the awarding of projects, while the recent gradual economic recovery has had little impact.

Continued intense cost pressure in the private sector and particularly in the public sector means that the balance between differentiation (softening of price competition) and standardization (cost cutting) remains critical. This creates a potential risk of revenue losses and declining margins for T-Systems.

In addition, the international growth potential of T-Systems may be constrained by its limited brand recognition in some national markets, at least compared to that of competitors who may be more established there, particularly as this relates to maintaining and increasing business with multinational companies outside of Germany. Additionally the relatively small size of some international T-Systems units may require expensive additional management resources from Germany.

If T-Systems' focus on multinational customers and its service offerings, such as dynamic services or cloud computing are not successful, T-Systems may lose market share to its competitors, suffer reduced revenues and incur losses.

For more information, see "*Description of Our Business and Operations*" and "*Development of Our Business*"**.**

We may not realize either the expected level of demand for our products and services, or the expected level or timing of revenues generated by those products and services, as a result of lack of market acceptance or technological change, which could adversely affect our cash flows and results of operations.

There is a risk that we will not succeed in making customers sufficiently aware of existing and future value-added services or in creating customer acceptance of these services at the prices we would seek to charge. In addition, market acceptance for these new products and services could be negatively affected by customer reluctance to pay for additional features. In general, the development of new services in the wireless telecommunications industry will require us to anticipate and respond to the continuously changing demands of our customers, which we may not be able to do accurately or in a timely manner. There is also a risk that we will not be able to bring new services to market as quickly or price-competitively as our competitors. These risks exist, in particular, with respect to our anticipated future growth drivers in the mobile and the fixed-line telecommunications area, which include, among others, the rising customer demand for integrated telecommunications products (fixed mobile convergence); our TV and home automation (Smart Home) offerings; dedicated services enabled by the fifth generation mobile communications standard (5G); connectivity-based solutions for the Internet of Things; as well as our own and partner cloud products.

In order to grow and remain competitive with new and evolving technologies in our industry, we will need to adapt to future changes in technology, continually invest in our network, enhance our existing offerings and introduce new offerings to address our current and potential customers' changing demands. We are investing in an integrated, pan-European IP network in order allow us to meet our customers' demands more quickly, flexibly, and economically. Enhancing our network is subject to risk from equipment changes and migration of customers from existing spectrum bands. Adopting new and sophisticated technologies may result in implementation issues such as scheduling and supplier delays, unexpected or increased costs, technological constraints, regulatory permit issues, subscriber dissatisfaction and other issues that could cause delays in launching new technological capabilities, which in turn could result in significant costs or reduce the anticipated benefits of the upgrades. Ever shorter innovation cycles confront the telecommunications sector with the challenge of introducing new products and services in increasingly shorter intervals. New technologies are superseding existing technologies, products, or services in part, and in some cases even completely. This could lead to lower prices and revenues in both voice and data traffic. These substitution risks could impact our revenue and earnings in particular in the Europe and United States operating segments.

Some of our investments (such as in new spectrum licenses) to develop future products and services may involve substantial cash outlays with no certainty of market acceptance.

There is a risk that the return on our investments, in particular in new spectrum licenses and network infrastructure (*e.g.*, for 4G services), may negatively deviate from our plans. In addition to the negative impact on our cash flows, this could result in significant write-downs of the value of spectrum or other licenses or other network-related investments.

Should we face a continuously deteriorating economic climate, we may decide, or be required, to scale back capital expenditures. We believe that we have flexibility in terms of the amount and timing of our capital expenditure program, but a lasting reduction in capital expenditure levels below certain thresholds could affect our future growth, in particular in our mobile operations.

Failure to achieve our planned reduction and restructuring of personnel or our human resources-related cost-savings goals could negatively affect our reputation and the achievement of our financial objectives and profitability.

In 2015, we once again used socially responsible measures to restructure the workforce in the Group, essentially by means of voluntary redundancies, partial and early retirement and employment opportunities for civil servants and employees, especially in the public sector. We intend to continue to restructure our workforce 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 as well as our reputation.

The successful realization of any staff reduction program depends on a range of factors that are beyond our control, such as general developments in the labor market, the demand for our retrained labor force and the level of acceptance of the various severance offers and other voluntary reduction measures. If planned staff reduction targets are not achieved, this would have a negative effect on our operating expenses and profitability.

We rely on highly-skilled personnel throughout all levels of our business. Our business could be harmed if we are unable to retain or motivate key personnel, hire qualified personnel or maintain our corporate culture.

In our industry, there is substantial and continuous competition for highly-skilled business, product development, technical and other personnel. We believe that our future success depends in substantial part on our ability to recruit, hire, motivate, develop and retain talented and highly-skilled personnel. Doing so may be difficult due to many factors, including fluctuations in economic and industry conditions, competitors' hiring practices, employee tolerance for the significant amount of change within and demands on us and our industry, and the effectiveness of our compensation programs. Our continued ability to compete effectively depends on our ability to retain and motivate our existing employees and to attract new employees. If we do not succeed in retaining and motivating our existing key employees and in attracting new key personnel, we may not be able to meet our business plan and, as a result, our revenue growth and profitability may be materially adversely affected.

As a result of dispositions of certain non-core businesses in Germany, there is an increased risk of return of civil servants transferred out of the Group, which could have a negative impact on our staff and cost reduction objectives.

Our employees who have civil servant status can, based on German civil service law, only be completely transferred to the buyer of a business from us in exceptional cases. Therefore, as a general matter, such transferred civil servants are placed on leave of absence while employed with the transferred business unit. Accordingly, in the event of termination of employment with the transferred business unit, there is a risk that such civil servants will return to the Group. As of December 31, 2015, there were around 2,138 civil servants that could have availed themselves of this right of return to the Group. On the assumption that all these civil servants would have returned to us in 2016, the direct maximum risk to us would have been approximately EUR 0.13 billion per year. The maximum risk is calculated as an

average cost per civil servant, based on the assumption that such employees could no longer be productively employed. This risk could be reduced by compensation payments, for example, but it cannot be completely eliminated.

If further Group units employing civil servants are disposed of, the risk of additional civil servants returning after the end of their temporary leave may again increase. For further information regarding general human resources-related matters, see "*Directors, Senior Management and Employees*".

We may be unable to adequately protect our intellectual property. Additionally, we use equipment, software, technology and content in the operation of our business, which may subject us to third-party intellectual property claims and we may be adversely affected by litigation involving our suppliers.

We rely on a combination of patent, service mark, trademark, design and trade secret laws and contractual restrictions to establish and protect our proprietary rights, all of which offer only limited protection. The steps we have taken to protect our intellectual property may not prevent the misappropriation of our proprietary rights. We may not have the ability in certain jurisdictions to adequately protect intellectual property rights. Moreover, others may independently develop trademarks, processes and technologies that are competitive to ours. Unauthorized use of our intellectual property rights may increase the cost of protecting these rights or reduce our revenues. We cannot be sure that any legal actions against such infringers will be successful or will not result in default, damage or reimbursement of other financial costs, *e.g.*, for management resources, even when our rights have been infringed. We cannot assure you that our pending or future patent applications will be granted or enforceable, or that the rights granted under any patent that may be issued will provide us with any competitive advantages. In addition, we cannot assure you that any trademark or service mark registrations will be issued with respect to pending or future applications or will provide adequate protection of our brands, such as use and renewal. Any of these factors could have material adverse effects on our business, results of operations and financial condition.

Third parties may claim we infringe their intellectual property rights. We are a defendant in numerous intellectual property lawsuits, including patent infringement lawsuits and suits brought by patent exploitation enterprises, which exposes us to the risk of adverse financial impact either by way of significant settlement amounts, license fees or damage awards. We may not have insurance coverage for intellectual property losses, and as such, a charge for an anticipated settlement, or an adverse ruling awarding damages, represents unplanned loss events. As we adopt new technologies and new business systems to follow new communication trends, and provide customers with new products and/or services, we may face additional infringement claims. These claims could require us to cease certain activities or to cease selling relevant products and services. These claims can be time-consuming and costly to defend, and divert management resources. In addition to litigation directly involving us, our vendors and suppliers can be threatened with patent or trademark litigation and/or subjected to the threat of disruption or blockage of sale, use, or importation of products, posing the risk of supply chain interruption to particular products and associated services exposing us to material adverse operational and financial impacts. For information concerning our disputes in relation to intellectual property rights, see "*Legal Proceedings—Disputes in Relation to Intellectual Property Rights*".

We regularly engage in large-scale programs to reshape our information technology ("IT") and network infrastructure ("NT") to adapt to changing customer needs and organizational and accounting requirements. The implementation of any of these programs may require substantial investments, and a failure to effectively plan and monitor them could lead to misallocations of resources and impaired processes with negative consequences for our operations.

Our IT and network resources and infrastructure represent our organizational and technical backbone. This infrastructure is the basis for innovative telecommunications products and services that we offer or plan to offer in the future. We have implemented comprehensive programs to adapt our IT systems and infrastructure to changing customer needs and our new organizational structure resulting from the consolidation of our fixed-line and mobile networks in Germany. We are replacing the various architectures, access types and services with a standardized architecture. Risks could arise in this area relating to all IT systems and products that require Internet access.

Due to the enormous complexity of the implementation of this IT and infrastructure initiative, malfunctions, connectivity issues, implementation delays, inadequate planning and management and other unforeseen problems could result in costly process impairments and remediation, and possible extended down-times of IT processes. These problems could result in revenue losses and may hamper the attainment of our goals in terms of cost savings and quality improvements.

In the United States, our systems for sales processes and service have become less efficient over time, leading to interruptions or outages. We are currently implementing a new customer billing system, which involves moving to a new third-party billing services vendor and platform through utilization of a phased deployment approach. The first release phase focused primarily on prepaid services, with a market trial launch in Portland, Oregon in February of 2017. Post implementation, we plan to operate both the existing and new billing systems in parallel to aid in the transition to the new

system until all phases of the conversion are complete. The implementation may cause major system or business disruptions or we may fail to implement the new billing system in a timely or effective manner.

In addition, one of our most important IT programs deals with the long-term development and implementation of a comprehensive IP platform that will support both fixed-line and mobile telephony services. This means that the traditional platform will be completely replaced by an IP-based system. Upon implementation of this joint IP platform, we will be subject to risks inherent in all IT systems connected to the Internet, such as hacker attacks, "spam calls" and other disruptions. These risks could lead to a temporary interruption of our IT resources and, as a result, impair the performance of our technical infrastructure.

If our efforts, or those of third party service providers, to maintain the privacy and security of our customer, confidential, or sensitive information are not successful at preventing a significant data breach or cyber-attack, we could incur substantial additional costs, become subject to litigation, enforcement actions or regulatory investigation, and suffer reputational damage.

Our business, like that of most retailers and wireless companies, involves the receipt, storage and transmission of personal information, consumer preferences and payment card information of our customers and other persons who apply to become customers, confidential information about our employees and suppliers, other sensitive information about our company, such as our business plans, transactions and intellectual property ("confidential information") and may include governmental classified information. The methods used to obtain unauthorized access, disable or degrade service, or sabotage systems are constantly changing and evolving, and may be difficult to anticipate or detect for long periods of time. Cyber-attacks, such as denial of service, advanced persistent threats, other malicious attacks, unauthorized access or distribution of confidential information by third parties or employees, errors or breaches by third party suppliers, or other breaches of security could disrupt our internal systems and applications, impair our ability to provide services to our customers, and protect the privacy and confidentiality of our sensitive information. For example, we were subject to a cyber-attack in November 2016, which temporarily affected our service to over 900,000 of our customers. Such attacks against companies are occurring with greater frequency and may be perpetrated by a variety of groups or persons, including those in jurisdictions where law enforcement is or has been unable to effectively address such attacks.

In addition, we provide confidential, proprietary and personal information to third party service providers when it is necessary to pursue business objectives. We and our third party service providers have been subject to cyber-attacks in the past, including a breach at Experian in September 2015 in the United States in which a subset of records containing current and potential customer information was compromised.

Although we regularly review our processes and procedures to protect against unauthorized access to or use of sensitive data and to prevent data loss, the ever-evolving threat landscape requires us to continually evaluate and adapt our systems and processes. We cannot assure you that the security measures and preventive actions we take will be adequate to repel a significant attack, prevent information security breaches or the misuses of data, unauthorized access by third parties or employees, or exploits against third party supplier environments. If we are subject to such attacks or compromise, we may incur significant costs, be subject to regulatory investigations, sanctions and private litigation, experience disruptions to our operations or may suffer damage to our reputation that negatively impacts customer confidence. Although the cyber-attacks that we and our third party service providers have been subjected to in the past have not caused significant harm to our company, future cyber-attacks may materially adversely affect our business, results of operations and financial condition.

Shortcomings in our supply and procurement process could negatively affect our product portfolio, revenues and profits.

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.

Although we do not believe that we are materially dependent on any single supplier, our contractors may want to extend delivery times, raise prices and limit supply due to their own shortages or changing business and product strategies. Furthermore, our vendors may be subject to litigation with respect to technology that is important for the conduct of our business. Especially in times of economic turmoil, supply chains, credit access and financial stability of our vendors may be negatively affected, which could disturb our commercial relationship with them. Although we have implemented organizational, contractual and procurement strategy measures to counteract such risks, delivery bottlenecks, price increases, changes in the prevailing economic conditions or suppliers' product strategies may have a negative impact on our business processes and results. Our results may be adversely affected by the dependence on individual suppliers or from individual vendors' defaulting on their obligations to us.

System failures due to natural or man-made disruptions and loss of data could result in reduced user traffic and reduced revenues and could harm our reputation and results. We are also exposed to risks relating to the functionality of our existing IT architecture.

System failures due to natural or man-made disruptions, including fire, lightning, flooding and other calamities, technology failures, human error, terrorist attacks, hacker attacks (such as the one mentioned above) and malicious actions (*e.g.*, theft or misuse of customer data), and other similar events, and the resulting loss of data could result in reduced user traffic and reduced revenues, and could harm our reputation and results.

We also face the risk 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. The Computer Emergency Response Team (CERT) at T-Systems provides security for corporate customers' servers. Our data centers have security certification and meet strict legal data protection provisions and EU regulations. All data relating to companies and private persons are protected from external access. We cannot, however, be certain that these measures will be effective under all circumstances, and that disruptions or damages will not occur. Disruption or damage to our infrastructure may result in reduced user traffic and revenues, increased costs and damage to our reputation.

We are continuously involved in disputes and litigation with government agencies, competition authorities, competitors and other parties. The ultimate outcome of such legal proceedings is generally uncertain. When finally concluded, they may have a material adverse effect on our results of operations and financial condition.

We are subject to numerous risks relating to legal and regulatory proceedings, in which we are currently a party or which could develop in the future. Litigation and regulatory proceedings, including patent infringement lawsuits, are inherently unpredictable. Legal or regulatory proceedings in which we are or come to be involved (or settlements thereof) may have a material adverse effect on our results of operations or financial condition. For information concerning some of the litigation in which we are involved, including with respect to Toll Collect, see "*Legal Proceedings*". For information concerning our regulatory environment, see "*Regulation*".

Alleged health risks of wireless communication devices have led to litigation affecting markets with our mobile telecommunications operations subsidiaries, and could lead to decreased wireless communications usage or increased difficulty in obtaining sites for base stations and, as a result, adversely affect the financial condition and results of operations of our wireless services business.

Mobile communications and the electromagnetic fields emitted from wireless mobile devices and cell sites regularly give rise to concerns among the general population regarding potential health risks, including cancer. Lawsuits have been filed against manufacturers and carriers in the industry claiming damages for alleged health problems arising from the use of wireless handsets. Electromagnetic fields may also interfere with various electronic medical devices, including hearing aids and pacemakers. There is continuing public, political and scientific debate of this issue, and research and studies are ongoing. The World Health Organization and the International Commission on Non-Ionizing Radiation Protection (ICNIRP) have declared that, on the basis of current scientific knowledge, there are no known adverse effects on health from emissions at levels below internationally recognized health and safety standards. ICNIRP regularly reviews the recommendations for the limit values based on current scientific knowledge. However, we cannot provide full assurance that research in the future will not establish links between radio frequency emissions and health risks.

Whether or not such research or studies conclude there is a link between radio frequency emissions and health, popular concerns about radio frequency emissions may discourage the use of wireless devices and may result in significant restrictions on the location and operation of cell sites by our mobile telecommunications subsidiaries and the usage of our wireless devices, telephones or products using wireless technology. Such restrictions on use could have material adverse effects on our results of operations. In particular, these concerns may negatively affect projects in our mobile communications business, such as the deployment of mobile networks and the use of mobile terminal devices. In the fixed network business, they may negatively affect sales of, for example, traditional DECT (digital cordless) phones and devices that use WiFi technology. There is a risk of increased regulation of our business, which could include reduced electromagnetic field thresholds or the implementation of precautionary measures in mobile communications, such as amendments to regulations governing the construction of cellular towers or labeling requirements for handsets.

T-Mobile USA, like other wireless carriers, faces the potential for significant adverse judgments or settlements from litigation claims of health or safety effects related to the use of handsets, tablets or other personal wireless devices that access our network. For example, a number of coordinated cases seeking damages are currently pending in superior court in Washington D.C. against T-Mobile USA, the other major carriers, and handset manufacturers alleging that radiofrequency emissions from cell phones caused brain tumors. Claims may also arise out of physical proximity to

wireless network hardware (*e.g.*, cell site antennas). Any such litigation, legislation or adverse actions may result in additional costs and loss of revenues in our mobile communications businesses.

In the United States, state and local governments continue to consider requirements for mandatory labeling of handsets with SAR (Specific Absorption Rate) levels or notices regarding potential health risks of radiofrequency emissions. We may also be subject to potential litigation relating to customer use while driving of handsets and other personal wireless devices that access our network.

Additionally, there are safety risks associated with the use of wireless devices while operating vehicles or equipment. Concerns over any of these risks and the effect of any legislation, rules or regulations that have been and may be adopted in response to these risks could limit our ability to sell our wireless services.

Our financial performance will be impaired if we experience high fraud rates related to device financing, credit cards, dealers, or subscriptions.

Our operating costs could increase substantially as a result of fraud, including device financing, customer credit card, subscription or dealer fraud. If our fraud detection strategies and processes are not successful in detecting and controlling fraud, whether directly or by way of the systems, processes and operations of third parties such as national retailers, dealers and others, the resulting loss of revenue or increased expenses could have a materially adverse impact on our financial condition and results of operations.

Negative media reports on our products and services or our corporate activities could have a material impact on our reputation, standing and brand image.

Negative media reports on our products and services or our corporate activities could have a material impact on our reputation, standing and brand image. Online news and social networks services, such as Facebook and Twitter, 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 revenue and brand value.

Developments in the telecommunications sector have resulted, and may in the future result, in substantial write-downs of the carrying value of certain of our 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, however, materially adversely affect our results of operations, which can lead to perceptions of financial weakness and damage our prospects and our ability to achieve our strategic plans.

Our forecasts and forward-looking information may prove to be incorrect.

The Board of Management has prepared and published forecasts and targets regarding our anticipated financial performance based on its best estimate of our probable results of operations. These forecasts and targets have not been reviewed by our independent accountants, and were made with respect to conditions as of the date of their publication based on the then-current structure of the Group, without regard to significant acquisitions, dispositions, business combinations or joint ventures we may choose to undertake. In addition, they are based on several assumptions, which our Board of Management believes are reasonable, regarding future market and economic developments. Some assumptions upon which the projections are based, however, will not materialize due to the inevitable occurrence of unanticipated events and circumstances. For example, we may fail to meet our forecasts and targets due to an economic downturn in Europe or North America, changes in exchange or interest rates, the negative outcome of litigation or regulatory matters in which we are involved, adverse competitive and regulatory developments or the materialization of other risks inherent to our business including those summarized in this offering memorandum. Therefore, our actual results of operations will likely vary from our forecasts and targets, and such variances may be both adverse and material. While the Board of Management believes that the forecasts and targets accurately reflect its intentions and expectations regarding future results of our operations, those results cannot be guaranteed.

Potential breaches of compliance requirements or the identification of material weaknesses in our internal control over financial reporting may have an adverse impact on our corporate reputation, financial condition and the trading price of our securities.

In general, compliance requirements for publicly-traded companies and, in particular, the investigation of potential breaches and corporate misconduct are increasing and leading to major financial implications for the companies concerned. At the same time, the legal framework governing the monitoring of companies is becoming more comprehensive, which increases liability risks for executive bodies and associated costs.

While we believe that we have established an appropriate compliance organization to detect, assess, reduce and manage these risks, and to involve public authorities when appropriate, the global and diverse nature of our operations and business relationships means that these risks and their related consequences will continue to exist. Although our organization is set up to take prompt measures to effectively remediate any identified shortcomings in our internal controls over financial reporting, activities of this kind may involve significant effort and expense, and disclosure of any failures, material weakness or other conditions, may result in a deterioration of our corporate image and negative market reactions.

We are exposed to risks in connection with business combinations and acquisitions or dispositions of businesses and assets, which could jeopardize the achievement of our targets and materially harm our results of operations and our share price.

Where it appears strategically advantageous, we may consider business combinations, acquisitions or disposals of businesses or assets from time to time. Even though we review the companies, businesses, assets, liabilities or contracts we plan to acquire, it is generally not feasible for these reviews to be complete in all respects. As a result, we may assume unanticipated liabilities, or an acquisition may not perform as well as expected. Were we to announce or complete a significant business combination transaction, our share price could decline significantly if investors viewed the transaction as too costly or unlikely to improve our competitive position. In addition, we might have difficulty successfully integrating any entity with which we combine our operations, for example due to unexpectedly high integration costs, which could jeopardize the achievement of qualitative or quantitative targets, including those relating to cost and revenue synergies, and could materially and adversely affect our profitability. Failure to complete announced business combinations, acquisitions or dispositions could also affect investors' perception of our business prospects and management, and thus cause our share price to fall. It could also lead to departures of key employees, or lead to increased costs and reduced profitability if we felt compelled to offer them financial incentives to remain.

Liquidity, credit, currency, interest rate, exchange rate, rating and tax risks have had, and may continue to have, an adverse effect on our revenue and cost development.

With regard to our assets, liabilities and planned transactions, we are particularly exposed to liquidity risks, credit risk, and the risk of changes in exchange and interest rates. Our financial risk management aims to contain these risks in connection with ongoing operational and finance activities.

We are exposed to liquidity risk, which is the risk arising from our potential inability to meet all payment obligations when they become due or only being able to meet them at excessive cost. With the aim of ensuring our solvency and financial flexibility at all times, we maintain a liquidity reserve in the form of credit lines and cash as part of our liquidity management. This liquidity reserve is to cover the maturities of the next 24 months at any time. For medium- to long-term financing, we primarily use bonds issued in a variety of currencies and jurisdictions. Our liquidity may become impaired due to reluctance of our counterparties or the market to finance our operations due to actual or perceived weaknesses in our businesses, our business model or our strategy, as well as in our resilience to counter negative economic and market conditions.

Through our operating business and certain financing activities, we are also exposed to a credit risk, *i.e.*, the risk that a counterparty will not fulfill its contractual obligations.

Our credit rating with Moody's is Baa1, while Fitch and Standard & Poor's rate Deutsche Telekom BBB+. All three agencies give Deutsche Telekom a "stable" outlook. A decrease in our credit ratings below certain thresholds by various rating agencies would result in an increase in the interest rates on certain of our bonds and medium-term notes due to step-up provisions and could raise the cost of our debt refinancing activities generally. For more information, see "*Development of Our Business—Condensed Consolidated Statement of Cash Flows and Reconciliation of Free Cash Flow—Step-Up Provisions*".

We are exposed to currency risks from our investing, financing and operating activities. Risks from foreign currency fluctuations are hedged if they affect our 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 our cash flows (*i.e.*, the risks resulting from the translation of statements of assets and liabilities of foreign operations into the our reporting currency) are generally not hedged, however. We may nevertheless also hedge this foreign-currency risk under certain circumstances. There can be no guarantee that our hedging strategies will succeed. Currency risks may have a negative impact on our results of operations when amounts in local currencies are translated into euros, particularly in connection with U.S. dollar-denominated results.

Our interest rate risk mainly results from interest-bearing liabilities and exists primarily in the Eurozone and the United States. Interest-rate risks arise as a result of fluctuations in interest rates affecting the level of interest payments due on indebtedness at variable rates. To minimize the effects of interest rate fluctuations in these regions, we manage the

interest rate risk for net debt denominated in euros and U.S. dollars separately. Once a year, as part of the interest rate management, the maximum allowable deviation from the planned interest result is determined (referred to as the "risk budget"). In order to hold that risk budget, Group treasury issues primary financial instruments and — if needed — concludes derivative financial instruments to adjust the mix of the debt portfolio (*i.e.*, mix of fix and floating rate debt; average duration). On a regular basis the Board of Management and the Supervisory Board are informed.

In many countries, we are subject to the applicable legal tax provisions. Risks can arise from changes in local taxation laws or case law and different interpretations of existing provisions. As a result, they can affect our tax expense and income as well as tax receivables and liabilities.

Risks Related to the Notes

Our credit ratings may not reflect all risks of an investment in the Notes.

The credit ratings ascribed to us and our outstanding debt securities are intended to reflect our ability to meet the payment obligations under our outstanding debt securities, and may not reflect the potential impact of all risks related to structure and other factors on the value of our outstanding debt securities or the Notes. In addition, actual or anticipated changes in our credit ratings will generally affect the market value of debt securities we have issued.

Many factors may adversely affect the trading market, value or yield of the Notes.

Each series of Notes comprises a new issue of securities for which there is currently no public market. There is no established trading market for any series of Notes. The Notes are not listed or admitted for trading on any securities exchange, and we have no plans to effect such listing or admission. There can be no assurance that any market for the Notes will develop or continue or, if one does develop, that it will be maintained, that any market for the Notes will be liquid or that holders will be able to sell their Notes when desired, or at all, or at prices they find acceptable. The liquidity of, and trading market for, the Notes may also be hurt by general declines in the market for similar securities.

In addition to our own creditworthiness, many other factors may affect the trading market for, and market value of, the Notes. These factors include:

- the method of calculating principal, premium and interest;
- the time remaining to the maturity;
- the outstanding amount of our debt securities — our debt covenants and fiscal agency agreements for our debt securities do not limit the amount of debt securities we may issue or guarantee;
- redemption or repayment features; and
- the level, direction and volatility of market interest rates generally — the conditions of the financial markets and prevailing interest rates have fluctuated in the past and are likely to fluctuate in the future, which could have an adverse effect on the market prices of the Notes, regardless of our prospects and financial performance and condition.

In addition, if you decide to sell the Notes, there may be a limited number of buyers (if any) or there may be a surplus of debt securities of other issuers available with similar credit, maturity and other structural characteristics. This may affect the price you receive for the Notes or your ability to sell them at all. You should not purchase the Notes unless you understand and know you can bear the related investment risks.

An investment in the Floating Rate Notes involves risks relating to fluctuations in the interest rate applicable to the Notes.

A holder of a Floating Rate Note is exposed to the risk of fluctuating interest rate levels and uncertain interest income. Fluctuating interest rate levels make it impossible to determine the yield of the Floating Rate Notes in advance. As a result, the return on investment in respect of the Floating Rate Notes cannot be compared with that of investments having fixed interest rates. Because the interest rate of the Floating Rate Notes will reset on a quarterly basis, holders intending to reinvest the interest income paid to them under the Floating Rate Notes may be exposed to reinvestment risk in the event that market interest rates decline, as such reinvestments may be subject to the relevant lower interest rates prevailing.

Neither the current nor a historical interest rate should be taken as an indication of the future development of such interest rate during the term of the Floating Rate Notes.

An investment in the Fixed Rate Notes involves risks relating to changes in the interest rate environment.

A holder of a Fixed Rate Note is exposed to the risk that the price of such Note could fall as a result of changes in the market interest rate. While the nominal interest rate of the Fixed Rate Notes specified herein is fixed during the life of such Notes, the current interest rate on the capital markets ("market interest rate") typically changes on a daily basis. As the market interest rate changes, the price of the Fixed Rate Notes would typically change in the opposite direction. If the market interest rate increases, the price of the Fixed Rate Notes would typically fall, until the yield of such Notes is approximately equal to the market interest rate. If the market interest rate falls, the price of the Fixed Rate Notes would typically increase, until the yield of such Notes is approximately equal to the market interest rate. Changes in the market interest rate are typically relevant to holder intending to sell their Notes prior to the maturity date, or in the case that the Notes are redeemed by the Issuer prior to the stated maturity.

Notes may not be a suitable investment for all investors.

Each potential investor in Notes must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor should:

- have sufficient knowledge and experience to make a meaningful evaluation of the relevant Notes, the merits and risks of investing in the relevant Notes and the information contained or incorporated by reference in this offering memorandum or any applicable supplement;

- have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation and the investment(s) it is considering, an investment in the Notes and the impact the Notes will have on its overall investment portfolio;

- have sufficient financial resources and liquidity to bear all of the risks of an investment in the relevant Notes, including where the currency for principal or interest payments is different from the potential investor's currency;

- understand thoroughly the terms of the relevant Notes and be familiar with the behavior of financial markets; and

- be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

Redemption may adversely affect your return on our debt securities.

The Notes are, or may become, redeemable at our option and we may choose to redeem them at times when prevailing market interest rates are lower than the interest rates on the Notes. In addition, the Notes are subject to mandatory redemption and we may be required to redeem them at times when prevailing interest rates are relatively low. As a result, you may not be able to reinvest the redemption proceeds in a comparable security at an effective interest rate as high as that of the Notes. Our redemption right may also adversely affect your ability to sell the Notes as their redemption date approaches.

Deutsche Telekom's business development is dependent on its subsidiaries' operating results and, as a result, the inability of Deutsche Telekom's subsidiaries to transfer sufficient profits or pay sufficient dividends could prevent Deutsche Telekom from meeting its obligations. In addition, direct creditors of Deutsche Telekom's subsidiaries will generally have superior claims to cash flows from those subsidiaries.

Almost all of the Group's net revenue is generated by Deutsche Telekom's subsidiaries and the vast majority of Deutsche Telekom's assets are its investments in its subsidiaries. Deutsche Telekom depends upon earnings and cash flows from its subsidiaries to meet its obligations under its debt securities, including the Notes. Certain subsidiaries of Deutsche Telekom are or may be subject to contractual restrictions or regulatory requirements that would limit their ability to pay dividends. Furthermore, insofar as Deutsche Telekom acts as a lender to subsidiaries in which there are third-party shareholders, it may face conflicts of interest in its capacities as lender and shareholder, and may indirectly benefit shareholders who do not participate in extending such financing.

In addition, Deutsche Telekom has the ability to restructure its remaining operations to cause operating assets currently held directly by Deutsche Telekom to be held by one or more subsidiaries. For example, in the past, Deutsche Telekom transferred its fixed-line operations in Germany into a wholly owned subsidiary, Telekom Deutschland GmbH. Because the creditors of any subsidiary of Deutsche Telekom would generally have a right to receive payment that comes before the parent company's right to receive payment from the assets of that subsidiary, holders of the Notes will be effectively subordinated to creditors of those subsidiaries insofar as cash flows from those subsidiaries are relevant to

servicing Deutsche Telekom's debt securities. The Agreement does not limit the amount of liabilities that Deutsche Telekom or its subsidiaries may incur.

The Notes do not contain financial covenants, change in control provisions or similar limitations on our flexibility.

The Agreement does not contain any covenants or other provisions designed to protect holders of the Notes against a reduction in the creditworthiness of Deutsche Telekom or Finance. It also generally does not contain covenants or other provisions that would prohibit us from increasing our indebtedness or prohibit us or our affiliates from engaging in other transactions that might adversely affect holders of the Notes, including transactions involving a change in control over the relevant issuer or the guarantor or a business combination, acquisition or divestiture. We may at any time be engaged in discussions concerning, or otherwise acting in furtherance of, such transactions, which may be material.

The Notes will be subject to specific restrictions on transfer.

The Notes are being offered in reliance upon an exemption from registration under the Securities Act and applicable state securities laws of the United States. As such, the Notes may be transferred or resold only in a transaction registered under or exempt from the Securities Act and applicable U.S. state securities laws. These restrictions on transfer may have a material adverse effect on the ability of any holder of the Notes to transfer such Notes.

Investors may experience difficulties in enforcing civil liabilities.

Deutsche Telekom AG is incorporated in Germany and Finance is organized in The Netherlands. The majority of their directors and management (and certain of the parties named in this document) reside outside the United States, and all, or a substantial portion of, Deutsche Telekom AG's, Finance's and such persons' assets are located outside the United States. As a result, it may not be possible for investors to effect service of process upon Deutsche Telekom AG, Finance or such persons within the United States, or to enforce against Deutsche Telekom AG, Finance or such persons in the United States judgments obtained in the U.S. courts, including judgments predicated upon the civil liability provisions of the federal securities laws of the United States.

Corporate Disclosure in Germany may differ from that in the United States.

There may be less publicly available information about German public companies, such as Deutsche Telekom, than is regularly made available by public companies in the United States and in other jurisdictions. In 2010, we delisted our American Depositary Shares from the New York Stock Exchange and deregistered with the U.S. Securities and Exchange Commission ("SEC") all of our securities, including our equity securities and all classes of debt securities issued by Finance and guaranteed by Deutsche Telekom. Finance also deregistered all classes of its securities with the SEC.

USE OF PROCEEDS

We estimate the net proceeds from the sale of the Notes to be approximately $3,489,452,500 after deducting from the gross proceeds underwriting commissions and other expenses of the offering payable by us. We intend that the net proceeds will be on-lent by the Issuer to Group companies and used for general corporate purposes.

CAPITALIZATION AND INDEBTEDNESS

Deutsche Telekom AG

The following table sets forth, on a consolidated basis, the cash and cash equivalents, current financial indebtedness, non-current financial indebtedness, shareholders' equity and capitalization of Deutsche Telekom and its consolidated subsidiaries in accordance with IFRS, as adopted for use in the EU by the European Commission, as at September 30, 2016 and as adjusted to reflect the proposed sale of the Notes in this offering.

	At September 30, 2016	
	Actual	**As adjusted**
	(millions of €)	
	(Unaudited)	
Cash and cash equivalents	**7,527**	**10,653**[4, 5]
Current financial indebtedness		
Bonds and other securitized liabilities	4,178	4,178
Liabilities to banks	1,218	1,218
Finance lease liabilities	451	451
Liabilities to non-banks from promissory notes	34	34
Liabilities with the right of creditors to priority repayment in the event of default	18	18
Total current financial indebtedness[1]	**5,899**	**5,899**
Non-current financial indebtedness		
Bonds and other securitized liabilities	44,836	47,972[4, 6]
Liabilities to banks	2,847	2,847
Finance lease liabilities	1,927	1,927
Liabilities to non-banks from promissory notes	522	522
Liabilities with the right of creditors to priority repayment in the event of default	1,748	1,748
Total non-current financial indebtedness[1, 2]	**51,880**	**55,016**
Shareholders' equity:		
Issued capital	11,973	11,973
Capital reserves	53,348	53,348
Other shareholders' equity[3]	(27,700)	(27,700)
Total shareholders' equity	**37,621**	**37,621**
Total capitalization	**87,873**	**87,883**[7]

[1] Composed of "Bonds and other securitized liabilities", "Liabilities to banks", "Finance lease liabilities", "Liabilities to non-banks from promissory notes" and "Liabilities with the right of creditors to priority repayment in the event of default" as stated in the Condensed Consolidated Interim Financial Statements. All current and non-current financial indebtedness is unsecured except for "Liabilities with the right of creditors to priority repayment in the event of default".

[2] In accordance with Postreform II (§ 2 (4) of the Post Transformation Act – *Postumwandlungsgesetz*), the Federal Republic is guarantor of all of Deutsche Telekom's liabilities which were outstanding at January 1, 1995. At September 30, 2016, this figure was a nominal EUR 2.0 billion.

[3] Composed of "Treasury shares", Retained earnings including carryforwards", "Total other comprehensive income", "Net profit (loss) and "Non-controlling interests" as stated in the Condensed Consolidated Interim Financial Statements.

[4] The Euro equivalent of the Notes offered hereby is based on a U.S. dollar/Euro exchange rate of USD 1.1161 = EUR 1.00 as of September 30, 2016, as published by the European Central Bank.

[5] After deducting from the gross proceeds from the proposed sale of the Notes in this offering underwriting commission and other expenses relating to the offering payable by Deutsche Telekom. See "*Use of Proceeds*".

[6] For simplification purposes, the adjusted figure reflects the respective liabilities at their aggregate principal amount, not their values as calculated (in accordance with IFRS) using the effective interest rate method.

[7] The adjustment has been calculated before consideration of potential tax effects (in particular deferred taxes).

Except as disclosed in this offering memorandum, there has been no material change in the capitalization of Deutsche Telekom since September 30, 2016.

Deutsche Telekom International Finance B.V.

The following table shows the capitalization of Finance in accordance with IFRS, as adopted for use in the EU by the European Commission, as at September 30, 2016 and as adjusted to reflect the proposed sale of the Notes in this offering.

	At September 30, 2016	
	Actual	As adjusted
	(millions of €)	
	(Unaudited)	
Cash and cash equivalents	0	0
Current financial liabilities[1]	**3,604**	**3,604**
Non-current financial liabilities[1]		
Bonds and other securitized liabilities	23,580	26,716[2, 3]
Liabilities to banks	0	0
Total non-current financial liabilities	**23,580**	**26,716**
Shareholder's equity:	**307**	**307**
Total capitalization	**27,491**	**30,627**[4]

1 All current and non-current financial liabilities are guaranteed and unsecured.

2 The Euro equivalent of the Notes offered hereby is based on a U.S. dollar/Euro exchange rate of USD 1.1161 = EUR 1.00 as of September 30, 2016, as published by the European Central Bank.

3 For simplification purposes, the adjusted figure reflects the respective liabilities at their aggregate principal amount, not their values as calculated (in accordance with IFRS) using the effective interest rate method.

4 The adjustment has been calculated before consideration of potential tax effects (in particular deferred taxes).

Except as disclosed in this offering memorandum, there has been no material change in the capitalization of Finance since September 30, 2016.

DESCRIPTION OF OUR BUSINESS AND OPERATIONS

Group Organization

Overview of Business Activities

With approximately 163 million mobile customers, 28.5 million fixed-network and 18.2 million broadband lines (each as of September 30, 2016), we are one of the leading integrated telecommunications companies worldwide. We offer fixed-network/broadband, mobile communications, Internet, and Internet-based TV products and services to consumers, as well as ICT solutions to business and corporate customers. We have an international focus and are represented in more than 50 countries. In the first nine months of 2016, we generated nearly two-thirds of our revenue, amounting to EUR 35.2 billion, outside of our home market of Germany. As of September 30, 2016, we had 219,254 employees (FTEs).

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

Organization

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, of which three are based on region and one is organized by customer and product.

- *Germany:* The Germany operating segment comprises all of our fixed-network and mobile activities for consumers and business customers in Germany. In addition, this segment provides wholesale telecommunications services for the Group's other operating segments provided to third parties.

- *United States:* The United States operating segment combines all our mobile activities in the U.S. market, which are conducted through our majority owned subsidiary T-Mobile US.

- *Europe:* The Europe operating segment comprises all of our fixed-network and mobile operations in Greece, Romania, Hungary, Poland, the Czech Republic, Croatia, the Netherlands, Slovakia, Austria, Albania, the F.Y.R.O. Macedonia, and Montenegro. In addition to focusing on consumer business, we also offer ICT solutions to business customers in most of these countries. We have further expanded our business customer operations, in particular through the takeover of the GTS Central Europe group ("GTS") in 2014. The International Carrier Sales & Solutions ("ICSS"), Group Technology, and Global Network Factory ("GNF") units also belong to the Europe operating segment: ICSS primarily provides wholesale telecommunications services for the operating segments in our Group to third parties; Group Technology aims to provide efficient and customized 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 communication.

- *Systems Solutions:* Drawing on a global infrastructure of data centers and networks, our Systems Solutions operating segment operates ICT systems for multinational corporations and public sector institutions under the T-Systems brand, thereby seeking to provide customers all over the world with integrated solutions for the digital age. This segment also offers ICT solutions tailored to the needs of small and medium-sized enterprises. The offering primarily includes services from the cloud, machine-to-machine (M2M), and security solutions, complementary, highly standardized mobile and fixed-network products, as well as solutions for virtual collaboration and IT platforms that form the basis for the digital business models of corporate customers. The Systems Solutions operating segment comprises two business areas: The Market Unit and Telekom IT. Telekom IT focuses on the Group's internal national IT projects. The Market Unit mainly comprises business with external customers and consists of three divisions: the IT Division, the TC Division (Telecommunications), and the Digital Division.

Group Headquarters & Group Services comprises all Group units that cannot be allocated directly to one of the operating segments. Group Headquarters & Group Services defines strategic aims for the Group, supervises the implementation of strategy, and becomes directly involved in selected Group projects. Group Services acts as a service

provider for the Group; in addition to typical services such as financial accounting, human resources services and operational procurement, Group Services also includes Vivento, our personnel service provider. Vivento is responsible for civil servants and employees, securing external employment opportunities for them predominantly in the public sector, while also seeking to strategically place them internally, with the aim of retaining professional expertise within the Group, so as to reduce the use of external staff. The Group Real Estate Management unit manages the Group's real estate and the MobilitySolutions unit is a full-service provider for fleet management and mobility services. In mid-2015, we realigned our central innovation unit, the Digital Business Unit. Since then, it has operated under the name of Group Innovation+, working to develop new business areas and products in close cooperation with our operating segments.

As of January 1, 2017, we realigned our organizational structure and established Group Development as a new operating segment in addition to the new Board department Technology and Innovation (see "*Directors, Senior Management and Employees—The Board of Management*"). This new operating segment will manage selected investments of the Group, with the goal of increasing their values, and will comprise the Group functions mergers & acquisitions and strategic portfolio management.

For more information on our operating segments please refer to "*Description of Our Business and Operations*" and "*Development of the Business in the Operating Segments*" and Note 32 "*Segment reporting*" to the consolidated financial statements as of and for the year ended December 31, 2015 included elsewhere in this offering memorandum.

The principal subsidiaries of Deutsche Telekom AG are listed in the notes to the consolidated financial statements as of and for the year ended December 31, 2015 in the section "*Summary of accounting policies*" under "*Principal subsidiaries*". In addition to Deutsche Telekom AG, 64 German and 190 foreign subsidiaries are fully consolidated in our consolidated financial statements as of and for the year ended December 31, 2015 (December 31, 2014: 56 and 197). In addition, 14 associates and 8 joint ventures are included using the equity method (December 31, 2014: 13 and 6).

Significant Corporate Transactions

In February 2014, we completed the sale of 70 percent of the shares in Scout24 Holding GmbH to Hellman & Friedman LLC. Following the sale, we retained a stake of around 30 percent in the Scout24 group, which was allocated to our Group Headquarters & Group Services segment. In January 2014, Ringier Digital AG acquired the 57.6 percent stake in Scout24 Schweiz AG that was held indirectly by Scout24 Holding GmbH, by acquiring 100 percent of the shares in Scout24 International Management AG, which 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 and income from the divestitures including the revalued retained shares of around 30 percent amounted to EUR 1.7 billion.

In February 2014, we entered into 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 closed on February 25, 2014. T-Mobile Czech Republic had already been fully consolidated in our Europe operating segment.

In November 2013, we had concluded an agreement with a consortium of international private equity investors to take over GTS, one of the leading infrastructure-based providers of telecommunications services in Central and Eastern Europe, for a total of EUR 0.5 billion. The transaction, which was aimed at strengthening and further developing the local and pan-European B2B segment was completed, and GTS consolidated in our Europe operating segment, as of the end of May 2014.

In May 2015 we entered into a purchase agreement for the acquisition of the remaining 49% of outstanding shares in Slovak Telekom which we did not yet own, for a purchase price of EUR 0.9 billion. Previously, the shares had been held by the National Property Fund of the Slovak Republic. As part of the agreement, EUR 0.1 billion of the purchase price had been paid into an escrow account for a certain period to serve as collateral against certain risks. The transaction closed in June 2015. Slovak Telekom had already been fully consolidated in our Europe operating segment.

In connection with the initial public offering of Scout24 AG in October 2015, we sold a total of 13.3 million shares in the company at EUR 30.00 per share, for which we received EUR 0.4 billion in cash. Income from the sale of the shares amounted to around EUR 0.3 billion and is disclosed in other operating income. Following the sale of additional shares in April and December 2016, we continue to hold directly and indirectly approximately 11 million shares, representing approximately 10.21% of the total number of shares in Scout24 AG, which continues to be included in the consolidated financial statements using the equity method and is still part of our Group Headquarters & Group Services segment.

In November 2015, we completed the sale of our online platform t-online.de and our digital marketing company InteractiveMedia to Ströer. The transaction involved a capital increase by Ströer, in which we provided the online

platform t-online.de and the digital market company InteractiveMedia CSSP GmbH as a non-cash contribution and in return received newly issued shares in Ströer corresponding to a stake of around 11.6% in the company's increased share capital on a fully diluted basis, valued at approximately EUR 0.3 billion. Total income from the divestitures amounted to EUR 0.3 billion and was reported in other operating income. Our stake in Ströer is included in the consolidated financial statements using the equity method and is part of our Group Headquarters & Group Services segment.

After the United Kingdom's Competition and Markets Authority ("CMA") approved the sale of the EE joint venture to the UK telecommunications operator BT Group plc ("BT") unconditionally and without remedies in January 2016, we and the French telecommunications provider Orange consummated the transaction on January 29, 2016 for a purchase price of GBP 13.2 billion. In return for the contribution in kind of our stake in the EE joint venture, we received an equity stake of 12.0% in BT and a cash payment ultimately amounting to GBP 15.7 million. The sale generated income of EUR 2.5 billion of which around EUR 0.9 billion resulted from effects recognized directly in equity in prior years. In addition, on January 25, 2016, EE's shareholders received a final dividend totaling GBP 0.3 billion from the joint venture, in which we participated with the 50 percent capital share we still held at that date. Due to the agreement concerning the sale of the EE joint venture to BT having been entered into in February 2015, EE was reported under non-current assets and disposal groups held for sale until the transaction was closed effective January 29, 2016.

In December 2016, we reached an agreement with United Internet AG on the sale of our wholly owned subsidiary Strato AG for a purchase price of approximately EUR 600 million. The transaction remains subject to the approval of the German Federal Cartel Office (*Bundeskartellamt*) and is expected to close in the first half of 2017. A major part of the payment is to be made immediately on completion of the transaction. This sale is in line with our strategy and the continuing efforts to consider options for increasing the value of business areas that can no longer be adequately developed within the Group, through partnerships or disposals.

The Telecommunications Market

Worldwide, the ICT market grew by 4.6% in 2015 to EUR 3.08 trillion according to the European Information Technology Observatory ("EITO"). This increase was largely due to strong demand for telecommunications equipment and services, especially in India, China, and the United States. The high-tech association BITKOM (Federal Association for Information Technology, Telecommunications and New Media) and the EITO observed an increase in 2015 of 5.3% to EUR 1.77 trillion in the telecommunications market segment and an increase of 3.5% in the IT market segment. The global market for telecommunications services increased by 2.2%. In Europe, however, telecommunications service revenues declined for the seventh year in a row. According to the European Telecommunications Network Operators' Association ("ETNO") and IDATE (a leading European ICT market research institute), revenue for the entire European telecommunications market (including Turkey, but excluding Russia, Ukraine and Georgia) was EUR 240 billion in 2015, 1.1% less than in 2014 (EUR 243 billion). This decline is attributable in part to regulatory interventions such as the reduction in roaming and termination charges. In addition, the substitution of traditional voice and messaging services with OTT content providers had a negative impact on the European telecommunications markets.

The digitization of the economy and society is changing both existing market structures and the market realities of many industries that have previously been primarily analog. The use of data services is expected to grow exponentially. Demand is also rising for more speed, for both download and upload and 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 considered to be critical to success for many applications.

The pressure to consolidate remains high in the European telecommunications industry, primarily as a result of declining revenues due to growing competition and technological change. At the same time, high levels of investment are needed to expand and update networks as well as for innovation and the acquisition of spectrum. Against this backdrop, there have been several recent consolidation attempts, some successful, but others not, due in part to the intervention of the regulatory authorities. While the UK Competition and Markets Authority approved the acquisition of EE by BT in January 2016 unconditionally and without remedies, the merger of Liberty Global and BASE in Belgium was approved in February 2016 only subject to strict conditions. In April 2016, merger negotiations between Orange and Bouygues Telecom in France collapsed. The intervention of the European Commission effectively prevented recent attempted consolidations in Denmark (TeliaSonera and Telenor) and the United Kingdom (Hutchison 3G and O_2). In Italy, VimpelCom and Hutchison received regulatory approval for the merger of their mobile activities only after agreeing to enable French telecommunications company Iliad to enter the Italian market as a fourth telecommunications operator. In the Netherlands, Vodafone and Liberty Global secured EU clearance to form a telecom joint venture conditioned upon the divestiture of Vodafone's consumer fixed-line business in the Netherlands, which our subsidiary T-Mobile Netherlands acquired in November 2016.

Germany

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

We estimate that the German broadband market grew by more than 4.0% in 2015 and that there are some 31 million broadband lines in Germany. While cable network operators were the main beneficiaries of market growth, telecommunications operators such as us, as well as traditional resellers and regional providers, which use the (V)DSL network, also gained. More and more lines with high bandwidths/transmission rates are being marketed, both in the cable network and in the VDSL/vectoring network; the products offered also include hybrid line technologies, which combine fixed-network and mobile communications. We have observed that the availability of high bandwidths in Germany is also accelerating IPTV customer growth in the market (9%), driven in particular by wide-ranging HD content and video-on-demand services. Integrated offers comprising fixed-network and mobile communications offer customers numerous advantages and increase customer retention. The trend towards these kinds of integrated offers continued in Germany in 2015. We launched our first integrated offering, MagentaEINS (corresponding to our Magenta ONE offering outside of Germany) in the fall of 2014. Telecommunications providers are constantly developing their offerings, for example, in the areas of connected home, security services, mobile payment, cloud, and IT services.

In the German mobile market, we estimate that mobile service revenues decreased slightly by around 0.6% year-on-year to approximately EUR 18 billion, mainly due to regulatory effects, for example in connection with roaming and termination, as well as price optimization in the customer base in response to intense competition. The use of data services in the mobile Internet has been growing exponentially, the percentage of voice and data rate plans has been rising steadily. Traditional voice and text messaging services are increasingly being replaced by free IP messaging services like WhatsApp and social networks like Facebook; use of these services generally requires use of the mobile Internet and typically data flat rates. The growing popularity of connected products such as smartphones and tablets, but as of recently also other "smart" devices, such as watches and Internet-enabled devices embedded in non-communications devices (referred to as "the Internet of things"), have gained traction, increasing the demand for mobile broadband speeds and for growing data volumes in the rate plan portfolios.

Digitization continues to progress and is taking hold in industry and in production processes. Companies are seeking to exploit the opportunities of digitization to make their value chains more effective and energy-efficient, and to develop new business models. Connecting machines and production facilities requires extensive IT and cloud solutions. We estimate that this market segment grew by 18% in 2015. Forward-looking business models that aim to contribute to more market growth are also being established in the M2M segment.

United States

The mobile communications market in the United States continues to be divided between four major nationwide providers AT&T, Verizon Wireless, Sprint, and T-Mobile US, in addition to various regional network operators. There are also a number of mobile virtual network operators, which rely on the networks of one or more of the four national carriers to transport their mobile and data traffic. The two largest national network operators are AT&T and Verizon Wireless. However, the market also continues to be very dynamic. In April 2015, Comcast withdrew its previously announced proposal to acquire Time Warner Cable, following the U.S. Department of Justice's intention to have the merger enjoined. In July 2015, AT&T received permission to acquire DirecTV for USD 48.5 billion. In September 2015, the Dutch company Altice announced the acquisition of Cablevision Systems Corp., which it completed in June 2016 for a purchase price of approximately USD 10 billion. Consolidation of and other related activity in the U.S. telecommunications market is expected to continue, for example, in October 2016 AT&T also agreed, subject to regulatory approval, to acquire media company Time Warner for USD 85.4 billion.

Growth has slowed as a result of high market penetration. Voice revenues continued to decline slightly in 2015. However, the persistent data revenue surplus could more than compensate for the decline. Mobile data usage remains at a high level, in line with the rapid development of long-term evolution ("LTE") networks and the high use of smartphones, which now account for around 80% of all handsets according to market research company comScore. Data revenue has been growing steadily year after year and has been accompanied by intense price competition from the main market participants.

These market developments are taking place against the backdrop of regulatory announcements by the U.S. telecommunications regulatory authority FCC. In June 2015, the FCC's Open Internet Order entered into force, updating the net neutrality rules it first established in 2010. The provisions define a standard, which in the future is to apply to the conduct of affected companies. For the first time, this also includes interconnection agreements between Internet service

providers ("ISPs") and third parties. The FCC reserves the right to carry out case-by-case reviews with regard to the conduct of affected companies.

The Broadcast Incentive Auctions for frequencies initiated by the FCC began in March 2016. The underlying intention was for television providers to voluntarily hand back or relocate their licensed frequencies in exchange for a portion of the proceeds from the auction of the returned spectrum to mobile providers. (See also "*Regulation—Mobile Regulation—United States*".) We also agreed with a number of competitors in the first quarter of 2016 on an acquisition of spectrum licenses for a total value of EUR 0.6 billion, which we completed in August 2016. In September 2016, T-Mobile US signed an agreement with a competitor for the exchange of spectrum licenses.

In 2015, T-Mobile US achieved a significant operational turnaround and contributed to intensifying competition in the U.S. mobile market. This was mainly due to the improvements in T-Mobile US' network, as well as the successful implementation of the Un-carrier initiatives (including a simple, transparent and low-cost rate for business customers and a simple rate plan for consumers that allows consumers to use video services of certain providers without additional costs and without using up their data volume) which contributed very successfully to customer satisfaction.

Europe

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

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

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

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

As part of our "Leading European Telco" Group strategy, we are working towards a pan-European production model with a suitable IP-based infrastructure. The commencement of operations of our first production sites in Budapest,

Hungary, in August 2016 was the first cornerstone in this plan. We plan to set up two more production sites in Poland and Greece in 2017. The production sites are intended to provide services for all our European national companies in the form of product modules including voicemail, text messaging and e-mail. Each national company can individually select these modules, in line with the needs of the respective local market. With the set-up of our pan-European network we aim to ensure long-term competitiveness in the local markets while at the same time creating synergies for the Group throughout Europe.

Systems Solutions

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

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

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

The market for outsourcing business in the computing and desktop services (“CDS”) segment decreased by 0.4% in 2015 to EUR 59 billion, largely as a result of two contrary trends in particular. On the one hand, there was a 6% decline in long-term, more traditional outsourcing agreements, and on the other, an 18% increase in the business in the cloud computing environment (the provision of IT services over the Internet).

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

Group Strategy

The strategies and expectations referred to in the following discussions are considered forward-looking statements and may be strongly influenced or changed by shifts in market conditions, new initiatives we implement and other factors. We cannot provide assurance that the strategies and expectations referred to in these discussions will come to fruition. Please refer to “Forward-Looking Statements” and “Risk Factors” for descriptions of some of the factors relevant to these discussions and other forward-looking statements in this offering memorandum.

Development of the Group’s Strategy

Our Corporate Strategy: Leading European Telco

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

Our Leading European Telco strategy is based on four areas of operation (Integrated IP networks, Best customer experience, Win with partners and Lead in business), which are derived from our leadership goal and focus on our customers, as well as on three supporting areas of operation (Transform portfolio, Evolve financial targets & efficiency and Encourage leadership & performance development) which provide the framework for our internal activities.

Strategic Areas of Operation

Integrated IP networks

Our core business comprises the setting up, operating, and marketing of networks and communication services. We aim to offer our customers the best network and fastest connection possible. Above-average network quality is therefore a differentiator for us, through which we seek to set ourselves apart from our competitors. We regularly perform outstandingly in independent network tests. For example, in 2015, we were rated as the best mobile-network provider in Germany for the fifth time in a row by telecommunications magazine *connect* and in 2014, *connect* also rated us as the best fixed-network provider in Germany. We view such awards as a confirmation of our efforts to systematically upgrade our networks and remain a quality leader, despite increasing competitive pressure. The expansion of our networks also serves our corporate and social aims: we believe that a modern network makes our products and services attractive for a larger number of potential customers and thus increases our revenue potential. Modern networks and systems also improve our energy efficiency. At the same time we give more people access to modern information and telecommunications services.

Step by step we are migrating our entire fixed network to the Internet Protocol (“IP”) for all customers. In the long term, we anticipate that an integrated, pan-European IP network would allow us to meet our customers’ demands more quickly, flexibly, and economically. The gradual migration to modern IP networks was completed in Croatia and Montenegro in 2015. In Germany and in other European countries in which we operate, this transformation is well underway and we anticipate completion by 2018.

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

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

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

Best customer experience

With the aim of providing the best network, integrated products, and the best service, we seek to create an outstanding customer experience. We seek to satisfy our customers with expertise, simplicity, and speed, which is why we continuously aim to improve our processes and IT systems.

FMC offers our customers a seamless telecommunications experience — consistently and across different technologies. We therefore intend to significantly expand the range of convergent products we offer with a view to winning new customers, retaining existing customers and increasing revenue. Around two million customers in Germany had opted for MagentaEINS by the end of 2015. In total, our Europe operating segment won around one million customers for our FMC products as of the end of 2015.

Our customers benefit from our convergent product portfolio, including for example, the EU flat rate, which is only available to our Magenta ONE customers. We launched a hybrid router in Germany in 2014, which combines the strengths of the fixed network — consistent high capacity — with those of mobile communications — high transmission rates. In 2015, we substantially expanded the coverage area for the hybrid router. In 2015, we began selling the PULS tablet, a tablet device that allows consumers to bundle access to or control of various telecommunication services, including TV, landline telephone services and other connected devices around the home (“SmartHome”).

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

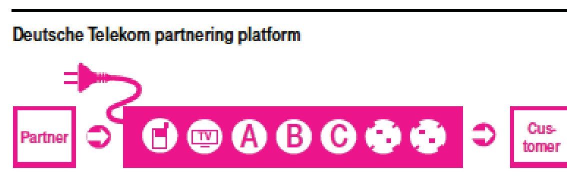
We measure customer retention/satisfaction using the TRI*M method (Measuring, Managing and Monitoring), an indicator system that analyzes, measures and portrays stakeholder relationships on the basis of standardized indicators. Based on this TRI*M performance indicator, we improve our customer contact processes, and our products and services. We determine the loyalty of our customers towards us in surveys. The results are presented as a performance indicator, the TRI*M index, which ranges between minus 66 and plus 134. In 2015, the value stood at 67.4 points, compared with 65.9 points in 2014. We plan to achieve a slight increase each year until 2018.

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

Win with partners

We aim to be an innovative company. We seek to focus our own innovative capabilities 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 aim to deliver the digital offerings that our customers demand. We offer our partners access to a large and attractive customer base, to our established marketing and sales channels, and to technical wholesale services. In addition, these partnerships offer the chance to set ourselves apart from our competitors.

We want to be the preferred telecommunications provider when it comes to innovative partners selling their products. For this reason, we have developed a standardized platform, which can be thought of as a power strip (*Steckerleiste*) that partners can simply plug into to integrate their services, as illustrated in the following graphic:



From the fall of 2015 until now, we have launched the operation of our “Steckerleiste” in the Czech Republic, Greece, Croatia and Albania. The first partners to have been connected to the “Steckerleiste” are FRAG (a portal for digital content such as music and e-books) and Puresight (parental control) in the Czech Republic. We are planning to incorporate more partners, for example, from the cloud gaming and security sectors.

We are also further developing our TV business and want to encourage growth here also. We aim to make attractive content accessible across all screens. For example, in order to ensure an even better TV experience, we introduced a new TV platform in Germany in May 2016 (*Entertain TV*). The next-generation television offers both a completely updated user interface and new, innovative product features. The product also received high ratings in a review by telecommunications magazine *connect*.

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

Lead in business

The strengthening of our position in the business customer market is an important element of our aim to be the leading telecommunications company in Europe. We have observed significant growth in cloud-related IT and telecommunications services and in response we are constantly expanding our cloud ecosystem to include technology

partners whom we perceive as market leaders. With our scalable cloud platforms, we are already one of the leading providers in Europe; we recently have grown faster than the market in all business customer segments. Aiming to have our corporate customer arm, T-Systems, generate sustainable profits in the long term, we have successfully re-aligned the Market Unit's previous business model, dividing it into three divisions: the IT Division, the TC Division (Telecommunications), and the Digital Division.

In addition to the traditional IT and telecommunications business, we will continue to focus increasingly on platform-based services and cloud services, for example in the area of the Industrial Internet/Internet of Things. In this regard, we will seek forward-looking partnerships related to the connected car, for instance, with leading companies within the automotive industry or automotive parts industry, such as BMW or Bosch. We expect the Digital Division in particular to be a key growth engine within T-Systems. By 2018, we expect significant growth in the business areas of health, the connected car, the Industrial Internet/Internet of Things, as well as in our own and partner cloud products.

Supporting Areas of Operation

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

Transform portfolio

In 2015, we continued to develop our portfolio of investments with a view to our strategic targets. For example, we and the French telecommunications operator Orange reached an agreement with the UK telecommunications operator BT on the sale of the EE joint venture, thereby creating what we believe to be the leading integrated telecommunications provider in the UK market. Following the closing of the transaction effective January 29, 2016, we became the largest shareholder in BT, with an equity stake of 12%, and thus will continue to participate in the development of BT and the UK telecommunications market. In connection with the sale of our online platform t-online.de and our digital marketing company InteractiveMedia to Ströer, we received a stake of around 11.6% in Ströer. While we continue to focus on our core business, we also are retaining a presence in areas such as connected car and healthcare, as well as in cutting-edge digital innovation areas such as cloud computing and cyber security, with what we believe to be strong partners.

Evolve financial targets & efficiency

Our finance strategy ensures that our balance sheet ratios remain sound. We aim to earn our cost of capital in the medium term and seek to cost-effectively manage our non-current assets in terms of utilization and replacement investments. We aim to adhere to strict cost discipline.

Encourage leadership & performance development

We believe that the ongoing digital transformation will make work more flexible, more virtual and more participative. We see our managers as the architects of the digital transformation and seek to support our employees as we transition into a new digital age. Our managers work on the basis of the guiding leadership principles "Collaborate", "Innovate" and "Empower to perform" and our leadership model "Lead to win", which for over two years has emphasized a continuous dialogue between managers and employees. Central to this dialogue is feedback on performance and development, a direct link between performance assessment and incentives, and the determination of personal development paths. In addition, we are reorganizing our HR function. Our actions in this regard are guided by the need to shape our transformation in a way that is sustainable and forward-looking.

Finance Strategy

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 advance our transformation to using 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 Group strategy. In order to generate a sustainable increase in value, we intend to earn our cost of capital in the medium term. We aim to achieve this goal in part by optimizing the utilization of our non-current assets. For example, in the Germany operating segment, marketing of the contingent model, which consists of long-term contracts with defined advance payment and minimum purchase requirements as well as reduced monthly charges for VDSL, thereby allowing resellers to provide offers to their own consumers without having to invest in fiber-optic lines of their own, was very successful again in 2015. In the Europe operating segment, for example, the migration of fixed-network customers to IP technology was completed in both Croatia and in Montenegro. This brings the number of fully IP-based countries to four. We will continue with the IP migration, which we intend to complete in all countries in which we operate by 2018.

We also intend to achieve our target of earning our cost of capital through strict cost discipline and improved cross-functional collaboration. For this purpose, the target costing method was rolled out internationally with the help of training programs and since 2016 has been used in all significant investment decisions. The aim of this is to move away from a historical view of our costs and to follow a consistent course oriented toward our target costs based on market prices achievable in the future. We also aim to ensure our viability through further measures to enhance the efficiency of administrative functions. Since 2013, we have also additionally focused our steering on unadjusted EBIT. Taking investment costs into account, EBIT therefore supports our consistent focus on an efficient allocation of capital within the Group.

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

Our strategies may, of course, be adopted and modified to respond to opportunities and changing conditions. We may embark on capital expenditure programs and pursue acquisitions, joint ventures or full or partial dispositions or combinations of businesses where we perceive opportunity for profitable growth, cost savings or other benefits for our Group. Transactions may be conducted using newly issued shares of Deutsche Telekom or its affiliates, cash or a combination of cash and shares, and may individually or in the aggregate be material to our financial and business condition or results of operations. As a result, they may affect the trading prices of our securities. As in the past, discussions with third parties in this regard may be commenced, on-going or discontinued at any time and from time to time.

DEVELOPMENT OF OUR BUSINESS

You should read the following discussion in conjunction with our annual consolidated financial statements as of and for the year ended December 31, 2015 and 2014, including the notes to those consolidated financial statements, as well as condensed consolidated interim financial statements as of and for the nine-month period ended September 30, 2016, including the notes to those condensed consolidated interim financial statements, which appear elsewhere in this offering memorandum. Our consolidated financial statements and condensed consolidated interim financial statements prepared in accordance with IFRS are dependent upon and sensitive to accounting methods, assumptions and estimates that we use as bases for the preparation of our consolidated financial statements and condensed consolidated interim financial statements. For more information on these critical accounting estimates, see "Summary of accounting policies—Judgments and estimates" in the notes to our consolidated financial statements. For more information on EBITDA, adjusted EBITDA, free cash flow and net debt, please see "Special Note on Non-GAAP Financial Measures", which appears elsewhere in this offering memorandum.

The strategies and expectations referred to in the following discussions are considered forward-looking statements and may be strongly influenced or changed by shifts in market conditions, new initiatives we implement and other factors. We cannot provide assurance that the strategies and expectations referred to in these discussions will come to fruition. Forward-looking statements are based on current plans, estimates and projections, and therefore, you should not place too much reliance on them. Forward-looking statements speak only as of the date they are made, and we undertake no obligation to update any forward-looking statements in light of new information or future events. Forward-looking statements involve inherent risks and uncertainties, most of which are difficult to predict and are generally beyond our control. We caution you that a number of important factors could cause actual results or outcomes to differ materially from those expressed in, or implied by, the forward-looking statements. Please refer to "Forward-Looking Statements" and "Risk Factors" for descriptions of some of the factors relevant to these discussions and other forward-looking statements in this offering memorandum.

Consolidated Results of Operations

The following tables present information concerning our consolidated income statements for the periods indicated.

	For the nine months ended September 30,		
	2016	**2015**	**2016/2015**
	(millions of €)		**(% change)**
	(unaudited)		
Net revenue	**53,552**	**51,369**	**4.2**
Other operating income	3,823	967	n.a.
Changes in inventories[1]	7	9	(22.2)
Own capitalized costs[1]	1,530	1,480	3.4
Goods and services purchased[1]	(26,402)	(26,400)	0.0
Personnel costs[1]	(12,263)	(11,791)	(4.0)
Other operating expenses[1]	(2,549)	(2,359)	(8.1)
Depreciation, amortization and impairment losses[1]	(9,471)	(8,218)	(15.2)
Profit from operations	**8,227**	**5,057**	**62.7**
Finance costs	(1,931)	(1,756)	(10.0)
Share of profit (loss) of associates and joint ventures accounted for using the equity method	0	(7)	n.a.
Other financial income (expense)	431	(101)	n.a.
Loss from financial activities	**(1,500)**	**(1,864)**	**19.5**
Profit before income taxes	**6,727**	**3,193**	**n.a.**
Income taxes	(1,442)	(777)	(85.6)
Profit (loss)	**5,285**	**2,416**	**n.a.**
Profit (loss) attributable to owners of the parent (net profit (loss))	4,799	2,308	n.a.
Profit (loss) attributable to non-controlling interests	486	108	n.a.

n.a. – not applicable

[1] To enhance consistency with Deutsche Telekom's internal management structure, the presentation of the consolidated income statement was changed from the cost-of sales method to the performance-related total cost method as of January 1, 2016. This change will apply for all periods in the future, including to our consolidated income statement for the full year 2016. For further information, see "*Significant Events and Transactions—Accounting Policies—Changes in Accounting Policies and Changes in the Reporting Structure*" in the notes to the condensed consolidated interim financial statements as of and for the period ended September 30, 2016 included elsewhere in this offering memorandum.

	For the years ended December 31,				
	2015	2014	2013	2015/2014	2014/2013
	(millions of €)			(% change)	
	(audited)				
Net revenue	**69,228**	**62,658**	**60,132**	**10.5**	**4.2**
Cost of sales	(41,975)	(38,539)	(36,255)	(8.9)	(6.3)
Gross profit	**27,253**	**24,119**	**23,877**	**13.0**	**1.0**
Selling expenses	(16,048)	(13,898)	(13,797)	(15.5)	(0.7)
General and administrative expenses	(5,384)	(4,721)	(4,518)	(14.0)	(4.5)
Other operating income	2,008	3,231	1,326	(37.9)	n.a.
Other operating expenses	(801)	(1,484)	(1,958)	46.0	24.2
Profit from operations	**7,028**	**7,247**	**4,930**	**(3.0)**	**47.0**
Finance costs	(2,363)	(2,340)	(2,162)	(1.0)	(8.2)
Share of profit (loss) of associates and joint ventures accounted for using the equity method	24	(198)	(71)	n.a.	n.a.
Other financial income (expense)	89	(359)	(569)	n.a.	36.9
Loss from financial activities	**(2,250)**	**(2,897)**	**(2,802)**	**22.3**	**(3.4)**
Profit before income taxes	**4,778**	**4,350**	**2,128**	**9.8**	**n.a.**
Income taxes	(1,276)	(1,106)	(924)	(15.4)	(19.7)
Profit (loss)	**3,502**	**3,244**	**1,204**	**8.0**	**n.a.**
Profit (loss) attributable to owners of the parent (net profit (loss))	3,254	2,924	930	11.3	n.a.
Profit (loss) attributable to non-controlling interests	248	320	274	(22.5)	16.8

n.a. – not applicable

One of the factors that causes period to period changes in our revenues and expenses is movement in exchange rates. In the following discussion, we use the term "exchange rate effects" to explain the variability caused by these movements. We calculate the effects of changes in exchange rates by multiplying the revenue and expense amounts in local currencies by the exchange rates in effect for the prior year to derive a constant currency revenue or expense amount. We then subtract this figure from the euro-denominated amount obtained from multiplying the current year revenue and expense amounts in local currency by the current year exchange rates. The difference between the two amounts is the currency or exchange rate effect.

As of January 1, 2016, we changed the presentation of the consolidated income statement from the cost-of sales method to the performance-related total cost method in order to enhance consistency with our internal management structure. This change will apply for all periods in the future, including to our consolidated income statement for the full year 2016.

Development of Business in the Group

Effects of Changes in the Composition of the Group

Our business development in each of the periods presented was affected by changes in the composition of our Group, the most important of which are described below.

- *Sale of the EE joint venture*. On January 29, 2016, we and the French telecommunications provider Orange consummated the sale of the EE joint venture to the UK company BT for a purchase price of GBP 13.2 billion. As consideration for our stake in the EE joint venture, we received an equity stake of 12.0% in BT and a cash payment ultimately amounting to GBP 15.7 million. The sale generated income for the Group of EUR 2.5 billion. Around EUR 0.9 billion of this amount resulted from effects recognized directly in equity in prior years. In addition, on January 25, 2016, the shareholders of the EE joint venture as of that date received a final dividend totaling GBP 0.3 billion and as our equity stake in the EE joint venture at that date was 50%, we received GBP 150 million. The equity stake in BT received in connection with this transaction is disclosed as available-for-sale financial assets under other financial assets. The equity stake is measured at fair value directly in equity.

- *Sale of t-online.de and InteractiveMedia*. Effective November 2, 2015, we completed the sale of all shares in Digital Media Products GmbH, which comprises the t-online.de & Audience Products businesses, including its subsidiary, the digital marketing company InteractiveMedia CCSP GmbH, to Ströer SE. The transaction took the form of a capital increase in return for a non-cash contribution. As consideration, we received newly issued shares in Ströer SE worth about EUR 0.3 billion, corresponding to a stake of around 11.6 percent of the increased share capital after all closing conditions had been satisfied. We hold two out of six seats on Ströer

Management SE's supervisory board and two out of six seats on Ströer SE & Co. KgaA's supervisory board. Due to our significant influence on the financial and operating policies of Ströer SE, we include the investment in our consolidated financial statements as an associate using the equity method. Total income from the divestitures amounted to EUR 0.3 billion, which was reported in other operating income.

- *Scout24 AG initial public offering (IPO).* In connection with the IPO of Scout24 AG on October 1, 2015, we sold a total of 13.3 million shares in the company at EUR 30.00 per share, for which we received EUR 0.4 billion in cash. Income from the sale of these shares, which had been included in the consolidated financial statements using the equity method, amounted to around EUR 0.3 billion and is disclosed in other operating income. Following further sales of shares in April and December 2016, we continue to hold directly and indirectly approximately 10.21% of the shares in Scout24 AG, have two out of nine seats on its supervisory board (with our members represented in both its general and audit committee). Due to our significant influence on the financial and operating policies of Scout24 AG, we continue to include the investment in our consolidated financial statements as an associate using the equity method.

- *Acquisition of the GTS Central Europe group.* On May 30, 2014, we consummated the agreement concluded in early November 2013 with a consortium of international private equity investors concerning the acquisition of all shares in Consortium 1 S.à.r.l. (Luxembourg) and, as a result, of GTS. 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. The cash consideration for the acquisition of GTS transferred at the acquisition date amounted to EUR 301 million. However, payments in connection with the acquisition were made in the amount of EUR 539 million. The difference mainly resulted from the repayment of GTS's outstanding debt. The bases for the measurement of the capitalized customer bases as well as property, plant and equipment were 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. Our net revenue in 2014 period increased by EUR 172 million on account of the acquisition of GTS. Our profit/loss for 2014 included a loss from GTS of EUR 3 million.

- *Sale of Scout24 Holding GmbH and Scout24 International Management AG.* On February 12, 2014, we consummated the sale of 70 percent of the shares in Scout24 Holding GmbH to Hellman & Friedman LLC. 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 us 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.

- *First-time consolidation of four structured leasing special-purpose entities (SPEs).* As of March 25, 2014, we 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 our consolidated statement of financial position in this context. Apart from the contractual obligations to make lease payments to the leasing SPEs, we have no obligation to give them further financial support.

- *Business combination of T-Mobile USA and MetroPCS.* We closed the business combination of T-Mobile US and MetroPCS on May 1, 2013. The shareholders of MetroPCS approved the business combination at MetroPCS' shareholders' meeting on April 24, 2013. The core elements of this transaction involved a reduction in the shareholder loan from the Company to T-Mobile US by USD 3.8 billion in total, a lowering of the interest rates for the remaining shareholder loans by 0.5 percentage points, and the extension of the lock-up period for shares in the combined company to 18 months from the closing of the transaction for selling shares on the stock exchange. MetroPCS shareholders received an advanced cash payment of approximately $1.5 billion from their company. This was followed by a reverse stock split of the MetroPCS shares before the company was merged with T-Mobile USA. The responsible U.S. authorities approved the business combination in the first quarter of 2013.

For more information on the effects of changes in the composition of the Group, please refer to the "*Significant Event and Transactions—Changes in the Composition of the Group and Transactions with Owners*" in the notes to our condensed consolidated interim financial statements as of and for the period ended September 30, 2016, and to the "*Summary of accounting policies*" in the section on "*Business combinations and other transactions*" in the notes to each of the consolidated financial statements as of and for the period ended December 31, 2015 and December 31, 2014, in each case included elsewhere in this offering memorandum.

Results of Operations of the Group

Net Revenue

In the first nine months of the 2016 financial year, we generated net revenue of EUR 53.6 billion, a substantial increase of EUR 2.2 billion, or 4.2 percent, compared with the same period in 2015. The business development of our United States operating segment, which grew by 13.5 percent compared with the first nine months of 2015, contributed substantially to this positive trend. T-Mobile US's successful "Un-carrier initiatives" gave a strong boost to the number of new customers and thus also to service revenues. Terminal equipment revenue continued to rise in connection with the "JUMP! On Demand" business model introduced by T-Mobile US in June 2015. Under this business model, revenues associated with leased devices are recognized over the term of the lease rather than when the device is delivered to the customer, resulting in a decline in revenue from the sale of high-value terminal equipment but also in an increase in revenue from the leasing of such equipment, which more than offset the decline. In our home market of Germany, revenue decreased by 2.1 percent, primarily due to lower revenue from non-contract mobile devices. In our Europe operating segment, we recorded a revenue decline of 2.3 percent compared to the first nine months of 2015, mainly as a result of the spin-off of the energy resale business in Hungary as of January 1, 2016. In addition, revenue continued to come under pressure from persistently intense competition in the local telecommunications markets of our national companies, especially in the Netherlands. Despite the completion of the set-up phase of the toll collection system in Belgium in the first quarter of 2016, revenue in our Systems Solutions operating segment decreased 1.7 percent year-on-year. In general, the downward price trend in ICT business had a negative effect on net revenue. In our Group Headquarters & Group Services segment, revenue declined compared to the first nine months of 2015, mainly on account of revenue lost in connection with the sale of our online platform t-online.de and our digital marketing company InteractiveMedia in November 2015 as well as the realignment of the Group Innovation+ unit.

Excluding the negative exchange rate effects of EUR 0.2 billion in total — in particular from the translation of Polish zlotys and U.S. dollars into euros — and negative effects of changes in the composition of the Group of EUR 0.2 billion, revenue in the first nine months of 2016 increased significantly by EUR 2.5 billion, or 5.0 percent, compared to the first nine months of 2015.

In the 2015 financial year, we generated net revenue of EUR 69.2 billion, a substantial increase of EUR 6.6 billion, or 10.5 percent, above the level in 2014. While positive exchange rate effects accounted for EUR 4.5 billion of this increase, the business development of our United States operating segment, which saw revenue increase by 29.1 percent, contributed substantially to this positive trend. T-Mobile US's successful "Un-carrier" initiatives gave a strong boost to the number of new customers. By contrast, terminal equipment revenue was adversely affected. In connection with the "JUMP! On Demand" business model discussed above, customers increasingly chose to lease high-value terminal equipment rather than purchase it. Our Germany operating segment performed well, especially in the mobile market, and generated a small increase in revenue of 0.7 percent. In our Europe operating segment there was a decline in revenue of 2.0 percent, although the trend was an improvement compared to 2014. For our national companies revenue decreased due to decisions by regulatory authorities, such as reduced mobile termination rates and roaming regulations, and competition-related price reductions, especially in mobile communications. In our Systems Solutions operating segment there was a slight decrease in revenue of 0.1 percent, with the revenue increase of 2.9 percent at the Market Unit (essentially, business with external customers) largely offsetting the planned decline in revenue at Telekom IT (which deals with internal IT projects). Revenue from our Group Headquarters & Group Services segment compared with 2014, mainly due to the continued efforts to optimize the use of land and buildings;. In addition, there was a decline in revenue due to the revenues lost following the sale of 70 percent of the shares in the Scout24 group, which was consummated in February 2014, and the sale of our online platform t-online.de and our digital marketing company InteractiveMedia in November 2015.

Excluding the positive exchange rate effects of EUR 4.5 billion in total — in particular from the translation of U.S. dollars into euros — and positive effects of changes in the composition of the Group of EUR 0.1 billion, revenue in 2015 increased by EUR 2.0 billion, or 3.0 percent, compared to 2014.

In the 2014 financial year, we generated net revenue of EUR 62.7 billion, an increase of EUR 2.5 billion, or 4.2 percent, compared with 2013. 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 2013 as a result of the inclusion of MetroPCS as of May 1, 2013, and continued strong customer additions. Our Germany operating segment

was stable, 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 substantially adversely affected by decisions by regulatory authorities 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. The revenue of our Group Headquarters & Group Services segment decreased compared to 2013, 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 in 2014 increased by EUR 1.7 billion, or 2.8 percent, compared to 2013. Net exchange rate effects had only an insignificant effect on the development of our revenue in 2014. 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.

The following tables present information concerning the contribution of the operating segments to net revenue for the periods indicated.

	Q1 - Q3 2016	Q1 – Q3 2015	Change	
	(millions of €)			(%)
	(unaudited)			
Net revenue	**53,552**	**51,369**	**2,183**	**4.2**
Germany	16,409[2]	16,762[2]	(353)	(2.1)
United States	24,293[2]	21,407[2]	2,886	13.5
Europe[1]	9,409[2]	9,627[2]	(218)	(2.3)
Systems Solutions[1]	5,929[2]	6,031[2]	(102)	(1.7)
Group Headquarters & Group Services	1,614[2]	1,704[2]	(90)	(5.3)
Intersegment revenue	(4,102)[2]	(4,162)[2]	60	1.4

1 Business customer operations at Magyar Telekom in Hungary, which had previously been organizationally assigned to the Systems Solutions operating segment, have been bundled and reported under the Europe operating segment since January 1, 2016. The comparative figures for the first nine months of the financial year 2015 have been adjusted retrospectively. For more information, refer to the section on "*Segment Reporting*" in the "*Other Disclosures*" section of the condensed consolidated interim financial statements as of and for the period ended September 30, 2016 included elsewhere in this offering memorandum.

2 The net revenue figures presented above for the first nine months of the financial years 2016 and 2015 correspond to the figures presented in the column under the heading "Total revenue" in the table "*Segment information in the first nine months of the year*" contained in the section "*Other Disclosures—Segment Reporting*" in the condensed consolidated interim financial statements as of and for the period ended September 30, 2016 included elsewhere in this offering memorandum, with the segment revenue figures presenting revenue of the respective segments prior to the elimination of intersegment revenue.

	2015	2014	Change		2013
	(millions of €)			(%)	(millions of €)
	(audited)				
Net revenue	**69,228**	**62,658**	**6,570**	**10.5**	**60,132**
Germany	22,421[1]	22,257[1]	164	0.7	22,435[1]
United States	28,925[1]	22,408[1]	6,517	29.1	18,556[1]
Europe	12,718[1]	12,972[1]	(254)	(2.0)	13,704[1]
Systems Solutions	8,592[1]	8,601[1]	(9)	(0.1)	9,038[1]
Group Headquarters & Group Services	2,275[1]	2,516[1]	(241)	(9.6)	2,879[1]
Intersegment revenue	(5,703)[1]	(6,096)[1]	393	6.4	(6,480)[1]

1 The net revenue figures presented above for the financial years 2015, 2014 and 2013 correspond to the figures presented in the column under the heading "Total revenue" in the table contained in Note 32 "*Segment Reporting*" to our consolidated financial statements as of and for the year ended December 31, 2015 included elsewhere in this offering memorandum, with the segment revenue figures presenting revenue of the respective segments prior to the elimination of intersegment revenue.

In the first nine months of 2016, our United States operating segment again provided the largest contribution, at 45.4 percent, to net revenue of the Group. This was an increase of 3.7 percentage points compared with the first nine months of 2015, due in particular to ongoing strong customer additions. By contrast, the contributions by our other operating segments and the Group Headquarters & Group Services segment decreased. The proportion of net revenue generated internationally rose from 63.6 percent in the first nine months of 2015 to 65.8 percent.

In the 2015 financial year, our United States operating segment provided the largest contribution, at 41.8 percent, to net revenue of the Group in the 2015 financial year, substantially increasing its share of net revenue by 6.0 percentage points compared to 2014, partly due to the continued strong customer growth. By contrast, the contribution to net revenue of our Germany, Europe, and Systems Solutions operating segments, and of the Group Headquarters & Group Services segment, declined. The proportion of net revenue generated internationally continued to increase, from 60.1 percent in 2014 to 63.8 percent in 2015.

In the 2014 financial year, our United States operating segment provided the largest contribution, at 35.8 percent, 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 2013, 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 increased from 57.8 percent in 2013 to 60.1 percent in 2014.

Profit from Operations

In the first nine months of 2016, profit from operations increased substantially from EUR 5.1 billion to EUR 8.2 billion, mainly driven by two positive special factors, the sale of our stake in the EE joint venture completed in January 2016 (accounting for EUR 2.5 billion) and transactions for the exchange of spectrum licenses between T-Mobile US and two competitors completed in March and September 2016, respectively (accounting for EUR 0.5 billion in total). Profit from operations also benefited from the positive business performance of our United States operating segment, which also contributed positively to net revenue as described above. By contrast, depreciation, amortization and impairment losses increased by EUR 1.3 billion compared to the first nine months of 2015 as a result of the continued 4G/LTE network roll-out and the launch of the "JUMP! On Demand" program in our United States operating segment in June 2015.

The following provides further details regarding the factors (other than net revenue) that contributed to profit from operations in the first nine months of 2016, categorized by the line items employed in the Group's consolidated income statement for the first nine months of 2016. As of January 1, 2016, the presentation of the consolidated income statement was changed from the cost-of sales method to the performance-related total cost method in order to enhance consistency with Deutsche Telekom's internal management structure.

- *Other operating income*. Other operating income increased substantially by EUR 2.9 billion compared to the first nine months of 2015 to EUR 3.8 billion. Income from the disposal of non-current assets increased by EUR 0.5 billion compared with the first nine months of 2015 to EUR 0.6 billion. This was attributable to income of EUR 0.4 billion from the above-mentioned transaction for the exchange of spectrum licenses between T-Mobile US and a competitor completed in March 2016 as well as income of EUR 0.1 billion from another transaction for the exchange of spectrum licenses between T-Mobile US and another competitor completed in September 2016. Miscellaneous other operating income increased by EUR 2.4 billion to a total of EUR 3.0 billion. One of the main items driving this increase was the above-mentioned sale of our stakes in the EE joint venture, which was reflected in EUR 2.5 billion in income from divestitures and from the sale of stakes accounted for using the equity method. Around EUR 0.9 billion of this amount resulted from effects recognized directly in equity in previous years. Income of around EUR 0.1 billion from the sale of approximately 2.6 million shares of Scout24 AG, consummated on April 18, 2016, also contributed to the increase in other operating income. In the first nine months of 2015, miscellaneous other operating income had included income of EUR 0.2 billion from an agreement to settle a complaints procedure under antitrust law.

- *Changes in inventories*. Changes in inventories decreased by EUR 2 million, or 22.2 percent, compared to the first nine months of 2015 to EUR 7 million.

- *Own capitalized costs*. Own capitalized costs increased by EUR 50 million, or 3.4 percent, compared to the first nine months of 2015.

- *Goods and services purchased*. Expenses relating to goods and services purchased increased marginally by EUR 2 million, or 0.0 percent, compared to the first nine months of 2015.

- *Personnel costs*. Expenses relating to personnel costs increased by EUR 472 million, or 4.0 percent, compared to the first nine months of 2015, primarily attributable to civil servants opting for early retirement.

- *Other operating expenses*. Other operating expenses increased by EUR 190 million, or 8.1 percent, compared to the first nine months of 2015, relating to a large number of individual items each accounting for a marginal amount.

- *Depreciation, amortization and impairment losses*. Depreciation, amortization and impairment losses increased by EUR 1.3 billion, or 15.2 percent, compared to the first nine months of 2015. This increase was attributable to the above-mentioned build-out of the 4G/LTE network and the launch of the "JUMP! On Demand" program in the United States operating segment in June 2015. Together these led to a higher depreciation and amortization base. There were no impairments on goodwill or intangible assets in the first nine months of 2016, however, impairment losses of EUR 44 million were recorded relating to property, plant and equipment.

In the 2015 financial year, profit from operations decreased to EUR 7.0 billion, a slight decline of EUR 0.2 billion compared to 2014. The decline was primarily attributable to an increase of EUR 0.8 billion in depreciation and amortization primarily in connection with the build-out of the 4G/LTE network and the launch of the "JUMP! On Demand" program in our United States operating segment, which was partially offset by contributions from income of EUR 0.3 billion from the disposal of part of our share package in Scout24 AG and from the sales of our online platform t-online.de and our digital marketing company InteractiveMedia (EUR 0.3 billion). Profit from operations in 2014 benefited from the one-time effects of income received in 2014 from the disposal of 70 percent of the shares in the Scout24 group (EUR 1.7 billion) and from the spectrum transaction with Verizon Communications in 2014 (EUR 0.4 billion).

The following provides further details regarding the factors (other than net revenue) that contributed to profit from operations in the 2015 financial year, categorized by the line items employed in the Group's consolidated income statement for the 2015 financial year. For further information regarding these line items, see Notes 17 to 21 to our consolidated financial statements as of and for the year ended December 31, 2015, included elsewhere in this offering memorandum.

- *Cost of sales*. Cost of sales increased by EUR 3.4 billion, or 8.9 percent, compared to 2014, primarily as a result of exchange rate effects totaling EUR 2.6 billion from the translation of U.S. dollars to euros. Higher expenditure with regard to equipment sales at T-Mobile US and in the Germany operating segment also increased the cost of sales.

- *Selling expenses*. Selling expenses were EUR 2.2 billion, or 15.5 percent, higher than in 2014. Apart from exchange rate effects totaling EUR 1.2 billion from the translation of U.S. dollars to euros, this was mainly attributable to costs incurred at T-Mobile US as a result of increased business with new customers.

- *General and administrative expenses*. General and administrative expenses were EUR 0.7 billion, or 14.0 percent, higher than in 2014. Higher expenditure in connection with staff increases in the United States operating segment impacted general and administrative expenses in 2015. Exchange rate effects totaling EUR 0.2 billion from the translation of U.S. dollars to euros also increased this item.

- *Other operating income*. Other operating income decreased by EUR 1.2 billion, or 37.9 percent, compared to 2014. The EUR 0.3 billion decrease in income from the disposal of non-current assets mainly resulted from the above-mentioned spectrum transaction between T-Mobile US and Verizon Communications consummated in 2014, which had generated income of around EUR 0.4 billion in 2014. Another transaction completed with Verizon Communications on the exchange of mobile spectrum licenses resulted in income of EUR 0.1 billion in 2015. Income from divestitures and from the sale of stakes accounted for using the equity method decreased by EUR 1.1 billion compared to 2014. The income from divestitures in 2014 had resulted from the above-mentioned completed sale of 70 percent of the shares in the Scout24 group totaling EUR 1.7 billion. The portion of income attributable to the recognition of the shares remaining at Deutsche Telekom in 2014 at their fair value at the date when control of the Scout24 group was transferred amounted to EUR 0.5 billion. In connection with the IPO of Scout24 AG on October 1, 2015, we sold a total of 13.3 million shares in the company. Income from the sale of this stake, which was included in the consolidated financial statements using the equity method, amounted to around EUR 0.3 billion. The above-mentioned sale of the online platform t-online.de and the digital content marketing company InteractiveMedia in November 2015 generated income of EUR 0.3 billion from divestitures. Miscellaneous other operating income includes income of EUR 175 million resulting from an agreement to settle an ongoing complaints procedure under antitrust law. A large number of smaller items are also included in miscellaneous other operating income.

- *Other operating expenses*. Other operating expenses decreased by EUR 0.7 billion, or 46.0 percent, compared to 2014. Other operating expenses in 2015 included expense of EUR 0.3 billion (2014: EUR 0.2 billion) from impairment losses recognized on goodwill in the Europe segment and on acquired intangible assets and property, plant and equipment across the Group, as well as from the disposal of non-current assets. These expenses would predominantly have been allocable to the cost of sales. Miscellaneous other operating expenses include a large number of individual items accounting for marginal amounts.

In the 2014 financial year, profit from operations increased significantly by EUR 2.3 billion to EUR 7.2 billion compared to 2013. Impairment losses recognized on goodwill and other non-current assets of EUR 0.1 billion in 2014 decreased by EUR 0.7 billion. This effect was partially offset by a EUR 0.4 billion increase in depreciation and amortization compared with 2013, attributable in particular to the inclusion of MetroPCS since May of 2013 as well as the roll-out of the LTE network as part of T-Mobile US's network modernization program.

The following provides further details regarding the factors (other than net revenue) that contributed to profit from operations in the 2014 financial year, categorized by the line items employed in the Group's consolidated income statement for the 2014 financial year, prepared in accordance with IFRS. For further information regarding these line items, see Notes 17 to 21 to our consolidated financial statements as of and for the year ended December 31, 2014, included elsewhere in this offering memorandum.

- *Cost of sales*. Cost of sales increased by EUR 2.3 billion, or 6.3 percent, compared to 2013, 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 had an offsetting effect.

- *Selling expenses*. Selling expenses were EUR 0.1 billion, or 0.7 percent, higher than in 2013. 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 the full year and stronger business with new customers.

- *General and administrative expenses*. General and administrative expenses were EUR 0.2 billion, or 4.5 percent, higher than in 2013. Higher expenditure in connection with staff increases in the United States operating segment following the business combination with MetroPCS impacted general and administrative expenses. In addition, there were higher expenses from additions to provisions for litigation risks recognized as part of the accounting treatment of risks.

- *Other operating income*. Other operating income increased by EUR 1.9 billion to EUR 3.2 billion. The EUR 0.4 billion increase in income from the disposal of non-current assets mainly resulted 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 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 was transferred amounted to EUR 0.5 billion. Income in 2013 had included 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 included a large number of smaller items.

- *Other operating expenses*. Other operating expenses decreased by EUR 0.5 billion, or 24.2 percent, primarily due to impairment losses of EUR 0.5 billion recognized in 2013 on the goodwill of the Austria cash-generating unit. Miscellaneous other operating expenses included 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) 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.

EBITDA

We define EBITDA as profit from operations plus depreciation, amortization and impairment losses. See below for a reconciliation of EBITDA and adjusted EBITDA to profit from operations.

In the first nine months of 2016, EBITDA increased substantially by EUR 4.4 billion to EUR 17.7 billion compared to the first nine months of 2015. This included positive net special factors of EUR 1.5 billion, relating primarily to income of EUR 2.5 billion from the sale of our stake in the EE joint venture on January 29, 2016. Income of EUR 0.5 billion in total was generated from transactions for the exchange of spectrum licenses between T-Mobile US and two competitors in March and September 2016, respectively. The sale of approximately 2.6 million shares in Scout24 AG, consummated on April 18, 2016, generated income of around EUR 0.1 billion. Expenses incurred in connection with staff-related measures and non-staff-related restructuring expenses amounted to EUR 1.2 billion and thus remained at the prior-year level. Furthermore, expenses of around EUR 0.1 billion from the decommissioning of the MetroPCS CDMA network had a negative effect in the first three quarters of 2016. In the prior-year period, these expenses amounted to EUR 0.4 billion.

In the 2015 financial year, our EBITDA increased by EUR 0.6 billion to EUR 18.4 billion compared to 2014. This included negative net special factors of EUR 1.5 billion, mainly attributable to expenses incurred in connection with staff-related measures and non-staff related restructuring expenses of EUR 1.6 billion, which on a netted basis were EUR 0.4 billion higher than in 2014. In addition, expenses of around EUR 0.4 billion from the decommissioning of the

MetroPCS CDMA network had a negative impact (2014: EUR 0.3 billion). Income from the sale of part of our share package in Scout24 AG had an offsetting effect. The IPO of Scout24 AG was completed on October 1, 2015; in this connection, we sold a share package with a total of 13.3 million shares in the company for approximately EUR 0.3 billion. The sale of the online platform t-online.de and the digital content marketing company InteractiveMedia in November 2015 also generated income of EUR 0.3 billion. In 2014, special factors included income of EUR 1.7 billion from the disposal of the Scout24 group and EUR 0.4 billion from a spectrum transaction concluded between T-Mobile US and Verizon Communications.

In the 2014 financial year, our EBITDA increased by EUR 2.0 billion to EUR 17.8 billion compared to 2013. Positive net special factors amounting to EUR 0.3 billion were included in EBITDA in 2014. These were mainly attributable to income from the divestiture of 70 percent of the shares in the Scout24 group of EUR 1.7 billion. Income of around 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 negative effect. Expenses incurred in connection with staff-related measures and non-staff-related restructuring expenses decreased by EUR 0.4 billion compared with 2013 to EUR 1.2 billion. In 2013, 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.

Reconciliation of EBITDA and Adjusted EBITDA

The following table presents a reconciliation of the performance measures EBITDA and adjusted EBITDA to profit from operations as reported by the Group for the periods indicated:

	Q1 – Q3 2016	2015	2014	2013
	(millions of €)			
	(unaudited, except as otherwise indicated)			
Profit from operations	**8,227**	**7,028**[1]	**7,247**[1]	**4,930**[1]
Depreciation, amortization and impairment losses	(9,471)	11,360	10,574	10,904
EBITDA	**17,698**	**18,388**	**17,821**	**15,834**
Special factors – Germany	**(660)**	**(545)**	**(254)**	**(535)**
Staff-related measures	(616)[2]	(402)	(223)	(506)
Non-staff-related restructuring	(31)	(112)	(9)	(16)
Effects of deconsolidations, disposals and acquisitions	0	0	0	(23)
Other	(13)	(31)	(22)	10
Special factors – United States	**396**	**(425)**	**(52)**	**(232)**
Staff-related measures	(10)	(50)	(133)	(179)
Non-staff-related restructuring	0	0	0	(1)
Effects of deconsolidations, disposals and acquisitions	406	(382)	78	(52)
Impairment losses	–	–	–	–
Other	0	7	3	0
Special factors – Europe	**(69)**	**(221)**	**(131)**	**(179)**
Staff-related measures	(91)	(177)	(91)	(327)
Non-staff-related restructuring	(3)	(14)	(9)	3
Effects of deconsolidations, disposals and acquisitions	25	31	(5)	183
Impairment losses	–	–	–	–
Other	0	(61)	(26)	(38)
Special factors – Systems Solutions	**(240)**	**(647)**	**(540)**	**(416)**
Staff-related measures	(144)	(367)	(286)	(212)
Non-staff-related restructuring	(10)	(259)	(205)	(128)
Effects of deconsolidations, disposals and acquisitions	0	(4)	(23)	(71)
Other	(86)	(17)	(26)	(5)
Special factors – Group Headquarters & Group Services	**2,116**	**319**	**1,229**	**(228)**
Staff-related measures	(308)	(213)	(174)	(226)
Non-staff-related restructuring	(28)	(48)	(54)	(34)
Effects of deconsolidations, disposals and acquisitions	2,497	574	1,631	40
Impairment losses	–	–	–	–
Other	(45)	6	(174)	(8)
Special factors – Group reconciliation	**0**	**(1)**	**0**	**0**
Staff-related measures	(1)	(1)	0	(1)
Non-staff-related restructuring	0	1	0	0
Effects of deconsolidations, disposals and acquisitions	0	1	0	1
Other	1	(2)	0	0
Total special factors	**1,543**	**(1,520)**	**252**	**(1,590)**
Adjusted EBITDA	**16,155**	**19,908**	**17,569**	**17,424**

1 Audited.

2 Primarily consisting of civil servants opting for early retirement, see "—*Profit from Operations—Personnel Costs*".

Adjusted EBITDA

The following table presents the contribution of the operating segments to adjust EBITDA as reported by the Group for the periods indicated:

	Q1-Q3 2016	Q1-Q3 2015	Change	
	(millions of €)			(%)
	(unaudited)			
Adjusted EBITDA	**16,155**	**14,765**	**1,390**	**9.4**
Germany	6,655	6,704	(49)	(0.7)
United States	6,236	4,579	1,657	36.2
Europe[1]	3,124	3,254	(130)	(4.0)
Systems Solutions[1]	522	524	(2)	(0.4)
Group Headquarters & Group Services	(335)	(231)	(104)	(45.0)
Reconciliation	(47)	(65)	18	27.7

1 Business customer operations at Magyar Telekom in Hungary, which had previously been organizationally assigned to the Systems Solutions operating segment, have been bundled and reported under the Europe operating segment since January 1, 2016. The comparative figures for the first nine months of the financial year 2015 have been adjusted retrospectively.

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

In the first nine months of 2016, adjusted EBITDA increased by EUR 1.4 billion, or 9.4 percent, to EUR 16.2 billion compared to the first nine months of 2015. This development was primarily driven by our United States operating segment, which recorded an increase in its adjusted EBITDA contribution of EUR 1.7 billion, mainly as a result of revenue benefit from the continued success of the "Un-carrier" initiatives. The revenue effects from the "JUMP! On Demand" terminal equipment lease model also contributed to the increase in adjusted EBITDA as the related costs were depreciated over the lease term and thus were excluded from adjusted EBITDA. In our Germany operating segment, adjusted EBITDA decreased slightly due to lower revenues. Adjusted EBITDA in our Europe operating segment declined by EUR 130 million, or 4.0 percent, primarily as a result of competition and regulation. In our Systems Solutions operating segment, adjusted EBITDA remained at the prior-year level in the reporting period, with the substantially higher contribution from the Market Unit largely offset by the decline within Telekom IT. In our Group Headquarters & Group Services segment, adjusted EBITDA decreased by EUR 104 million, mainly due to the non-recurrence of income of EUR 175 million recorded in the first quarter of 2015 in connection with an agreement to settle a complaints procedure under antitrust law. Exchange rate effects and effects from changes in the composition of the Group had only minimal impact on the development of adjusted EBITDA.

Adjusted EBITDA in the 2015 financial year increased by EUR 2.3 billion to EUR 19.9 billion compared to 2014. This development was primarily driven by our United States operating segment, which recorded an increase in its adjusted EBITDA contribution of EUR 2.4 billion, or 54.9 percent, mainly as a result of the continued success of the "Un-carrier" initiatives. The revenue effects from "JUMP! On Demand" also contributed to the increase in adjusted EBITDA as the related costs were depreciated over the lease term and thus were excluded from adjusted EBITDA. Exchange rate effects, primarily from the translation of U.S. dollars into euros, had a positive overall effect of EUR 0.9 billion on development. In our Germany operating segment, adjusted EBITDA remained more or less stable against 2014, while in our Europe operating segment it decreased due to a decline in revenue. In our Systems Solutions operating segment, adjusted EBITDA declined due to the reduced contributions from Telekom IT which were partially offset by an increase in earnings in the Market Unit. The agreement to settle an ongoing complaints procedure under antitrust law resulted in income of EUR 175 million in the Group Headquarters & Group Services segment.

Adjusted EBITDA in the 2014 financial year increased slightly by EUR 0.2 billion to EUR 17.6 billion compared to 2013. Net exchange rate effects had only an insignificant effect on the development of our adjusted EBITDA. 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.

Profit/Loss before Income Taxes

In the first nine months of 2016, profit before income taxes also increased substantially by EUR 3.5 billion to EUR 6.7 billion compared to the first nine months of 2015. In addition to the effects mentioned above, the increase was attributable to a EUR 0.4 billion improvement in the loss from financial activities, mainly due to remeasurement effects resulting from the subsequent measurement of embedded derivatives on T-Mobile US bonds. On January 25, 2016, we received a final dividend of EUR 0.2 billion in connection with the sale of our stake in the EE joint venture, compared to a dividend payment of EUR 0.4 billion in the first nine months of 2015. In 2016, our financial stake in BT resulted for the first time in a dividend payment of EUR 0.1 billion.

In the 2015 financial year, profit before income taxes increased by EUR 0.4 billion to EUR 4.8 billion compared to 2014 mainly due to a decrease of EUR 0.6 billion in our loss from financial activities, attributable in particular to the dividend payments of EUR 0.4 billion received from the EE joint venture. These dividend payments recognized on our income statement related to the reclassification in December 2014 of our stake in the joint venture as non-current assets and disposal groups held for sale. Remeasurement effects resulting primarily from the subsequent measurement of embedded derivatives at T-Mobile US had an offsetting effect. These remeasurement losses were mainly attributable to the increase in the share price of T-Mobile US.

In the 2014 financial year, profit before income taxes increased significantly by EUR 2.2 billion to EUR 4.4 billion compared to 2013 as a result of the effects mentioned above. Loss from financial activities increased only marginally as against 2013 in spite of the EUR 0.1 billion higher share of losses in our EE joint venture compared with 2013, the first-time full year inclusion of MetroPCS 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

In the first nine months of 2016, profit (loss) attributable to owners of the parent (net profit (loss)) increased substantially by EUR 2.5 billion to EUR 4.8 billion compared to the first nine months of 2015 as a result of the effects mentioned above. Profit attributable to non-controlling interests increased compared with the first nine months of 2015 by EUR 0.4 billion. In our United States operating segment, the increase in profit attributable to non-controlling interests was driven by the positive business performance as well as by the remeasurement effects in profit/loss from financial activities from the subsequent measurement of embedded derivatives on T-Mobile US bonds. Due to a higher profit before income taxes, tax expense increased by EUR 0.7 billion compared to the first nine months of 2015.

Despite the decline in profit from operations in the 2015 financial year, our net profit in 2015 increased by EUR 0.3 billion, or 11.3 percent, mainly driven by other financial income/expense. This primarily included dividend payments of EUR 0.4 billion which we received from the EE joint venture. Profit attributable to non-controlling interests decreased only slightly compared with 2014. Tax expense for the 2015 financial year amounted to EUR 1.3 billion and was thus EUR 0.2 billion higher than the level in 2014.

In the 2014 financial year, net profit increased substantially by EUR 2.0 billion to EUR 2.9 billion compared to 2013 as a result of the effects mentioned above. Tax expense for the current financial year amounted to EUR 1.1 billion and was thus EUR 0.2 billion higher than the level in 2013. Profit attributable to non-controlling interests remained stable compared with 2013 at EUR 0.3 billion. The acquisition of the remaining shares in T-Mobile Czech Republic, which we had not yet owned, had a decreasing effect, which was offset by the effect of the increase in non-controlling interests in T-Mobile US.

Financial Position of the Group

The following tables present information concerning our consolidated statement of financial position as of the dates indicated.

	September 30, 2016		December 31, 2015		Change
	millions of €	% of balance sheet total	millions of €	% of balance sheet total	millions of €
	(unaudited)		(audited)	(unaudited)	
Assets					
Current assets	**23,891**	**16.7**	**32,184**	**22.4**	**(8,293)**
Cash and cash equivalents	7,527	5.3	6,897	4.8	630
Trade and other receivables	8,607	6.0	9,238	6.4	(631)
Non-current assets and disposal groups held for sale	250	0.2	6,922	4.8	(6,672)
Other current assets	7,507	5.2	9,127	6.4	(1,620)
Non-current assets	**119,226**	**83.3**	**111,736**	**77.6**	**7,490**
Intangible assets	58,951	41.2	57,025	39.6	1,926
Property, plant and equipment	45,148	31.6	44,637	31.0	511
Investments accounted for using the equity method	782	0.5	822	0.6	(40)
Other non-current assets	14,345	10.0	9,252	6.4	5,093
Total assets	**143,117**	**100.0**	**143,920**	**100.0**	**(803)**
Liabilities and shareholders' equity					
Current liabilities	**26,010**	**18.2**	**33,548**	**23.3**	**(7,538)**
Financial liabilities	8,959	6.3	14,439	10.0	(5,480)
Trade and other payables	8,893	6.2	11,090	7.7	(2,197)
Current provisions	2,850	2.0	3,367	2.3	(517)
Liabilities directly associated with non-current assets and disposal groups held for sale	99	0.1	4	0.0	95
Other current liabilities	5,209	3.6	4,648	3.3	561
Non-current liabilities	**79,486**	**55.5**	**72,222**	**50.2**	**7,264**
Financial liabilities	53,349	37.2	47,941	33.3	5,408
Non-current provisions[1]	12,280	8.6	11,006	7.6	1,274
Other non-current liabilities	13,857	9.7	13,275	9.3	582
Shareholders' equity	**37,621**	**26.3**	**38,150**	**26.5**	**(529)**
Total liabilities and shareholders' equity	**143,117**	**100.0**	**143,920**	**100.0**	**(803)**

[1] Includes "Provisions for pensions and other employee benefits" and "other non-current provisions".

	December 31,				Change	December 31,	
	2015		2014			2013	
	millions of €	% of balance sheet total	millions of €	% of balance sheet total	millions of €	millions of €	% of balance sheet total
	(audited)	(unaudited)	(audited)	(unaudited)	(audited)	(audited)	(unaudited)
Assets							
Current assets	**32,184**	**22.4**	**29,798**	**23.0**	**2,386**	**21,963**	**18.6**
Cash and cash equivalents	6,897	4.8	7,523	5.8	(626)	7,970	6.8
Trade and other receivables	9,238	6.4	10,454	8.1	(1,216)	7,712	6.5
Non-current assets and disposal groups held for sale	6,922	4.8	5,878	4.5	1,044	1,033	0.9
Other current assets	9,127	6.3	5,943	4.6	3,184	5,248	4.4
Non-current assets	**111,736**	**77.6**	**99,562**	**77.0**	**12,174**	**96,185**	**81.4**
Intangible assets	57,025	39.6	51,565	39.9	5,460	45,967	38.9
Property, plant and equipment	44,637	31.0	39,616	30.6	5,021	37,427	31.7
Investments accounted for using the equity method	822	0.6	617	0.5	205	6,167	5.2
Other non-current assets	9,252	6.4	7,764	6.0	1,488	6,624	5.6
Total assets	**143,920**	**100.0**	**129,360**	**100.0**	**14,560**	**118,148**	**100.0**

	December 31,				Change	December 31,	
	2015		2014			2013	
	millions of € (audited)	% of balance sheet total (unaudited)	millions of € (audited)	% of balance sheet total (unaudited)	millions of € (audited)	millions of € (audited)	% of balance sheet total (unaudited)
Liabilities and shareholders' equity							
Current liabilities	**33,548**	**23.3**	**28,198**	**21.8**	**5,350**	**22,496**	**19.0**
Financial liabilities	14,439	10.0	10,558	8.2	3,881	7,891	6.7
Trade and other payables	11,090	7.7	9,681	7.5	1,409	7,259	6.1
Current provisions	3,367	2.3	3,517	2.7	(150)	3,120	2.6
Liabilities directly associated with non-current assets and disposal groups held for sale	4	0.0	6	0.0	(2)	113	0.1
Other current liabilities	4,648	3.3	4,436	3.4	212	4,113	3.5
Non-current liabilities	**72,222**	**50.2**	**67,096**	**51.9**	**5,126**	**63,589**	**53.8**
Financial liabilities	47,941	33.3	44,669	34.5	3,272	43,708	37.0
Non-current provisions[1]	11,006	7.6	10,838	8.4	168	9,077	7.7
Other non-current liabilities	13,275	9.3	11,589	9.0	1,686	10,804	9.1
Shareholders' equity	**38,150**	**26.5**	**34,066**	**26.3**	**4,084**	**32,063**	**27.1**
Total liabilities and shareholders' equity	**143,920**	**100.0**	**129,360**	**100.0**	**14,560**	**118,148**	**100.0**

[1] Includes "Provisions for pensions and other employee benefits" and "other non-current provisions".

Comparison as of September 30, 2016 to December 31, 2015

Total assets. As of September 30, 2016, total assets amounted to EUR 143.1 billion, slightly lower than the level as of December 31, 2015.

Current assets and non-current assets. While current assets decreased by EUR 8.3 billion, non-current assets increased by EUR 7.5 billion.

Cash and cash equivalents. Cash and cash equivalents increased by EUR 0.6 billion.

Trade and other receivables. Trade and other receivables decreased by EUR 0.6 billion to EUR 8.6 billion. Factoring agreements concluded in the first nine months of 2016 concerning monthly revolving sales of trade receivables due resulted in a reduction in receivables. Exchange rate effects, mainly from the translation of U.S. dollars into euros, likewise had a reducing effect. Receivables recognized in connection with the set-up phase of the electronic toll collection system in Belgium, completed in the first quarter of 2016, and its transition to the operating phase had an offsetting effect.

Non-current assets and disposal groups held for sale. The carrying amount of the non-current assets and disposal groups held for sale decreased by EUR 6.7 billion to EUR 0.3 billion. The decrease was largely due to the following effects. First, the sale consummated on January 29, 2016 of the stake in the EE joint venture, which had been reclassified since December 2014, reduced the net carrying amount by EUR 5.8 billion. Second, the transaction agreed in the third quarter of 2015 for the exchange of spectrum licenses between T-Mobile US and a competitor with the aim of improving the mobile network coverage of T-Mobile US was completed in March 2016. This transaction reduced the net carrying amount by EUR 0.7 billion. A transaction agreed between T-Mobile US and another competitor in the third quarter of 2016 for the exchange of spectrum licenses, also aimed at improving the mobile network coverage of T-Mobile US, increased the carrying amount by EUR 0.1 billion.

Intangible assets. Intangible assets increased by EUR 1.9 billion to EUR 59.0 billion, mainly due to additions totaling EUR 6.0 billion. This includes additions at T-Mobile US, largely in connection with transactions with competitors completed in March and September 2016, respectively, for the exchange of spectrum licenses totaling EUR

1.4 billion. Furthermore, there were additions from the acquisition of spectrum licenses by T-Mobile US in 2016 for around EUR 1.2 billion in total and by T-Mobile Polska for around EUR 1.0 billion. Negative exchange rate effects, primarily from the translation of U.S. dollars into euros, reduced the carrying amount by EUR 0.7 billion. Amortization of EUR 3.0 billion as well as the reclassification of assets worth EUR 0.4 billion to non-current assets and disposal groups held for sale also lowered the carrying amount.

Property, plant and equipment. Property, plant and equipment increased by EUR 0.5 billion compared with December 31, 2015 to EUR 45.1 billion. Additions of EUR 7.9 billion primarily in the United States and Germany operating segments increased the carrying amount. This also included EUR 1.1 billion of capitalized higher-priced mobile devices. These relate to the business model "JUMP! On Demand" introduced at T-Mobile US in June 2015 under which customers no longer purchase the device but lease it. By contrast, exchange rate effects, primarily from the translation of U.S. dollars into euros, reduced the carrying amount by EUR 0.3 billion. Depreciation charges of EUR 6.4 billion had a decreasing effect on the carrying amount, as did disposals of EUR 0.6 billion.

Other assets. As of September 30, 2016, *current and non-current other financial assets* increased by EUR 3.4 billion compared with December 31, 2015 to EUR 12.8 billion. In return for our stake in the EE joint venture, we received a cash payment as well as an equity stake of 12.0 percent in BT. This addition increased the carrying amount by EUR 7.4 billion. The subsequent measurement of this exchange-traded financial stake resulted in a carrying amount of EUR 5.4 billion as of September 30, 2016. A refundable cash deposit of around EUR 2.0 billion recorded in the second quarter of 2016 in connection with a potential asset purchase in the United States and positive remeasurement effects of EUR 0.5 billion from embedded options in bonds issued by T-Mobile US also increased financial assets. U.S. government bonds with a volume of EUR 2.8 billion that fell due and were repaid in the first half of 2016 reduced the carrying amount of financial assets. The premature cancellation in June 2016 of interest rate derivatives with a fair value of EUR 0.6 billion also resulted in a reduction of the carrying amount. *Inventories* decreased by EUR 0.2 billion to EUR 1.6 billion compared to December 31, 2015. This was due in particular to lower stock levels of terminal equipment (mainly higher-priced smartphones) at T-Mobile US as of September 30, 2016 as well as exchange rate effects from the translation of U.S. dollars to euros.

Current liabilities and non-current liabilities. As of September 30, 2016, current liabilities decreased by EUR 7.5 billion and non-current liabilities increased by EUR 7.3 billion.

Current and non-current financial liabilities. Our current and non-current financial liabilities decreased slightly by EUR 0.1 billion compared with the end of 2015 to a total of EUR 62.3 billion. Current financial liabilities decreased by EUR 5.5 billion, while non-current financial liabilities increased by EUR 5.4 billion. On March 23, 2016, the Group issued senior unsecured bonds in an aggregate amount of EUR 4.5 billion. On April 1, 2016, T-Mobile US issued senior unsecured bonds with a total volume of USD 1.0 billion, the net proceeds of which T-Mobile US expects to use for the purchase of 700 MHz A-block spectrum and other spectrum purchases. In April 2016, the Group issued senior unsecured bonds in an amount of EUR 0.5 billion. In July 2016, Deutsche Telekom AG procured a loan from the European Investment Bank in an amount of EUR 0.5 billion. In September 2016, the Group issued senior unsecured bonds in an aggregate amount of USD 2.75 billion. In the first nine months of 2016, two U.S. dollar bonds were repaid in a total amount of USD 2.25 billion (around EUR 2.0 billion), as were Eurobonds in the amount of EUR 0.9 billion, a bond in Swiss francs for CHF 0.4 billion (around EUR 0.4 billion), commercial paper in the amount of EUR 3.3 billion (net) and promissory notes in the amount of EUR 0.4 billion (net). The decrease in liabilities to banks of EUR 0.1 billion also reduced the carrying amount of financial liabilities.

Trade and other payables. Compared to the end of 2015 trade and other payables decreased by EUR 2.2 billion to EUR 8.9 billion. Apart from the reduction in the portfolio of liabilities at the national companies in the Europe operating segment and at T-Mobile US, this decrease was also attributable to exchange rate effects from the translation of U.S. dollars into euros.

Current and non-current provisions. Provisions (current and non-current) increased by EUR 0.8 billion. The EUR 1.1 billion increase in provisions for pensions and other employee benefits to EUR 9.1 billion was mainly due to interest rate adjustments which resulted in an actuarial loss to be recognized directly in equity of EUR 1.3 billion (before taxes). An increase in the plan assets by EUR 0.3 billion in Germany in the first quarter of 2016 (allocation under contractual trust agreement) reduced the provisions for pensions and other employee benefits.

Shareholders' equity. Shareholders' equity decreased by EUR 0.5 billion compared with December 31, 2015 to EUR 37.6 billion. Profit after taxes of EUR 5.3 billion for the first nine months of 2016 had a positive effect on shareholders' equity. Currency translation effects recognized directly in equity had a decreased effect of EUR 1.5 billion. As a result of the consummation of the sale of our stake in the EE joint venture on January 29, 2016, the gains of EUR 0.9 billion from the translation of pounds sterling into euros that had until this date been disclosed in shareholders' equity were reclassified through profit or loss to the consolidated income statement. Shareholders' equity was also reduced by losses of EUR 2.0 billion from the remeasurement of available-for-sale financial assets due to the subsequent

measurement of our financial stake in BT, and EUR 0.9 billion from the recognition of actuarial losses (after taxes). Dividend payments for the 2015 financial year to Deutsche Telekom AG shareholders of EUR 2.5 billion and to non-controlling interests of EUR 0.1 billion also reduced equity. This was partially offset by a capital increase of EUR 1.0 billion in the form of the contribution to capital of the dividend entitlements in connection with the option granted to our shareholders to have their dividend entitlements converted into shares.

Comparison of December 31, 2015 to December 31, 2014

Total assets. Total assets as of December 31, 2015 increased by EUR 14.6 billion compared with December 31, 2014, largely due to higher intangible assets and property, plant and equipment. EUR 4.1 billion of this figure was attributable to exchange rate effects, mainly from the translation from U.S. dollars into euros. The level of other current assets also increased significantly. Total liabilities and shareholders' equity increased in particular on account of current and non-current financial liabilities.

Cash and cash equivalents. Cash and cash equivalents decreased by EUR 0.6 billion. For more information on this change, please refer to the consolidated statement of cash flows and selected notes to the consolidated statement of cash flows in our consolidated financial statements as of and for the year ended December 31, 2015 included elsewhere in this offering memorandum.

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

Non-current assets and disposal groups held for sale. The increase in the net carrying amounts of the non-current assets and disposal groups held for sale of EUR 1.0 billion to EUR 6.9 billion was primarily due to a transaction agreed in the third quarter of 2015 for the exchange of mobile licenses between T-Mobile US and a competitor aimed at improving mobile network coverage. This transaction increased the net carrying amounts by EUR 0.6 billion. Currency effects of EUR 0.3 billion from the translation of pounds sterling into euros related to the reclassification in December 2014 of our stake in the EE joint venture also increased the carrying amount, which amounted to EUR 6.1 billion as of December 31, 2015.

Other current assets. Other current assets as of December 31, 2015 increased by EUR 3.2 billion, mainly due to a EUR 2.8 billion increase in the net carrying amounts of other current financial assets (amounting to EUR 5.9 billion as of December 31, 2015) in relation to a short-term liquidity disposition resulting from the acquisition of U.S. government bonds by T-Mobile US in connection with the bond issue in the fourth quarter of 2015, and the resulting cash inflows. Additionally, inventories increased by EUR 0.3 billion to EUR 1.8 billion, primarily due to increased stock levels of terminal equipment (in particular higher-priced smartphones) at T-Mobile US.

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

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

Current liabilities and non-current liabilities. As of December 31, 2015, current liabilities increased by EUR 5.4 billion and non-current liabilities increased by EUR 5.1 billion.

Current and non-current financial liabilities. Our current and non-current financial liabilities increased by EUR 7.2 billion to EUR 62.4 billion in total. For further information on our financial liabilities, see Note 10 "*Financial liabilities*" to the consolidated financial statements as of and for the year ended December 31, 2015 included elsewhere in this offering memorandum.

Trade and other payables. Trade and other payables increased by EUR 1.4 billion compared with the end of 2014 to EUR 11.1 billion, due in particular to exchange rate effects (EUR 0.5 billion) and the higher procurement volume in connection with the new business model JUMP! On Demand introduced in the United States operating segment.

Current and non-current provisions. Provisions (current and non-current) stood at the 2014 level of EUR 14.4 billion, of which EUR 8.0 billion (December 31, 2014: EUR 8.5 billion) related to provisions for pensions and other employee benefits. The decrease in provisions for pensions and other employee benefits was attributable in part to actuarial losses of EUR 0.2 billion (before taxes) recognized directly in equity. Benefits of EUR 0.4 billion paid in 2015 and the increase of our plan assets by EUR 0.3 billion (allocation under contractual trust agreement) also reduced provisions. By contrast, current service cost increased provisions for pensions by EUR 0.3 billion. Other provisions increased by EUR 0.5 billion, in part as a result of the recognition of decommissioning of the MetroPCS CDMA network, in property, plant and equipment at T-Mobile US.

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

Shareholders' equity. Shareholders' equity increased by EUR 4.1 billion compared with December 31, 2014 to EUR 38.2 billion, due to net profit of EUR 3.3 billion, currency translation effects recognized directly in equity of EUR 2.0 billion, the recognition of actuarial gains (after taxes) of EUR 0.2 billion and the measurement of hedging instruments directly in equity of EUR 0.4 billion. In addition, in connection with the option granted to our shareholders to have their dividend entitlements converted into shares, a capital increase of EUR 1.1 billion was carried out involving the contribution of the dividend entitlements. Dividend payments for the 2014 financial year to Deutsche Telekom AG shareholders of EUR 2.3 billion and to non-controlling interests of EUR 0.1 billion had an offsetting effect. The acquisition of the remaining shares in Slovak Telekom for EUR 0.9 billion also reduced shareholders' equity.

Comparison of December 31, 2014 to December 31, 2013

Total assets. Total assets as of December 31, 2014 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 was attributable to exchange rate effects, mainly from the translation from U.S. dollars into euros. The level of trade and other receivables also increased significantly. Total liabilities and shareholders' equity increased in particular on account of higher current liabilities.

Cash and cash equivalents. Cash and cash equivalents decreased by EUR 0.4 billion. For more information on this change, please refer to the consolidated statement of cash flows and selected notes to the consolidated statement of cash flows in our consolidated financial statements as of and for the year ended December 31, 2014 included elsewhere in this offering memorandum.

Trade and other receivables. 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 resulting from T-Mobile US's strategy to introduce new rate plans under which terminal equipment is no longer sold at a subsidized price, but on the basis of an installment plan.

Non-current assets and disposal groups held for sale. 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 net carry amount in 2013 was impacted by the completion of the exchange of mobile licenses with Verizon Communications for EUR 0.6 billion in the United States operating segment and the consummation of the sale of the shares in the Scout24 group totaling EUR 0.3 billion in the Group Headquarters & Group Services segment.

Intangible assets. 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 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. 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.

Investments accounted for using the equity method. The carrying amount of investments accounted for using the equity method decreased by EUR 5.6 billion in 2014. 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.

Current liabilities and non-current liabilities. As of December 31, 2014, current liabilities increased by EUR 5.7 billion and non-current liabilities increased by EUR 3.5 billion.

Current and non-current financial liabilities. Our current and non-current financial liabilities increased by EUR 3.6 billion to EUR 55.2 billion in total. For further information our financial liabilities, see Note 10 "*Financial liabilities*" to the consolidated financial statements as of and for the year ended December 31, 2014 included elsewhere in this offering memorandum.

Trade and other payables. Trade and other payables increased by EUR 2.4 billion compared with the end of 2013, 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.

Current and non-current provisions. 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 the 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.

Liabilities directly associated with non-current assets and disposal groups held for sale. Liabilities directly associated with non-current assets and disposal groups held for sale decreased by EUR 0.1 billion due to the IFRS 5 classification (non-current assets held for sale and discontinued operations) of our share in the Scout24 group.

Shareholders' equity. Shareholders' equity increased by EUR 2.0 billion compared with December 31, 2013 to EUR 34.1 billion, due to net profit of EUR 3.0 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.

Financial Liabilities

The following table sets forth the composition and maturity structure of our financial liabilities as of September 30, 2016.

	September 30, 2016			
	Total	Due within 1 year	Due > 1 year ≤ 5 years	Due > 5 years
	(millions of €)			
	(unaudited)			
Bonds and other securitized liabilities	49,014	4,178	18,990	25,846
Liabilities to banks	4,065	1,218	2,104	743
Finance lease liabilities	2,378	451	1,242	685
Liabilities to non-banks from promissory notes	556	34	204	318
Liabilities with the right of creditors to priority repayment in the event of default	1,766	18	72	1,676
Other interest-bearing liabilities	1,922	1,365	375	182
Other non-interest-bearing liabilities	1,567	1,411	155	1
Derivative financial liabilities	1,040	284	193	563
Financial liabilities	**62,308**	**8,959**	**23,335**	**30,014**

The following table sets forth the reconciliation of net debt to financial liabilities as of the dates indicated.

	September 30,	December 31,		
	2016	2015	2014	2013
	(millions of €)			
	(unaudited)	(audited)		
Financial liabilities (current)	8,959	14,439	10,558	7,891
Financial liabilities (non-current)	53,349	47,941	44,669	43,708
Financial liabilities	**62,308**	**62,380**	**55,227**	**51,599**
Accrued interest	(793)	(1,014)	(1,097)	(1,091)
Other	(828)	(857)	(1,038)	(881)
Gross debt	**60,687**	**60,509**	**53,092**	**49,627**
Cash and cash equivalents	7,527	6,897	7,523	7,970
Available-for-sale financial assets/ financial assets held for trading	99	2,877	289	310
Derivative financial assets	2,280	2,686	1,343	771
Other financial assets	2,297	479	1,437	1,483
Net debt	**48,484**	**47,570**	**42,500**	**39,093**

In the first nine months of 2016, net debt compared to the end of 2015 increased by EUR 0.9 billion to EUR 48.5 billion. The increases to net debt arising from the acquisition of mobile spectrum (EUR 2.2 billion), payment of dividends (including to non-controlling interests: EUR 1.6 billion), and payments to external pension funds (allocation under contractual trust agreement: EUR 0.3 billion) were mostly offset by free cash flow (EUR 4.0 billion), exchange rate effects (EUR 0.4 billion) and the sale of shares in Scout24 AG (EUR 0.1 billion). Other effects of EUR 1.3 billion – which included, among other items, liabilities for the lease of network equipment classified as a finance lease primarily in our United States operating segment and liabilities for the acquisition of broadcasting rights and, to a smaller extent, financing options under which the payments for trade payables become due at a later point in time by intermediation of banks in the process – contributed to the increase in net debt. These payables are now shown under financial liabilities in the statement of financial position.

In the 2015 financial year, net debt increased by EUR 5.1 billion to EUR 47.6 billion compared to 2014, mainly due to the acquisition of mobile spectrum for EUR 3.8 billion, exchange rate effects of EUR 1.9 billion, dividend payments — including to non-controlling interests — of EUR 1.3 billion, the acquisition of the remaining shares in Slovak Telekom for EUR 0.9 billion and other effects of EUR 1.6 billion, which included financing options of EUR 0.7 billion under which the payments for trade payables from investing and operating activities become due at a later point in time by intermediation of banks in the process. Free cash flow of EUR 4.5 billion only partially offset these effects.

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

In the 2014 financial year, our net debt increased by EUR 3.4 billion to EUR 42.5 billion compared to 2013. The increase was driven by the acquisition of mobile spectrum for EUR 2.3 billion, exchange rate effects of EUR 1.8 billion, dividend payments — including to non-controlling interests — of EUR 1.3 billion, the acquisition of the remaining shares in T-Mobile Czech Republic for EUR 0.8 billion, the acquisition of the GTS Central Europe group for EUR 0.5 billion and other effects of EUR 1.9 billion, which included financing options under which the payments for trade payables from investing and operating activities become due at a later point in time by intermediation of banks in the process and a payment as part of a wholesale transaction. Free cash flow of EUR 4.1 billion as well as the sale of 70 percent of the shares in the Scout24 group for EUR 1.6 billion partially offset these effects.

At the end of the 2014 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 2013, mainly due to the significant increase in T-Mobile US's self-financing in 2014.

Off-Balance Sheet Assets and Financial Instruments

In addition to the assets recognized in the statement of financial position, we carry assets off balance-sheet, primarily relating to leased property. For further information, please refer to Note 34 "*Leases*" and Note 35 "*Other financial obligations*" in the notes to each of the consolidated financial statements as of and for the years ended December 31, 2015 and December 31, 2014, in each case included elsewhere in this offering memorandum.

Off-balance-sheet financial instruments mainly relate to the sale of receivables by means of factoring. Total receivables sold as of December 31, 2015 amounted to EUR 3.5 billion (December 31, 2014: EUR 1.4 billion; December 31, 2013: EUR 1.5 billion). This mainly comprises the renewed conclusion in 2015 of a factoring agreement in the Germany operating segment that was terminated in 2014 and a new factoring agreement concluded in the United States operating segment. The agreements are mainly used for active receivables management.

Furthermore, in 2015, we chose financing options totaling EUR 0.7 billion (2014: EUR 0.6 billion; 2013: EUR 0.4 billion) which extended the period of payment for trade payables from operating and investing activities by intermediation of banks in the process. Upon payment, these trade payables are included under cash flows used in/from financing activities. As a result, these payables are recognized as financial liabilities in the statement of financial position.

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

Finance Policy

The fundamentals of our 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.

The following table sets forth the ratings of the Company as of the dates indicated:

	Standard & Poor's	**Moody's**	**Fitch**
Long-term rating			
Dec. 31, 2013	BBB+	Baa1	BBB+
Dec. 31, 2014	BBB+	Baa1	BBB+
Dec. 31, 2015	BBB+	Baa1	BBB+
September 30, 2016	**BBB+**	**Baa1**	**BBB+**
Short-term rating	**A-2**	**P-2**	**F2**
Outlook	**Stable**	**Stable**	**Stable**

A securities rating is not a recommendation to buy, sell or hold securities and is subject to revision or withdrawal at any time by the assigning rating organization. Each rating should be evaluated independently of any other rating. The same remarks hold true with regard to rating agency outlook statements.

Condensed Consolidated Statement of Cash Flows and Reconciliation of Free Cash Flow

The following table presents information concerning our condensed consolidated statement of cash flows and reconciliation of free cash flow for the periods indicated.

	Q1 – Q3 2016	Q1 – Q3 2015	2015	2014	2013
	(millions of €)				
	(unaudited)		(audited)		
Net cash from operating activities	**11,984**	**11,125**	**14,997**	**13,393**	**13,017**
Effects from the AT&T transaction	–	–	–	–	137
Compensation payments for MetroPCS employees	–	–	–	–	60
Net cash from operating activities[1]	**11,984**	**11,125**	**14,997**	**13,393**	**13,214**
Cash outflows for investments in intangible assets (excluding goodwill and before spectrum investment) and property, plant and equipment **(cash capex)**	(8,234)	(7,803)	(10,818)	(9,534)	(8,861)
Proceeds from disposal of intangible assets (excluding goodwill) and property, plant and equipment	296	226	367	281	253
Free cash flow (before dividend payments and spectrum investment)[1]	**4,046**	**3,548**	**4,546**	**4,140**	**4,606**
Net cash used in investing activities	**(10,331)**	**(9,475)**	**(15,015)**	**(10,761)**	**(9,896)**
Net cash used in financing activities	**(976)**	**(4,947)**	**(876)**	**(3,434)**	**1,022**
Effect of exchange rate changes on cash and cash equivalents	(47)	305	267	323	(167)
Changes in cash and cash equivalents associated with non-current assets and disposal groups held for sale	–	(21)	1	32	(32)
Net increase (decrease) in cash and cash equivalents	630	(3,013)	(626)	(447)	3,944
Cash and cash equivalents	**7,527**	**4,510**	**6,897**	**7,523**	**7,970**

[1] Before effects in connection with the AT&T transaction and compensation payments for MetroPCS employees.

For information on the statement of cash flows, see the notes to the consolidated statement of cash flows in the condensed consolidated interim financial statements as of and for the period ended September 30, 2016 and Note 31 "*Notes to the consolidated statement of cash flows*" to each of the consolidated financial statements as of and for the years ended December 31, 2015 and December 31, 2014, in each case included elsewhere in this offering memorandum.

Cash Capex

In the first nine months of 2016, cash capex (including spectrum investment) decreased by EUR 1.1 billion to EUR 10.5 billion compared to the first nine months of 2015. We acquired mobile spectrum licenses for a total of EUR 2.2 billion in the first nine months of 2016, primarily in the United States and Europe operating segments, while in the first nine months of 2015, mobile licenses for a total of EUR 3.8 billion were acquired, primarily in the United States and Germany operating segments. Adjusted for the effects of spectrum acquisitions, cash capex increased by EUR 0.4 billion, primarily in the United States operating segment in connection with investments in the network modernization, including the roll-out of the 4G/LTE network.

In the 2015 financial year, cash capex (including spectrum investment) increased to EUR 14.6 billion compared to 2014, mainly due to spectrum acquired for EUR 3.8 billion, primarily in the United States and in Germany. In 2014, we had invested a total of EUR 2.3 billion in mobile spectrum. Cash capex (before spectrum investment) increased by EUR 1.3 billion to EUR 10.8 billion in 2015. The focus was principally on our United States and Germany operating segments, where cash capex increased in connection with investments made in building out and modernizing our networks.

In the 2014 financial year, cash capex (including spectrum investment) increased to EUR 11.8 billion compared to 2013. The spectrum acquired in 2014 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 increased by EUR 0.7 billion and mainly related to further rolling out broadband and expanding capacities in existing networks.

Free Cash Flow

In the first nine months of 2016, free cash flow in the Group before dividend payments and spectrum investment increased substantially against the first nine months of 2015 by EUR 0.5 billion to EUR 4.0 billion. While net cash from operating activities resulted in cash inflows of EUR 0.9 billion, investments in intangible assets (excluding goodwill and before spectrum investment) and property, plant and equipment led to cash outflows of EUR 0.4 billion. The increase in

net cash from operating activities was mainly attributable to the positive business development of the United States operating segment. In the first nine months of 2016, factoring agreements were concluded concerning monthly revolving sales of trade receivables. Compared with the first nine months of 2015, factoring agreements resulted in positive effects of EUR 0.4 billion on net cash from operating activities. This mainly relates to factoring agreements in the United States and Germany operating segments. Cash inflows from the cancellation of or changes in the terms of interest rate derivatives had a positive effect of EUR 0.2 billion compared with the first nine months of 2016. A year-on-year decrease of EUR 0.1 billion in the payment for taxes also had a positive effect. By contrast, net cash from operating activities was negatively affected by a EUR 0.2 billion year-on-year decrease in the dividend payment from the former EE joint venture. The dividend payment of EUR 0.1 billion received from BT for the first time in 2016 matched the dividend of a corresponding amount received from the Scout24 group in the prior year period.

In the 2015 financial year, free cash flow of the Group before dividend payments and spectrum investment grew from EUR 4.1 billion in 2014 to EUR 4.5 billion. While net cash from operating activities resulted in cash inflows of EUR 1.6 billion, investments in intangible assets (excluding goodwill and before spectrum investment) and property, plant and equipment led to cash outflows of EUR 1.3 billion. The increase in net cash from operating activities was mainly attributable to the positive business development of our United States operating segment. In 2015, we concluded factoring agreements concerning monthly revolving sales of trade receivables, which resulted in a positive effect of EUR 0.8 billion on net cash from operating activities. This mainly comprised a renewed conclusion of a factoring agreement in our Germany operating segment in 2015 that had been terminated in 2014 and a new factoring agreement concluded in our United States operating segment. The effect from factoring agreements in 2014 totaled EUR 0.2 billion. Cash inflows of EUR 0.2 billion also resulted from an agreement to settle an ongoing complaints procedure under antitrust law. Offsetting effects included payments made in 2015 in connection with the European Commission proceedings against Slovak Telekom and Deutsche Telekom. The first-time dividend payment from Scout24 AG of EUR 0.1 billion and the EUR 0.1 billion increase in the dividend payments from the EE joint venture increased net cash from operating activities.

In the 2014 financial year, free cash flow of the Group before dividend payments and spectrum investment decreased by EUR 0.5 billion compared to 2013. This was due to the 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.

Step-Up Provisions

An improvement of our long-term senior unsecured debt ratings to A3 by Moody's and A- by Standard & Poor's or above would result in a 50 basis point decrease in interest rates due to the step-up provisions of certain bonds of the Group having an aggregate principal amount of approximately EUR 3.5 billion at September 30, 2016.

A lowering of our long-term senior unsecured debt ratings below Baa1 by Moody's and BBB+ by Standard & Poor's would result in a 50 basis point increase in interest rates due to the step-up provisions of certain bonds of the Group having an aggregate principal amount of approximately EUR 1.7 billion at September 30, 2016.

Lines of Credit

On September 30, 2016, we had standardized bilateral lines of credit with 22 banks, totaling EUR 12.9 billion. As of September 30, 2016, none of these credit lines had been utilized. According to the loan agreements, the terms and conditions depend on our credit rating. The bilateral credit agreements have an original maturity of 36 months and, after each period of 12 months, will be automatically extended for a further 12 months to renew the maturity of 36 months, if the lender does not object to such extension.

Our bilateral lines of credit do not include any financial covenants or material adverse change clauses. However, in the event we are taken over by a third-party, the individual lenders under these bilateral lines of credit and certain loan agreements to which we are also a party have the right to terminate the credit line and, if necessary, serve notice on it or demand repayment of the loans. A takeover is assumed when a third party, which can also be a group acting jointly, acquires control over us.

Research and Development

Research and development expenditure includes pre-production research and development, such as the search for alternative products, processes, systems, and services. However, we do not include under this item expenses for the development of system and application software aimed at enhancing productivity and making our business process more

effective. In 2015, research and development expenditure in the Group amounted to EUR 108.1 million (2014: EUR 95.6 million).

In 2015, our investments in internally generated intangible assets to be capitalized totaled EUR 101.3 million (2014: EUR 93.2 million). These investments primarily relate to internally developed software, mainly for the Systems Solutions operating segment. In 2015, approximately 2,800 employees were involved in projects and activities to create new products, with a view to marketing them more efficiently.

In 2014, our investments in internally generated intangible assets to be capitalized were 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 2014, some 2,900 employees were involved in projects and activities to create new products and market them more efficiently.

In 2013, our investments in internally generated intangible assets to be capitalized were up year-on-year at EUR 112 million. These investments predominantly relate to internally developed software, mainly in our Systems Solutions operating segment. In 2013, some 2,900 employees were involved in projects and activities to create new products and market them more efficiently.

Development of Business in the Operating Segments

Germany

Our Germany operating segment comprises all fixed-network and mobile activities for consumers and business customers in Germany. In addition, it provides wholesale telecommunications services for the Group's other operating segments. For more information on our segments, see "*Description of our Business and Operations—Group Organization—Organization*".

Customer Development

The following table provides information on our fixed-line and mobile operations in our Germany operating segment as of the dates indicated.

	September 30, 2016	Dec. 31, 2015	Change September 30, 2016/ Dec. 31, 2015	September 30, 2015	Change September 30, 2016/ September 30, 2015
	(in thousands)		(%)	(in thousands)	(%)
Total					
Mobile customers[1]	41,461	40,373	2.7	39,892	3.9
Contract customers	24,705	23,709	4.2	23,347	5.8
Prepay customers	16,756	16,665	0.5	16,545	1.3
Fixed-network lines[2]	19,873	20,227	(1.8)	20,354	(2.4)
Of which: retail IP-based	8,435	6,887	22.5	6,354	32.8
Broadband lines	12,835	12,644	1.5	12,596	1.9
Of which: optical fiber	3,857	2,923	32.0	2,613	47.6
Television (IPTV, satellite)	2,818	2,683	5.0	2,632	7.1
Unbundled local loop lines (ULLs)	7,431	8,050	(7.7)	8,231	(9.7)
Wholesale unbundled lines	3,905	3,015	29.5	2,752	41.9
Of which: optical fiber	2,274	1,444	57.5	1,222	86.1
Wholesale bundled lines	179	227	(21.1)	246	(27.2)
Of which: Consumers					
Mobile customers[1]	29,061	29,016	0.2	28,870	0.7
Contract customers	18,054	17,297	4.4	16,933	6.6
Prepay customers	11,007	11,719	(6.1)	11,937	(7.8)
Fixed-network lines[2]	15,609	15,900	(1.8)	16,003	(2.5)
Of which: retail IP-based	7,236	6,076	19.1	5,653	28.0
Broadband lines	10,355	10,209	1.4	10,162	1.9
Of which: optical fiber	3,316	2,530	31.1	2,262	46.6
Television (IPTV, satellite)	2,626	2,492	5.4	2,441	7.6
Of which: Business Customers					
Mobile customers[1]	12,400	11,358	9.2	11,022	12.5
Contract customers	6,651	6,412	3.7	6,414	3.7
Prepay customers (M2M)[3]	5,749	4,946	16.2	4,608	24.8
Fixed-network lines[2]	3,275	3,339	(1.9)	3,340	(1.9)
Of which: retail IP-based	1,126	773	45.7	667	68.8
Broadband lines	2,099	2,093	0.3	2,092	0.3
Of which: optical fiber	525	385	36.4	343	53.1
Television (IPTV, satellite)	191	190	0.5	189	1.1

[1] We count our mobile communications customers by the number of SIM cards activated and not churned. Our customer figures include the SIM cards with which machines can communicate with one another ("M2M"). In general, one SIM card corresponds to one customer. Twin cards (more than one SIM card with the same number and without any additional charge) are also accounted for as one customer. We count contract customers as customers for the length of their contracts and count prepay customers as customers as long as they continue to use our services, and then for a prescribed period thereafter, which differs by country. Generally, in the case of payment default or voluntary disconnection, the customers are cancelled or "churned" or, in case of no action on the part of the customer at the end of the period, the contract is prolonged.

[2] In addition to the fixed-network lines of our consumers and business customers in Germany, this category includes lines provided by our Germany operating segment to our Systems Solutions operating segment, which are then sold to end customers, and lines used within the Group.

[3] M2M: machine-to-machine.

	Dec. 31, 2015	Dec. 31, 2014	Change Dec. 31, 2015/ Dec. 31, 2014	Change Dec. 31, 2015/ Dec. 31, 2014	Dec. 31, 2013
		(in thousands)		(%)	(in thousands)
Total					
Mobile customers[1]	40,373	38,989	1,384	3.5	38.625
Contract customers	23,709	22,287	1,422	6.4	21,553
Prepay customers	16,665	16,701	(36)	(0.2)	17,072
Fixed-network lines[2]	20,227	20,686	(459)	(2.2)	21,417
Of which: retail IP-based	6,887	4,383	2,504	57.1	2,141
Broadband lines	12,644	12,361	283	2.3	12,360
Of which: optical fiber	2,923	1,799	1,124	62.5	1,246
Television (IPTV, satellite)	2,683	2,442	241	9.9	2,177
Unbundled local loop lines (ULLs)	8,050	8,801	(751)	(8.5)	9,257
Wholesale unbundled lines	3,015	2,153	862	40.0	1,564
Of which: optical fiber	1,444	718	726	n.a.	274
Wholesale bundled lines	227	305	(78)	(25.6)	390
Of which: Consumers					
Mobile customers[1]	29,016	29,068	(52)	(0.2)	29,943
Contract customers	17,297	16,040	1,257	7.8	15,669
Prepay customers	11,719	13,027	(1,308)	(10.0)	14,275
Fixed-network lines[2]	15,900	16,260	(360)	(2.2)	16,923
Of which: retail IP-based	6,076	3,974	2,102	52.9	1,960
Broadband lines	10,209	9,938	271	2.7	9,963
Of which: optical fiber	2,530	1,547	983	63.5	1,064
Television (IPTV, satellite)	2,492	2,254	238	10.6	2,001
Of which: Business Customers					
Mobile customers[1]	11,358	9,921	1,437	14.5	8,682
Contract customers[3]	6,412	6,247	165	2.6	5,885
Prepay customers (M2M)[4]	4,946	3,674	1,272	34.6	2,797
Fixed-network lines[2]	3,339	3,402	(63)	(1.9)	3,445
Of which: retail IP-based	773	387	386	99.7	164
Broadband lines	2,093	2,096	(3)	(0.1)	2,072
Of which: optical fiber	385	248	137	55.2	180
Television (IPTV, satellite)	190	186	4	2.2	174

n.a. – not applicable

1 We count our mobile communications customers by the number of SIM cards activated and not churned. Our customer figures include the SIM cards with which machines can communicate with one another (“M2M”). In general, one SIM card corresponds to one customer. Twin cards (more than one SIM card with the same number and without any additional charge) are also accounted for as one customer. We count contract customers as customers for the length of their contracts and count prepay customers as customers as long as they continue to use our services, and then for a prescribed period thereafter, which differs by country. Generally, in the case of payment default or voluntary disconnection, the customers are cancelled or “churned” or, in case of no action on the part of the customer at the end of the period, the contract is prolonged.

2 In addition to the fixed-network lines of our consumers and business customers in Germany, this category includes lines provided by our Germany operating segment to our Systems Solutions operating segment, which are then sold to end customers, and lines used within the Group.

3 As of January 1, 2015, figures without internal framework agreements (approximately 61,000 SIM cards). Prior-year figures have not been adjusted.

4 M2M: machine-to-machine.

Total

As of September 30, 2016, we continued to be the market leader in Germany in terms of fixed-network and mobile revenues. We attribute this success to our high-performance networks in both fixed-network and mobile communications and our broad product portfolio.

As of September 30, 2016, 2.6 million customers have opted for our integrated product MagentaEINS (December 31, 2015: 1.9 million; December 31, 2014: 0.5 million), which we launched in September 2014, comprising fixed-network and mobile components.

In mobile communications, we gained another 1.1 million customers (an increase of 2.7 percent) over the course of the first nine months of 2016, following gains of 1.4 million customers (an increase of 3.5 percent) in 2015 and 364,000 mobile customers (an increase of 0.9 percent) in 2014. We recorded 1.0 million contract customer additions in the first nine months of 2016, thanks to the strong demand for mobile rate plans with integrated data volumes.

By September 30, 2016, we had migrated 12.0 million retail and wholesale lines to IP (corresponding to a migration rate of 49 percent) in line with our goal to convert our entire network to IP technology by the end of 2018. The

level of migration was 9.5 million (corresponding to 40 percent) as of December 31, 2015 and 5.8 million (corresponding to 25 percent) as of December 31, 2014. Since the second half of 2014, we have been marketing vectoring and LTE 300 as part of our integrated network strategy.

Additionally, we continued to record strong demand for our fiber-optic products in the first nine months of 2016, with the number of these lines increasing by around 1.8 million, or 40.4 percent, over the period to a total of 6.1 million, following increases of 1.9 million, or 73.5 percent, to a total of 4.4 million over the 2015 financial year and almost 1 million, or 65.6 percent, to a total of 2.5 million over the 2014 financial year. Within the twelve months ending September 30, 2016, we connected 2.3 million households in Germany to our fiber-optic network.

Mobile Communications

We recorded net gains of 996,000 new contract customers (an increase of 4.2 percent) over the course of the first nine months of 2016, more than 1.4 million (an increase of 6.4 percent) over the 2015 financial year and 734,000 (an increase of 3.4 percent) over the 2014 financial year. We attribute these gains to our high-performance networks and our broad product portfolio for high-value contract customers. In our branded contract customer business, we recorded 386,000 additions (an increase of 2.5 percent) under our "Deutsche Telekom" and "congstar" brands over the first nine months of 2016, 575,000 (an increase of 3.8 percent) over the 2015 financial year and 913,000 (an increase of 6.5 percent) over the 2014 financial year. The contract customer reseller business (service providers) recorded 562,000 net additions over the first nine months of 2016 and 546,000 net additions over the 2015 financial year despite the transfer of Turkcell customers in the first quarter of 2015 to Telekom Deutschland Multibrand GmbH, which was established on January 15, 2015 and which includes the marketing partnership for the use of the Turkcell brand in Germany. This transfer also entailed a transfer of Turkcell customers from the prepay to the contract customer segment. Over the course of the 2014 financial year, the reseller business (service providers) declined by 179,000 due to deactivations of inactive accounts in the second half of 2014 based on adjustments in the business model.

Over the first nine months of 2016, the number of prepay customers increased by 91,000, or 0.5 percent, with the growth in business customers compensating for the reduction in the number of consumers. This followed a decline of 36,000 prepay customers (a decrease of 0.2 percent) over the 2015 financial year, with growth in business customers partly compensating for a significant loss in the number of consumers. Overall, however, the contract customer additions in 2015 more than offset the decline in prepay customers. Over the 2014 financial year, the number of prepay customers decreased by 371,000, or 2.2 percent, primarily as a result of customers switching to low-cost contract offers. Overall, however, due to the addition of 364,000 new mobile customers in 2014, contract customer additions more than offset the decline in prepay customers.

Fixed Network

Due to the persistently challenging development in the fixed-network market, primarily owing to aggressive pricing offers of competitors, our marketing has focused on integrated offers as well as on TV and fiber-optic lines. In connection with this marketing campaign, the number of our broadband lines increased by 191,000, or 1.5 percent, over the course of the first nine months of 2016 and 283,000, or 2.3 percent, over the 2015 financial year, while over the course of the 2014 financial year, the number of our broadband lines remained stable at 12.4 million. As of September 30, 2016, 22.0 percent of our broadband customers were TV customers, a gain of 135,000 (an increase of 5.0 percent) new TV customers since the end of 2015. As of the end of 2015, 21.2 percent of our broadband customers were TV customers, an increase of 1.4 percentage points over the 19.8 percent as of the end of 2014, itself an improvement of 2.2 percentage points compared to the end of 2013. In the traditional fixed network, the number of lines decreased by 354,000, or 1.8 percent, over the first nine months of 2016, 459,000, or 2.2 percent over the 2015 financial year and 731,000, or 3.4 percent, over the 2014 financial year. In terms of line losses per quarter, the number of line losses fell below the 200,000 mark for the first time in ten years in the second quarter of 2014.

Our MagentaZuhause rate plans offer a comprehensive product portfolio for the fixed network based on IP technology and rate plan-specific bandwidths. MagentaZuhause Hybrid bundles fixed-network and mobile technology in a single router. Since launching this product Germany-wide in March 2015, we have gained 265,000 customers as of September 30, 2016 (December 31, 2015: 155,000), primarily in rural areas.

As of September 30, 2016, we have also connected around 162,000 apartments (December 31, 2015: around 147,000; December 31, 2014: around 119,000) to our network through our partnerships in the housing sector.

Consumers

In the first nine months of 2016, the number of mobile customers, whom we categorize as "Consumers", was on par with the prior-year level at 29.1 million, following declines of 0.2 percent over the 2015 financial year and 2.9

percent over the 2014 financial year mainly due to the decrease of 1.2 million prepay customers in 2014, in particular in the reseller segment and due to customers switching to contract-based plans. Of the mobile customers, the number of prepay customers decreased by 712,000, or 6.1 percent, over the first nine months of 2016, 1.3 million, or 10.0 percent, over the 2015 financial year and 1.2 million, or 8.7 percent, over the 2014 financial year, primarily as a result of some customers switching to our mobile contracts, for example to our cost-effective "congstar" rate plans. However, we added 757,000 contract customers (an increase of 4.4 percent) in the first nine months of 2016, 147,000 of which were net additions under our own brands. Similarly, over the 2015 and 2014 financial years, we added 1.3 million (an increase of 7.8 percent) and 371,000 (an increase of 2.4 percent) contract customers, respectively, of which 410,000 and 551,000 were net additions under the Telekom and "congstar" brands. The high acceptance of our MagentaMobil rate plans and the AllnetFlat rate plans at "congstar" in particular resulted in this growth in contract customers. Contract customer reseller business (service providers) increased by 562,000 over the first nine months of 2016 and 546,000 over the 2015 financial year. Over the 2014 financial year, the reseller business declined by 179,000 due to the intensified deactivation of inactive contract cards in the second half of 2014.

In the fixed-network environment, competition remained intense. The line losses in the fixed network in the first nine months of 2016 were significantly less than the line losses over the 2015 financial year of 360,000 (a decrease of 2.2 percent), compared to the line losses over the 2014 financial year, which totaled 663,000 (a decrease of 3.9 percent) resulting from customers switching primarily to cable network operators and regional providers. We migrated 1.2 million customers to IP-based retail lines in the first nine months of 2016, 2.1 million over the 2015 financial year and 2.0 million over the 2014 financial year. We gained 134,000 new television customers (corresponding to 5.4 percent) over the first nine months of 2016, 238,000 (corresponding to 10.6 percent) over the 2015 financial year and 253,000 (corresponding to 12.6 percent) over the 2014 financial year. Of the 10.4 million broadband lines as of September 30, 2016, around 3.3 million customers used fiber-optic lines — an increase of 786,000, or 31.1 percent, over the course of the first nine months of 2016. Over the 2015 and 2014 financial years, the use of fiber-optic lines increased by 983,000, or 63.5 percent, and 483,000, or 45.4 percent, respectively.

Business Customers

In the first nine months of 2016, the positive trend experienced in the prior year in our "Business Customers" category continued. We recorded 1.0 million mobile customer additions (an increase of 9.2 percent) over the first nine months of 2016, of which 239,000 were high-value contract customers. We also recorded increases in mobile customers over the 2015 and 2014 financial years, with 1.4 million additions (an increase of 14.5 percent), of which 165,000 high-value contract customers, over 2015 and 1.2 million additions (an increase of 14.3 percent), of which 362,000 high-value contract customers, over 2014. In mobile Internet, customers are increasingly opting for plans with more bandwidth, in conjunction with higher-quality terminal equipment. In a very aggressively priced market, we added 803,000 new M2M SIM cards (an increase of 16.2 percent) over the first nine months of 2016, 1.3 million (an increase of 34.6 percent) over the 2015 financial year and 877,000 (an increase of 31.4 percent) over the 2014 financial year. This growth was due to the increased use of SIM cards, especially in the automotive and logistics industries. As of September 30, 2016, the number of customers with fixed-network lines declined slightly compared with the end of 2015, following slight decreases of 1.9 percent over the 2015 financial year and 1.2 percent over the 2014 financial year. As of September 30, 2016, broadband lines remained on the same level as at the end of 2015 and 2014 at 2.1 million, with the number of fiber-optic lines increasing by 36.4 percent over the first half of 2016, 55.2 percent over 2015 and 37.8 percent over 2014.

In the first nine months of 2016, there was a positive trend in the demand for IT cloud products, where we recorded revenue growth of 9.7 percent. We also recorded growth in new IP-based products from our DeutschlandLAN product range, such as IP Start and IP Voice/Data. In 2015, products in the area of connected work developed positively, including growth in new IP-based products from our DeutschlandLAN product range, such as IP Start and IP Voice/Data. In 2014, we recorded further growth in our rate plans "Deutschland LAN — Complete Solution for your Office". In data communications, we significantly increased the numbers 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

As of September 30, 2016, the total number of lines in the wholesale sector increased slightly compared with the end of 2015 to 11.5 million, following a stable trend overall at 11.3 million over the course of the 2015 and 2014 financial years. Fiber-optic lines accounted for 19.7 percent of all lines as of September 30, 2016 (6.9 percentage points higher than at the end of 2015), 12.8 percent of all lines at the end of 2015 (6.4 percentage points higher than the end of 2014) and 6.4 percent of all lines at the end of 2014. Our wholesale unbundled lines grew strongly by 890,000, or 29.5 percent, over the first nine months of 2016, by 862,000, or 40.0 percent, over the 2015 financial year and by 589,000, or 37.7 percent, over the 2014 financial year. The growth was primarily attributable to the strong demand in connection with our contingent model, which consists of long-term contracts with defined advance payment and minimum purchase requirements as well as reduced monthly charges for VDSL, thereby allowing resellers to provide offers to their own consumers without having to invest in fiber-optic lines of their own. By contrast, the number of bundled wholesale lines

decreased by 48,000 over the first nine months of 2016, by 78,000 over the 2015 financial year and by 85,000 over the 2014 financial year. This trend is likely to continue for the next few years due to the fact that our competitors are switching from bundled to unbundled wholesale products with more bandwidth, or to their own infrastructure. The number of unbundled local loop lines decreased by 619,000, or 7.7 percent, over the first nine months of 2016, by 751,000, or 8.5 percent, over the 2015 financial year and by 456,000, or 4.9 percent, over the 2014 financial year. This decrease was due to the move to higher-quality fiber-optic wholesale lines, as well as to retail customers switching to cable operators. In addition, wholesale customers are migrating their retail customers to their own fiber-optic lines and in some cases also to mobile-based lines.

Development of Operations

	Q1 – Q3 2016	Q1 – Q3 2015	Change		2015
		(millions of €)		(%)	(millions of €)
	(unaudited)				
Total revenue[1]	**16,409**	**16,762**	**(353)**	**(2.1)**	**22,421**
Consumers	8,752	9,112	(360)	(4.0)	12,146
Business Customers	4,387	4,432	(45)	(1.0)	5,942
Wholesale	2,812	2,760	52	1.9	3,685
Other	458	458	0	0.0	648
Profit from operations (EBIT)	3,146	3,573	(427)	(12.0)	4,490
Depreciation, amortization and impairment losses	(2,849)	(2,800)	(49)	(1.8)	(3,755)
EBITDA	5,995	6,373	(378)	(5.9)	8,245
Special factors affecting EBITDA[2]	(660)	(331)	(329)	(99.4)	(545)
Adjusted EBITDA	**6,655**	**6,704**	**(49)**	**(0.7)**	**8,790**
Cash capex	**(2,900)**	**(4,644)**	**1,744**	**37.6**	**(5,609)**

1 The Value-Added Services segment was dissolved as of January 1, 2016, and the revenue allocated to Consumers, Business Customers and Other. Prior-year figures have been adjusted accordingly.

2 For more information on special factors affecting EBITDA, see "*Development of Business in the Group—Results of Operations of the Group—Reconciliation of EBITDA and adjusted EBITDA*".

	2015	2014	Change		2013
		(millions of €)		(%)	(millions of €)
	(unaudited)				
Total revenue[1]	**22,421**	**22,257**	**164**	**0.7**	**22,435**
Consumers	12,095	11,970	125	1.0	12,122
Business Customers	5,781	5,726	55	1.0	5,676
Wholesale	3,755	3,775	(20)	(0.5)	3,811
Value-Added Services	226	242	(16)	(6.6)	288
Other	564	544	20	3.7	538
Profit from operations (EBIT)	4,490	4,663	(173)	(3.7)	4,435
Depreciation, amortization and impairment losses	(3,755)	(3,893)	138	3.5	(3,966)
EBITDA	8,245	8,556	(311)	(3.6)	8,401
Special factors affecting EBITDA[2]	(545)	(254)	(291)	n.a.	(535)
Adjusted EBITDA	**8,790**	**8,810**	**(20)**	**(0.2)**	**8,936**
Cash capex	**(5,609)**	**(3,807)**	**(1,802)**	**(47.3)**	**(3,411)**

n.a. – not applicable

1 The Value-Added Services segment was dissolved as of January 1, 2016, and the revenue allocated to Consumers, Business Customers and Other. Prior-year figures have not been adjusted.

1 For more information on special factors affecting EBITDA, see "*Development of Business in the Group—Results of Operations of the Group—Reconciliation of EBITDA and adjusted EBITDA*".

Total Revenue

2016 First Nine Months

Total revenue decreased by 2.1 percent compared with the prior-year period. This development was mainly driven by non-contract terminal equipment revenue in mobile business. Mobile business declined by 4.6 percent, due in particular to a decline in terminal equipment revenue. Increased IT revenues had a positive impact on fixed-network

revenue development. However, this was not sufficient to completely offset declines in other areas, such that revenue in the fixed-network business decreased by 1.6 percent.

Revenue from Consumers decreased by 4.0 percent year-on-year. Volume-related revenue decreases continued to dominate traditional fixed-network business, which declined by 2.0 percent, mainly due to lower variable charges and voice revenue. By contrast, revenue from broadband business increased by 1.7 percent. Mobile revenues decreased by 6.1 percent, driven mainly by the decline in terminal equipment business. Our mobile service revenues declined by 0.3 percent compared with the prior-year level, with the increase in service revenues under the "congstar" brand almost offsetting the decline in revenue from prepay business.

Revenue from Business Customers decreased by 1.0 percent, mainly due to falling mobile revenues, which decreased by 1.1 percent. This decrease was primarily driven by service revenues. Fixed-network revenue from traditional voice telephony also declined. By contrast, there was a positive trend in IT revenues, although this was not sufficient to offset the revenue losses in other areas.

Wholesale revenue increased by 1.9 percent on the prior-year level, primarily due to higher revenue from unbundled lines, mainly as a result of the contingent model.

2015 Financial Year

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

Revenue from Consumers increased by 1.0 percent compared with 2014. Volume- and price-related revenue decreases continued to dominate traditional fixed-network business, which declined by 2.7 percent. Revenue from broadband business continued to grow, increasing by 0.3 percent in 2015. The 5.8 percent revenue growth in mobile business more than compensated for the reductions in the fixed-network business. The increase was primarily attributable to increased terminal equipment revenue from the marketing of smartphones. Our mobile service revenues edged up 0.5 percent in 2015. Data revenue grew by 5.9 percent. By contrast, there was a negative trend in prepay revenues, especially from our Telekom brand.

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

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

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

2014 Financial Year

The total 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, these 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 category and our "congstar" brand 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 was primarily due to volume reductions regarding interconnection calls and lines, which were partially offset by a 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

<u>2016 First Nine Months</u>

In the first nine months of 2016, EBITDA adjusted for special factors decreased by 0.7 percent year-on-year to EUR 6.7 billion, due entirely to lower revenue, partly compensated by lower interconnection costs and decreasing costs for losses on sales of receivables. Higher employee-related costs were partially offset by efficiency enhancement measures.

EBITDA amounted to EUR 6.0 billion in the first nine months of 2016, a decline of 6.0 percent against the prior-year period, due mainly to higher special factors for expenses in connection with our staff restructuring. In particular, the number of our civil servants opting for early retirement was substantially higher in 2016.

<u>2015 Financial Year</u>

In 2015, EBITDA adjusted for special factors decreased slightly by 0.2 percent year-on-year to EUR 8.8 billion, mainly due to higher personnel costs in connection with collectively agreed pay increases and the increased use of personnel for our network build-out and the IP migration. These effects were partially offset by focused cost control, which was reflected in lower loss of receivables and a slight reduction in indirect costs (without personnel costs).

EBITDA amounted to EUR 8.2 billion in 2015, a decline of 3.6 percent against the prior year, due in particular to higher special factors for expenses in connection with our staff restructuring.

<u>2014 Financial Year</u>

In 2014, EBITDA adjusted for special factors decreased slightly by 1.4 percent year-on-year 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. Efficiency measures as well as increased capitalized labor due to the network build-out partly compensated personnel expenses.

Higher market investments in mobile communications, driven among other things by the intensified marketing of smartphones, also had an adverse effect on adjusted EBITDA. EBITDA in 2014 amounted to EUR 8.6 billion, an increase of 1.8 percent compared to 2013, due in particular to higher special factors for our staff restructuring in the previous year.

Profit from Operations

<u>2016 First Nine Months</u>

In the first nine months of 2016, profit from operations decreased by 12.0 percent year-on-year to EUR 3.1 billion. This was mainly attributable to higher expenses incurred in connection with staff-related measures. Profit from operations was also reduced by a slight increase in depreciation, amortization and impairment losses.

<u>2015 Financial Year</u>

In 2015, profit from operations decreased by 3.7 percent to EUR 4.5 billion compared with 2014. This was mainly attributable to higher expenses incurred in connection with staff-related measures and non-staff-related restructuring expenses, partially offset by a 3.5 percent decrease in depreciation and amortization.

2014 Financial Year

In 2014, profit from operations 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

2016 First Nine Months

In the first nine months of 2016, cash capex decreased by EUR 1.7 billion compared with the first nine months of 2015, due in particular to the acquisition of spectrum at auction in June 2015. Excluding spectrum investment, cash capex was EUR 0.2 billion lower year-on-year. We again made significant investments in the vectoring and fiber-optic cable roll-out, our IP transformation, and our LTE infrastructure as part of our integrated network strategy.

2015 Financial Year

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

2014 Financial Year

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

United States

Our United States operating segment combines all mobile activities in the U. S. market. For more information on our segments, see "*Description of our Business and Operations—Group Organization—Organization*".

Customer Development

The following tables provide information on our mobile operations in the United States.

	September 30, 2016	Dec. 31, 2015	Change September 30, 2016/ Dec. 31, 2015	September 30, 2015	Change September 30, 2016/ September 30, 2015
	(in thousands)		(%)	(in thousands)	(%)
United States					
Mobile customers	69,354	63,282	9.6	61,220	13.3
Branded customers[1]	52,502	49,326	6.4	47,565	10.4
Branded postpaid[1]	33,230	31,695	4.8	30,403	9.3
Branded prepay[1]	19,272	17,631	9.3	17,162	12.3
Wholesale customers[1]	16,852	13,956	20.8	13,655	23.4

1 On September 1, 2016 T-Mobile US sold its marketing and distribution rights to certain of T-Mobile US' existing co-branded customers to a current wholesale partner for nominal consideration (the "MVNO Transaction"). Upon the sale, the transaction resulted in a transfer of 1,365,000 branded postpaid customers and 326,000 branded prepay customers to wholesale customers. Prospectively from September 1, 2016, net customer additions for these customers are included within wholesale customers. Ending customers as of September 30, 2016 reflect the transfers in connection with the transaction.

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

At September 30, 2016, the United States operating segment (T-Mobile US) had 69.4 million customers, an increase of 6.1 million, or 9.6 percent, compared to the end of 2015. As of December 31, 2015, T-Mobile US had 63.3 million customers, an increase of 8.3 million, or 15.0 percent, compared to the end of 2014. 2015 marked the second consecutive year that T-Mobile US added more than 8.0 million total net customer additions, making it a leader in the U. S. wireless industry in total new customers per annum. As of December 31, 2014, T-Mobile US had 55.0 million customers compared to 46.7 million customers at December 31, 2013. This increase of 8.3 million net customers in 2014 was an improvement compared to a net increase of 4.4 million in 2013 (in each case not including 8.9 million customers acquired in connection with the closing of the business combination with MetroPCS).

Branded Customers

For the nine months ended September 30, 2016, branded postpaid net customer additions (excluding the sale of marketing and distribution rights to certain of T-Mobile US' existing co-branded customers to a current wholesale partner (the "MVNO Transaction")) were 2,900,000, an increase of 4.8 percent compared to the end of 2015, driven by strong customer response to T-Mobile US's continued "Un-carrier" initiatives, ongoing improvements to network quality and promotional activities. Branded postpaid net customer additions for the nine months ended September 30, 2016 were lower compared to the 3,218,000 recorded in the nine months ended September 30, 2015, primarily due to higher deactivations resulting from a growing branded postpaid customer base, partially offset by a lower branded postpaid churn rate as well as an increase in the number of qualified branded prepay customers migrating to branded postpaid plans.

For the nine months ended September 30, 2016, branded prepay net customer additions (excluding the MVNO Transaction) were 1,967,000, an increase of 9.3 percent compared to the end of 2015. The increase compared to the 846,000 branded prepay net customer additions for the nine months ended September 30, 2015 was primarily attributable to the success of the MetroPCS brand promotional activities and continued growth in new markets, partially offset by an increase in the number of qualified branded prepay customers migrating to branded postpaid plans.

For the year ended December 31, 2015, branded postpaid net customer additions were 4,510,000 compared to 4,886,000 branded postpaid net customer additions for the year ended December 31, 2014. Branded postpaid net customer additions remained strong in 2015, driven by positive customer response to T-Mobile US's "Un-carrier" initiatives such as "JUMP! On Demand" and "Data Stash, which are aimed at eliminating customer pain points from the unnecessary complexity of the wireless communication industry, ongoing network improvements and promotional activities. Branded postpaid net customer additions in 2015 were lower compared to 2014, which included the introduction of Un-carrier 4.0 Contract Freedom and certain family rate plan promotions. Approximately 765,000 qualified branded prepay customers upgrading to branded postpaid plans in 2015 were included in the branded postpaid net customer additions, compared to approximately 420,000 in 2014.

For the year ended December 31, 2015, branded prepay net customer additions were 1,315,000 compared to 1,244,000 branded prepay net customer additions for the year ended December 31, 2014. The increase was primarily attributable to higher gross customer additions driven by T-Mobile US's MetroPCS brand promotional activities and expansion into additional markets. Approximately 765,000 qualified branded prepay customers upgrading to branded postpaid plans in 2015 were included in the branded prepay net customer additions, compared to approximately 420,000 in 2014.

For the year ended December 31, 2014, branded postpaid net customer additions were 4,886,000 compared to 2,006,000 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 T-Mobile US'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.

For the year ended December 31, 2014, branded prepay net customer additions were 1,244,000 compared to 328,000 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

For the nine months ended September 30, 2016, wholesale net customer additions (excluding the MVNO Transaction) were 1,205,000, an increase of 20.8 percent compared to the end of 2015. The decrease compared to

wholesale net customer additions of 2,138,000 for the nine months ended September 30, 2015 was primarily attributable to higher deactivations resulting from a growing customer base and lower gross customer additions.

For the year ended December 31, 2015, wholesale net customer additions were 2,439,000 compared to wholesale net customer additions of 2,204,000 for the year ended December 31, 2014. The increase was primarily attributable to higher MVNO gross customer additions, partially offset by higher MVNO deactivations.

For the year ended December 31, 2014, wholesale net customer additions were 2,204,000 compared to 2,043,000 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 decrease in MVNO net customer additions driven by higher churn.

Development of Operations

	Q1 – Q3 2016	**Q1 – Q3 2015**	**Change**		**2015**
	(millions of €)			**(%)**	**(millions of €)**
	(unaudited)				
Total revenue	**24,293**	**21,407**	**2.886**	**13.5**	**28,925**
Profit from operations (EBIT)	2,703	1,538	1.165	75.7	2,454
Depreciation, amortization and impairment losses	(3,929)	(2,622)	(1.307)	(49.8)	(3,775)
EBITDA	6,632	4,160	2.472	59.4	6,229
Special factors affecting EBITDA[1]	396	(419)	815	n.a.	(425)
Adjusted EBITDA	**6,236**	**4,579**	**1.657**	**36.2**	**6,654**
Cash capex	**(4,678)**	**(5,062)**	**384**	**7.6**	**(6,381)**

n.a. – not applicable

[1] For more information on special factors affecting EBITDA, see "*Development of Business in the Group—Results of Operations of the Group—Reconciliation of EBITDA and adjusted EBITDA*".

	2015	**2014**	**Change**		**2013**
	(millions of €)			**(%)**	**(millions of €)**
	(unaudited, except as otherwise indicated)				
Total revenue[1]	**28,925**	**22,408**	**6,517**	**29.1**	**18,556**
Profit from operations (EBIT)	2,454	1,405	1,049	74.7	1,404
Depreciation, amortization and impairment losses	(3,775)	(2,839)	(936)	(33.0)	(2,238)
EBITDA	6,229	4,244	1,985	46.8	3,642
Special factors affecting EBITDA[2]	(425)	(52)	(373)	n.a.	(232)
Adjusted EBITDA	**6,654**	**4,296**	**2,358**	**54.9**	**3,874**
Cash capex	**(6,381)**	**(5,072)**	**(1,309)**	**(25.8)**	**(3,279)**

n.a. – not applicable

[1] Audited.

[2] For more information on special factors affecting EBITDA, see "*Development of Business in the Group—Results of Operations of the Group—Reconciliation of EBITDA and adjusted EBITDA*".

Total Revenue

2016 First Nine Months

Total revenue for the United States operating segment of EUR 24.3 billion in the first nine months of 2016 increased by 13.5 percent compared to EUR 21.4 billion in the first nine months of 2015. In U.S. dollars (*i.e.*, before exchange rate effects), T-Mobile US's total revenues increased by 13.7 percent year-on-year due primarily to service revenue growth resulting from increases in the customer base from the strong customer response to T-Mobile US's " Un-carrier" initiatives, the success of MetroPCS promotional activities and continued growth in new markets. Equipment revenues increased due primarily to higher lease revenues resulting from the launch of the "JUMP! On Demand" program at the end of the second quarter of 2015. The increase in equipment revenues was also driven by an increase in the number of devices and accessories sold, partially offset by a lower average revenue per device sold resulting from

promotions for devices and the impact of the “JUMP! On Demand” program launched at the end of the second quarter of 2015.

2015 Financial Year

Total revenue for the United States operating segment of EUR 28.9 billion in 2015 increased by 29.1 percent compared to EUR 22.4 billion in 2014, substantially due to fluctuations in the currency exchange rate. In U. S. dollars, T-Mobile US’s total revenues increased by 8.1 percent in 2015, primarily due to service revenue growth resulting from increases in the customer base from the continued success of T-Mobile US’s “Un-carrier” initiatives and strong customer response to promotional activities targeting families. Equipment revenues decreased, primarily attributable to a lower average revenue per device sold, due in part to the impact of customers shifting to leasing higher-end devices with “JUMP! On Demand”. This decrease in equipment revenues was partially offset by growth in the number of devices and accessories sold.

2014 Financial Year

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, primarily due 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, primarily due to an increase in the average number of branded postpaid customers driven by the continued success of T-Mobile US’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

2016 First Nine Months

Adjusted EBITDA increased by 36.2 percent to EUR 6.2 billion in the first nine months of 2016, compared to EUR 4.6 billion in the first nine months of 2015. In U.S. dollars (*i.e.*, before exchange rate effects), adjusted EBITDA increased by 36.9 percent in the first nine months of 2016 compared to the first nine months of 2015. Adjusted EBITDA was positively impacted by increased branded postpaid and prepay service revenues resulting from strong customer response to T-Mobile US’s “ Un-carrier” initiatives and the ongoing success of promotional activities. Lower losses on equipment sales were driven by the impact of customers leasing devices with JUMP! On Demand as the related costs of leased devices were capitalized and depreciated over the lease term and excluded from adjusted EBITDA. Additionally, focused cost control and synergies realized from the decommissioning of the MetroPCS Code Division Multiple Access (CDMA) network contributed to the adjusted EBITDA increase during the first nine months of 2016. These effects were partially offset by an increase in costs to support T-Mobile US’s growing total customer base, including higher employee-related costs, higher commissions driven by an increase in T-Mobile US’s branded customer additions and higher promotional costs.

Adjusted EBITDA in the first nine months of 2016 excludes EUR 0.4 billion of special factors primarily related to non-cash gains from spectrum license transactions, partially offset by costs relating to the decommissioning of the MetroPCS CDMA network and stock-based compensation costs. Overall, EBITDA increased to EUR 6.6 billion in the first nine months of 2016, compared to EUR 4.2 billion in the first nine months of 2015 due to the factors described above, including the impact of special factors.

2015 Financial Year

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

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

2014 Financial Year

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 T-Mobile US'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 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.

Profit from Operations

2016 First Nine Months

Profit from operations increased to EUR 2.7 billion in the first nine months of 2016, compared to EUR 1.5 billion in the first nine months of 2015. This was driven by higher adjusted EBITDA, partially offset by higher depreciation expense from devices leased under T-Mobile US's "JUMP! On Demand" program launched at the end of the second quarter of 2015 as well as increases resulting from the build-out of T-Mobile US's 4G/LTE network resulted in increased depreciation expense in the first nine months of 2016.

2015 Financial Year

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

2014 Financial Year

In 2014, profit from operations 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

2016 First Nine Months

Cash capex decreased 7.6 percent to EUR 4.7 billion in the first nine months of 2016, compared to EUR 5.1 billion in the first nine months of 2015, primarily due to EUR 2.2 billion of spectrum licenses acquired primarily through the U.S. FCC auction in January 2015, offset by payments of EUR 1.2 billion for the acquisition of spectrum licenses during the first nine months of 2016 as T-Mobile US continued to invest in network capex for the build-out of the 4G/LTE network.

2015 Financial Year

Cash capex increased 25.8 percent to EUR 6.4 billion in 2015 compared to EUR 5.1 billion in 2014, primarily due to the build-out of the 4G/LTE network. Additionally, in 2015, T-Mobile US purchased AWS and 700 MHz A-Block spectrum licenses totaling EUR 2.2 billion, of which the majority was related to the AWS spectrum licenses acquired through the U. S. FCC auction in January 2015.

2014 Financial Year

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

Europe

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. For more information on our Europe segment, see "*Description of our Business and Operations—Group Organization—Organization*".

Customer Development

The following table provides information on our fixed-line and mobile operations in our Europe operating segment.

	September 30, 2016	Dec. 31, 2015	Change September 30, 2016/ Dec. 31, 2015	September 30, 2015	Change September 30, 2016/ September 30, 2015
	(in thousands)	(in thousands)	(%)	(in thousands)	(%)
Europe, total[1, 3]					
Mobile customers[2]	52,211	52,737	(1.0)	56,246	(7.2)
Fixed-network lines	8,599	8,763	(1.9)	8,798	(2.3)
Of which: IP-based	4,757	4,132	15.1	3,973	19.7
Retail broadband lines	5,352	5,189	3.1	5,122	4.5
Television (IPTV, satellite, cable)	4,010	3,905	2.7	3,832	4.6
Unbundled local loop lines (ULLs)/wholesale PSTN	2,234	2,239	(0.2)	2,241	(0.3)
Wholesale bundled lines	122	121	0.8	121	0.8
Wholesale unbundled lines	237	199	19.1	181	30.9
Greece					
Mobile customers	7,666	7,399	3.6	7,428	3.2
Fixed-network lines	2,569	2,586	(0.7)	2,577	(0.3)
Broadband lines	1,646	1,531	7.5	1,480	11.2
Romania					
Mobile customers	5,869	5,992	(2.1)	5,905	(0.6)
Fixed-network lines	1,998	2,091	(4.4)	2,117	(5.6)
Broadband lines	1,198	1,186	1.0	1,181	1.4
Hungary[3]					
Mobile customers	5,301	5,504	(3.7)	5,482	(3.3)
Fixed-network lines	1,650	1,674	(1.4)	1,677	(1.6)
Broadband lines	1,044	1,023	2.1	1,010	3.4
Poland[1]					
Mobile customers	11,221	12,056	(6.9)	15,696	(28.5)
Fixed-network lines	20	18	11.1	17	17.6
Broadband lines	16	15	6.7	13	23.1
Czech Republic					
Mobile customers	6,002	6,019	(0.3)	5,981	0.4
Fixed-network lines	147	154	(4.5)	147	-
Broadband lines	133	134	(0.7)	138	(3.6)
Croatia					
Mobile customers	2,332	2,233	4.4	2,323	0.4
Fixed-network lines	1,004	1,004	-	1,020	(1.6)
Broadband lines	771	741	4.0	733	5.2
Netherlands					
Mobile customers	3,703	3,677	0.7	3,686	0.5
Slovakia					
Mobile customers	2,226	2,235	(0.4)	2,204	1.0
Fixed-network lines	847	855	(0.9)	858	(1.3)
Broadband lines	625	599	4.3	587	6.5
Austria					
Mobile customers	4,365	4,323	1.0	3,962	10.2
Other[4]					
Mobile customers	3,525	3,299	6.9	3,579	(1.5)
Fixed-network lines	364	381	(4.5)	385	(5.5)
Broadband lines	284	285	(0.4)	289	(1.7)

[1] In the fourth quarter of 2015, the number of mobile customers in Poland decreased by 3,838,000 in connection with the deactivation of inactive prepaid SIM cards.

[2] We count our mobile communications customers by the number of SIM cards activated and not churned. Our customer figures include the SIM cards with which machines can communicate with one another ("M2M"). In general, one SIM card corresponds to one customer. Twin cards (more than one SIM card with the same number and without any additional charge) are also accounted for as one customer. We count contract customers as customers for the length of their contracts and count prepay customers as customers as long as they continue to use our services, and then for a

prescribed period thereafter, which differs by country. Generally, in the case of payment default or voluntary disconnection, the customers are cancelled or "churned" or, in case of no action on the part of the customer at the end of the period, the contract is prolonged.

3 Business customer operations at Magyar Telekom in Hungary, which had previously been organizationally assigned to the Systems Solutions operating segment, have been bundled and reported under the Europe operating segment since January 1, 2016. The comparative figures as of September 30, 2015 and December 31, 2015 have been adjusted retrospectively.

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

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

n.a. – not applicable

1 In the fourth quarter of 2015, the number of mobile customers in Poland decreased by 3,838,000 in connection with the deactivation of inactive prepaid SIM cards.

2 Business customer operations at Magyar Telekom in Hungary, which had previously been organizationally assigned to the Systems Solutions operating segment, have been bundled and reported under the Europe operating segment since January 1, 2016. The figures as of December 31, 2015, 2014 and 2013 have not been adjusted retrospectively.

3 We count our mobile communications customers by the number of SIM cards activated and not churned. Our customer figures include the SIM cards with which machines can communicate with one another ("M2M"). In general, one SIM card corresponds to one customer. Twin cards (more than one SIM card with the same number and without any additional charge) are also accounted for as one customer. We count contract customers as customers for the length of their contracts and count prepay customers as customers as long as they continue to use our services, and then for a prescribed period thereafter, which differs by country. Generally, in the case of payment default or voluntary disconnection, the customers are cancelled or "churned" or, in case of no action on the part of the customer at the end of the period, the contract is prolonged.

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

[5] Other: national companies of Albania, the F.Y.R.O. Macedonia, and Montenegro, as well as the lines of the GTS Central Europe group in Romania.

Total

In the first nine months of 2016 and over the course of the 2015 financial year, the national companies of our Europe operating segment faced the challenge of a highly competitive market environment. Thanks to our convergent product portfolio Magenta ONE we had around 1.2 million FMC customers as of September 30, 2016, 35.0 percent more than as of the end of December 2015. We are currently rolling out fast, fiber-optic lines (FTTH, FTTB and FTTC) in the fixed network. In mobile communications, we already offer our customers in a number of countries transmission rates of up to 375 Mbit/s via LTE Advanced/4G+. In the contract customer segment, we recorded an increase of 1.7 percent compared with the end of 2015, which we attribute to our high speed services combined with a broad rate portfolio that includes the latest and most high-performance smartphones. As part of our pan-European network strategy, we also increased the number of IP lines following the successful migration from traditional PSTN lines to IP technology.

Over the course of 2014, there was a varied picture in the development of customer numbers in the markets of our Europe operating segment. While 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 level in 2013, 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 brought positive returns. In the broadband sector, for example, 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 became increasingly popular with our customers. Our TV business also benefited 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.

Mobile Communications

As of September 30, 2016, we had a total mobile customer base of 52.2 million, a slight decline of 1.0 percent compared with the end of 2015. This decline was attributable to customer losses in the prepay business, which remained under pressure due to intense competition. In addition, the prepay registration requirement introduced by the Polish government at the end of July 2016 also had a negative impact on the prepay segment. In line with our strategy of focusing on high-value contract customers, we recorded a slight increase of 1.7 percent in this segment, which corresponds to growth of around 460,000 customers. Thus, in the third quarter of 2016, we maintained the growth trend in the contract customer business from the first two quarters. Overall, the number of contract customers increased compared with year-end 2015 to 26.9 million. Almost all of our national companies contributed to this result, in particular Austria, the Netherlands, and Romania. At September 30, 2016, contract customers accounted for 51.6 percent of the total customer base.

A major element in our strategy for Europe is to build out our 4G/LTE network. As of September 30, 2016, we covered 78 percent of the population in the countries of our operating segment with LTE, thus reaching more than 101 million people in total. By 2018, we are targeting a total network coverage of between 75 and 95 percent. Not only the high level of data volumes used, but also the sales figures for mobile devices indicate that our customers actually use these high bandwidths, with smartphones accounting for a high proportion — 78 percent — of all mobile devices sold as of the September 30, 2016.

Over the course of 2015, we had a total mobile customer base of 52.2 million, a decrease of 6.8 percent compared to the end of 2014. This decrease was attributable to the prepay business, especially in Poland, where inactive prepaid SIM cards were deactivated. Another factor was the intense competition, particularly in the prepay business in our European mobile markets. The high-value contract customer business developed encouragingly, enabling us to expand our customer base by 2.0 percent compared with 2014. The majority of our national companies contributed to this increase, with Austria and Romania in particular achieving double-digit growth rates. As a result, the contract customer share of the total customer base increased to just under 50 percent. Since 2015, we had also been marketing LTE to our customers in Albania, and thus since then have offered this technology in all of our national companies. As of the end of 2015, we already covered 71 percent of the population in the countries of our operating segment with LTE, thus reaching some 92 million people in total.

As of the end of 2014, we had about 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 the segment level compared with the prior year. In the contract customer business with about 25.4 million customers in total as of the end of 2014, 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 in consumer numbers (excluding customers managed under the Simpel brand). Almost all countries of our operating segment made a positive contribution to this growth. At the end of 2014, 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

Our TV and entertainment offerings have evolved into an important pillar of the consumer business. Thus, in the first nine months of 2016, the number of TV customers increased slightly year-on-year by 2.7 percent to 4.0 million. Compared with the first nine months of 2015, the number of TV customers increased by 4.6 percent, with the majority of the 178,000 net additions being in Greece, Romania, Hungary, and Slovakia. In 2015, our TV customer base grew by 5.1 percent year-on-year to 3.9 million, with the majority of the 190,000 net additions being customers in Greece, Romania, Hungary, and Slovakia. As of December 31, 2014, the total customer base increased by 6.0 percent to 3.7 million, with the majority of the 211,000 net additions being satellite TV customers (especially in Greece), IPTV customers (especially in Hungary) and cable TV customers in Romania.

As an integrated telecommunications provider, we are offering the convergent product Magenta ONE to customers in all our integrated countries. As of September 30, 2016, we had about 1.2 million FMC customers, an increase of 35.0 percent compared to the end of 2015. Greece, Romania, and Croatia in particular contributed to this growth. After focusing on the consumer segment, we are now also extending the Magenta ONE offering to the business customer segment. As of the third quarter of 2016, we also offer Magenta ONE Business in Montenegro in addition to Slovakia, Hungary, Romania, the F.Y.R.O. Macedonia, Croatia and Greece. The technical basis for FMC products is a simplified and standardized network; this requires the national companies with a fixed-network architecture to migrate to IP technology. The IP migration in Slovakia and the F.Y.R.O. Macedonia in 2014 was followed by Montenegro and Croatia in 2015. The conversion to IP technology in Hungary was already well advanced as of September 30, 2016 and the migration of PSTN lines was completed in the fourth quarter of 2016. As of September 30, 2016, we recorded 4.8 million IP-based lines – an increase of 15.1 percent compared with the end of 2015 (December 31, 2015: 4.1 million, 17.6 percent increase; December 31, 2014: 3.5 million, 41.0 percent increase). At the segment level, IP-based lines accounted for 55.3 percent of all lines as of September 30, 2016, significantly more than PSTN-based lines (December 31, 2015: 47.1 percent; December 31, 2014: 38.6 percent). As of September 30, 2016, 8.6 million customers in our Europe operating segment were using a fixed-network line, 1.9 percent fewer than at the end of 2015 (December 31, 2015: 8.7 million, 3.7 percent decrease; December 31, 2014: 9.0 million, 2.7 percent decrease). The main reason for this decline is line losses in traditional telephony (PSTN).

The number of retail broadband lines continued to grow apace, increasing by 3.1 percent to 5.4 million over the first nine months of 2016, by 3.7 percent to 5.2 million over 2015 and by 5.3 percent to about 5.0 million over 2014. Thanks to the high proportion of DSL technology in the last few quarters, the number of broadband lines has grown steadily. Household coverage with optical fiber increased overall, reaching 23 percent as of September 30, 2016, compared with 19 percent at the end of 2015. By 2018, we are targeting 50 percent of households in our integrated national companies having access to fiber-optic lines (FTTx), *i.e.*, transmission rates of up to 100 Mbit/s.

Development of Operations

	Q1 – Q3 2016	Q1 – Q3 2015[1]	Change		2015[1]
		(millions of €)		(%)	(millions of €)
			(unaudited)		
Total revenue[2]	**9,409**	**9,627**	**(218)**	**(2.3)**	**13,024**
Greece	2,131	2,117	14	0.7	2,878
Romania	718	721	(3)	(0.4)	984
Hungary	1,226	1,330	(104)	(7.8)	1,848
Poland	1,094	1,158	(64)	(5.5)	1,544
Czech Republic	701	699	2	0.3	958
Croatia	688	682	6	0.9	909
Netherlands	975	1,054	(79)	(7.5)	1,394
Slovakia	564	571	(7)	(1.2)	783
Austria	635	609	26	4.3	829
Other[3]	859	850	9	1.1	1,136
Profit from operations (EBIT)	1,129	1,183	(54)	(4.6)	1,476
Depreciation, amortization and impairment losses	(1,926)	(1,903)	(23)	(1.2)	(2,632)
EBITDA	3,055	3,086	(31)	(1.0)	4,108
Special factors affecting EBITDA[4]	(69)	(168)	99	58.9	(221)
Adjusted EBITDA[2]	**3,124**	**3,254**	**(130)**	**(4.0)**	**4,329**
Greece	834	827	7	0.8	1,118
Romania	129	152	(23)	(15.1)	205
Hungary[2]	415	402	13	3.2	526
Poland	345	439	(94)	(21.4)	580
Czech Republic	302	285	17	6.0	390
Croatia	280	273	7	2.6	367
Netherlands	281	382	(101)	(26.4)	500
Slovakia	240	232	8	3.4	296
Austria	217	195	22	11.3	259
Other[3]	80	67	13	19.4	88
Cash capex	**(2,307)**	**(1,204)**	**(1.103)**	**(91.6)**	**(1,667)**

[1] Business customer operations at Magyar Telekom in Hungary, which had previously been organizationally assigned to the Systems Solutions operating segment, have been bundled and reported under the Europe operating segment since January 1, 2016. The comparative figures for the first nine months of the financial year 2015 and the full financial year 2015 have been adjusted retrospectively.

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

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

[4] For more information on special factors affecting EBITDA, see "*Development of Business in the Group—Results of Operations of the Group—Reconciliation of EBITDA and adjusted EBITDA*".

	2015[1]	2014[1]	Change		2013[1]
		(millions of €)		(%)	(millions of €)
	(unaudited, except as otherwise indicated)				
Total revenue[2, 3]	**12,718**	**12,972**	**(254)**	**(2.0)**	**13,704**
Greece	2,878	2,869	9	0.3	2,988
Romania	984	1,002	(18)	(1.8)	1,017
Hungary[4]	1,541	1,492	49	3.3	1,563
Poland[4]	1,544	1,492	52	3.5	1,584
Czech Republic[4]	958	862	96	11.1	973
Croatia	909	905	4	0.4	929
Netherlands	1,394	1,551	(157)	(10.1)	1,666
Slovakia	783	768	15	2.0	828
Austria	829	815	14	1.7	828
Other[4,5]	1,136	1,442	(306)	(21.2)	1,548
Profit from operations (EBIT)	1,450	1,704	(254)	(14.9)	972
Depreciation, amortization and impairment losses	(2,619)	(2,597)	(22)	(0.8)	(3,399)
EBITDA	4,069	4,301	(232)	(5.4)	4,371
Special factors affecting EBITDA[6]	(219)	(131)	(88)	(67.2)	(179)
Adjusted EBITDA[3]	**4,288**	**4,432**	**(144)**	**(3.2)**	**4,550**
Greece	1,118	1,138	(20)	(1.8)	1,165
Romania	205	266	(61)	(22.9)	283
Hungary[4]	485	445	40	9.0	438
Poland[3]	580	579	1	0.2	599
Czech Republic[4]	390	362	28	7.7	425
Croatia	367	365	2	0.5	404
Netherlands	500	630	(130)	(20.6)	495
Slovakia	296	310	(14)	(4.5)	337
Austria	259	211	48	22.7	192
Other[4,5]	90	125	(35)	(28.0)	216
Cash capex	**(1,652)**	**(2,101)**	**449**	**21.4**	**(3,661)**

[1] Business customer operations at Magyar Telekom in Hungary, which had previously been organizationally assigned to the Systems Solutions operating segment, have been bundled and reported under the Europe operating segment since January 1, 2016. The figures for the financial years 2015, 2014 and 2013 have not been adjusted retrospectively.

[2] Audited.

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

[4] As of January 1, 2015, the entities of the GTS Central Europe group in Poland and the Czech Republic were integrated in the respective national companies. The integration in Hungary became effective as of April 1, 2015.

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

[6] For more information on special factors affecting EBITDA, see "*Development of Business in the Group—Results of Operations of the Group—Reconciliation of EBITDA and adjusted EBITDA*".

Total Revenue

2016 First Nine Months

Our Europe operating segment generated total revenue of EUR 9.4 billion in the first nine months of 2016, a year-on-year decrease of 2.3 percent. In organic terms, *i.e.*, excluding the spin-off of the energy resale business in Hungary as of January 1, 2016 and assuming constant exchange rates, segment revenue stabilized at approximately the prior-year level. Excluding the development of business in the Netherlands, organic revenue in the Europe operating segment would have increased slightly by 0.4 percent on the prior-year level.

Decisions by regulatory authorities continued to impact our organic revenue in the first nine months of 2016 due to reduced mobile termination rates, especially in Hungary, as well as lower roaming charges in many countries of our Europe operating segment. Intense competition also had a negative impact in the telecommunications markets of our national companies.

The decline in revenue at the segment level was mitigated by the strategic growth areas, where revenue increased by 3.0 percent. Thus the growth areas accounted for 30.0 percent of segment revenue.

Revenue from mobile data business increased by 4.9 percent compared with the prior-year period to EUR 1.4 billion. Most countries of our operating segment made a contribution to this growth, especially the Austria, Czech Republic, Hungary and Croatia. The majority of absolute revenue growth from mobile data business was attributable to consumers. The use of data services, especially by contract customers, remained at a high level thanks to varied rate plans combined with a broad portfolio of terminal equipment as well as high bandwidths. Thanks to what we believe to be innovative TV and program management, the TV business continued its upward trend of the past few quarters. In the first nine months of 2016, TV revenue increased by 11.0 percent and accounted for approximately 40 percent of the revenue increases generated in the growth areas, making it the second biggest growth driver after the mobile data business. B2B/ICT revenues remained stable compared with the first nine months of the prior year. In addition to the growth areas, we recorded increases in revenue both in sales of mobile terminal equipment and in wholesale business, the latter of which was achieved mainly through a volume-driven increase in the termination of telephone calls.

Considered by country, the organic revenue trend was hit hardest by the decline in operations in the Netherlands in the first nine months of 2016. Reduced charges on account of the roaming regulation and competition-driven price reductions – both in voice telephony and in data business – had a negative impact on revenue development. There are signs of positive effects from a substantial increase in net customer additions in the third quarter of 2016. Increases in visitor revenues (revenues from third parties for roaming in our home network) also made a positive contribution to revenue.

Poland and Slovakia also recorded revenue losses on an organic basis. In Poland, revenue from mobile voice telephony declined on account of lower volumes as well as lower prices, due in particular to lower roaming charges. These decreases were only partially offset by higher revenues from visitors and from sales of mobile terminal equipment. As of September 30, 2016, Slovakia recorded an overall decline in total revenues, despite growth in mobile revenues. Lower revenues, mainly in the B2B/ICT business were only partially offset by the increase in revenue from TV business. The national companies in Hungary, Austria, and Greece made particularly positive contributions to organic segment revenue, thereby almost offsetting the declines.

2015 Financial Year

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

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

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

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

In terms of organic segment revenue by country, at the end of 2015, business in the Netherlands was hit hardest by absolute revenue declines, due in part to volume- and price-driven declines in voice telephony and in part to regulation in roaming business. Romania also recorded revenue losses in the fixed-network business, which were mainly attributable to a decline in revenue from voice telephony. In spite of a reduction in mobile termination rates in 2014 and

intense competition, especially in the prepay business, our mobile business in Romania sustained its prior-year level. In Poland and the Czech Republic, the positive effects of the integration of the GTS Central Europe group were clearly visible as fixed-network revenue increased. Poland's mobile business declined in 2015 due on the one hand to volume- and price-driven decreases in revenue from voice telephony and, on the other, to lower roaming revenues imposed by regulation. The Czech Republic also recorded a regulation-induced and price-driven decline in mobile revenue caused by more extensive use of flat-rate plans. Higher revenues, in particular in Hungary, increased segment revenue, as did the positive contributions to revenue in the fixed-network business in Greece.

2014 Financial Year

Our Europe operating segment generated total revenue of EUR 13.0 billion in 2014, a year-on-year decrease of 5.3 percent. In organic terms, *i.e.*, without taking into account effects of changes in the composition of the Group and excluding 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 continued 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 2014, 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 the 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 the segment level. Growth areas already accounted for a quarter of segment revenue in 2014. 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 the Consumers category. Varied 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 as 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 addition 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 was due in part to the fact that some countries of our Europe operating segment 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, in the alternative model, 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, making the device affordable for the customer even without subsidies.

Total revenues in selected countries of our Europe operating segment in the first nine months of 2016 and in the 2015 financial year developed are described below. We believe the selected countries described below are representative of trends experienced in the European segment as a whole during the time periods indicated.

Greece

In the first nine months of 2016, revenue in Greece was up slightly year-on-year by 0.7 percent at EUR 2.1 billion. The positive revenue trend in the fixed-network business completely offset the decline in mobile business. The TV business in particular proved to be a steady growth driver: innovative TV services with an expansive variety of programs won over customers, which was reflected in double-digit customer growth. As a result, TV revenue also increased by 44 percent compared with the prior-year period, despite the tax levied by the government on pay TV. The FMC product CosmoteOne also contributed to revenue growth. Broadband business also benefited from the increased number of DSL lines. In addition, the business customer segment B2B/ICT made a positive contribution to fixed-network revenue, which more than offset the negative effects from the decline in voice telephony. Mobile revenues continued to

be adversely affected in the first nine months of 2016 by the still strained economic situation, the intensely competitive environment and the new tax legislation. The price- and volume-driven decline in revenue from voice telephony in particular negatively impacted service revenues. A higher increase in the customer base only partially offset this decline. Increased revenue from mobile data services – partly as a result of increased data volumes – and from visitors had a positive effect on service revenues. Revenue from the sale of mobile terminal equipment declined compared with the prior-year period.

In the 2015 financial year, the revenue we generated in Greece was comparable to the prior-year level, even though the country's economic situation remained strained. The positive contributions from the fixed-network business offset the decline in revenue from mobile business. TV business established itself as a consistent growth driver following our efforts to offer customers a wide variety of TV services and content. Among these was the successful launch of the FMC product CosmoteOne. In connection with the focus on rolling out DSL lines, we also recorded sharp growth in the number of broadband customers, which made a positive contribution to broadband revenue. The B2B/ICT business with business customers also made a positive contribution. These trends offset the decline in revenue from voice services, which was in particular a result of line losses in traditional telephony (PSTN). However, the number of lines rose slightly again in the fourth quarter of 2015 compared with the previous quarter for the first time. Mobile business decreased year-on-year. Double-digit revenue growth in data business only partially offset the decline in voice revenues due to regulation and arising from the growing popularity of flat-rate plans. Text messaging revenues in the prepay segment in particular also decreased year-on-year due to the increasing trends of subscription to text messaging rate options and lower usage.

Hungary

In the first nine months of 2016, revenue in Hungary decreased by 7.8 percent year-on-year to EUR 1.2 billion. Excluding the spin-off of the energy resale business and assuming constant exchange rates, revenue increased by 2.3 percent on an organic basis. This growth was largely attributable to both mobile communications and the fixed network.

In mobile communications, significantly higher revenues from sales of mobile terminal equipment completely offset the slight decline in service revenues, which was due to offsetting effects. While lower mobile termination and roaming charges contributed to a reduction in voice revenues, this was contrasted by higher revenues from mobile data services, which increased by 8.0 percent compared with the prior-year period. This positive development is, among other factors, the result of our high-speed mobile network and its extensive reach. The positive trend in the fixed-network business is mainly due to higher revenue from TV and broadband business, which accounted for 48 percent of total fixed-network revenues in the first nine months of 2016. The number of broadband lines increased gradually, due in particular to the roll-out of fiber-optic lines. Our TV business also profited from this, attracting customers with its innovative services across all screens and by the variety of programs. The MagentaOne offering in the consumer and the business customer segment also contributed to this trend. Thanks to these positive contributions, we more than offset the revenue declines in both traditional telephony and the business customer segment B2B/ICT.

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

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

Austria

In the first nine months of 2016, we generated revenue of EUR 635 million in Austria, an increase of 4.3 percent compared with the same nine months of the prior year. This increase is largely attributable to higher revenue from mobile data business, with contract customer additions increasing the usage of data services. Data services accounted for

28 percent of total revenue. In addition, increased visitor revenues as well as higher revenues from the sale of mobile terminal equipment had a positive impact on revenue development. Overall, the positive effects more than offset the revenue declines in voice telephony, which are mainly attributable to lower roaming charges.

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

EBITDA, Adjusted EBITDA

2016 First Nine Months

In the first nine months of 2016, our Europe operating segment generated adjusted EBITDA of EUR 3.1 billion, a year-on-year decrease of 4.0 percent. In organic terms, *i.e.*, excluding the spin-off of the energy resale business in Hungary as of January 1, 2016 and assuming constant exchange rates, adjusted EBITDA decreased by 3.4 percent. Excluding the development of business in the Netherlands, organic adjusted EBITDA in the Europe operating segment stabilized at the prior-year level.

Adjusted EBITDA was impacted, on the one hand, by the overall decrease in organic revenue at the segment level and, on the other, by the increase in direct costs, partly due to higher interconnection costs and partly to higher market investments. Changes in legislation, *e.g.*, taxes and duties, national austerity programs (as in Greece, for example), and regulatory decisions put additional pressure on our earnings. Indirect costs were at the same level as in the prior year.

Considering adjusted EBITDA by country, the decline was mainly attributable to the Netherlands, Poland and Romania, and the Greek mobile operations. By contrast, the adjusted EBITDA generated in Austria, Hungary and the Czech Republic in particular, as well as in the fixed-network business in Greece, increased. Our EBITDA decreased slightly year-on-year by 1.0 percent to EUR 3.1 billion, thanks to two offsetting effects. In the prior-year period, EBITDA had been affected by higher negative special effects: in particular in Greece, due to expenses for staff-related measures, primarily in the fixed-network business, and in Slovakia, due to the expense to settle a claim for damages against Slovak Telekom. This effect was offset by the mainly revenue-related decrease in adjusted EBITDA in the first nine months of 2016.

2015 Financial Year

In 2015, our Europe operating segment generated adjusted EBITDA of EUR 4.3 billion, a year-on-year decrease of 3.2 percent. Assuming full inclusion of the GTS Central Europe group in 2014 and excluding exchange rate effects, adjusted EBITDA declined by 4.1 percent. Overall, the decrease in organic revenue at the segment level in particular had a negative impact on the development of our adjusted EBITDA. Furthermore, changes in legislation, taxes and duties, national austerity programs, and regulatory decisions put additional pressure on our earnings.

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

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

2014 Financial Year

In 2014, our Europe operating segment generated adjusted EBITDA of EUR 4.4 billion, 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 mobile and fixed-network business in the Czech Republic, Croatia, and Slovakia. It was largely 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 2013. 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 was 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.

Adjusted EBITDA in selected countries deemed representative of trends in our Europe operating segment in the first quarter of 2016 and in the 2015 financial year developed is as described below.

Greece

In the first nine months of 2016, adjusted EBITDA in Greece amounted to EUR 834 million, a moderate increase of 0.8 percent against the prior-year period, driven mainly by revenue. Although the net margin remained more or less stable, savings in indirect costs – mainly due to lower personnel costs – contributed to the increase in earnings.

In 2015, adjusted EBITDA in Greece stood at EUR 1.1 billion, a decrease of 1.8 percent against the previous year. This was mainly due to the slightly lower net margin in mobile operations. EBITDA was also affected by special factors, in particular expenses for staff-related measures.

Hungary

In the first nine months of 2016, adjusted EBITDA increased by 3.2 percent year-on-year to EUR 415 million. In organic terms, adjusted EBITDA grew by 4.8 percent, due in part to higher organic revenue. This effect was partly offset by higher direct costs. Indirect costs were at the same level as in the prior year.

In 2015, adjusted EBITDA amounted to EUR 485 million, thus rising 9.0 percent compared with the previous year, primarily as a result of the positive effects from the increase in revenue.

Austria

In the first nine months of 2016, adjusted EBITDA increased by 11.3 percent year-on-year to EUR 217 million. Higher revenue offset an increase in direct costs attributable to market investments. Indirect costs were slightly higher than the in the prior-year period.

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

Profit from Operations

2016 First Nine Months

Profit from operations in our Europe operating segment in the first nine months of 2016 decreased by 4.6 percent year-on-year to EUR 1.1 billion, due to the decline in EBITDA. Profit from operations was also reduced by an increase in depreciation, amortization and impairment losses.

2015 Financial Year

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

2014 Financial Year

In 2014, profit from operations in our Europe operating segment totaled EUR 1.7 billion, an increase of 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

2016 First Nine Months

In the first nine months of 2016, our Europe operating segment reported cash capex of EUR 2.3 billion, an increase of EUR 1.1 billion compared with the prior-year period, mainly due to the acquisition of mobile spectrum in Poland, the Czech Republic and Montenegro in 2016, as well as the frequency extension in the Netherlands.

2015 Financial Year

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

2014 Financial Year

In 2014, our Europe operating segment reported cash capex of EUR 2.1 billion, a decrease of 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. First, our national companies continued to act carefully in their capital spending, driven by 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 mobile business in Greece and the fixed-network business in Romania, had a contrasting effect of increasing cash capex slightly. The inclusion of the GTS Central Europe group also contributed to an increase in cash capex.

Systems Solutions

Our Systems Solutions operating segment operates information and communication technology (ICT) systems for multinational corporations and public sector institutions by drawing upon a global infrastructure of data centers and networks. For more information on our Systems Solutions segment, see "*Description of our Business and Operations—Group Organization—Organization*".

Selected Data

The following tables provide information data related to T-Systems' business development.

		September 30, 2016	**Dec. 31, 2015**	**Change (%) September 30, 2016/ Dec. 31, 2015**	**September 30, 2015**	**Change (%) September 30, 2016/ September 30, 2015**
Order Entry[1]	**(millions of €)**	**4,147**	**5,608**	**n.a.**	**3,684**	**12.6**
Computing & Desktop Services						
Number of servers managed and serviced	units	71,886	62,590	14.9	62,521	15.0
Number of workstations managed and serviced	**(millions)**	1.77	1.71	3.5	1.67	6.0
Systems Integration						
Hours billed	(millions)	5.3	5.3	n.a.	4.0	32.5
Utilization rate	%	83.3	82.9	0.4 p.p.	80.9	2.4 p.p.

n.a. – not applicable

p.p. – percentage points

[1] Business customer operations at Magyar Telekom in Hungary, which had previously been organizationally assigned to the Systems Solutions operating segment, have been bundled and reported under the Europe operating segment since January 1, 2016. The comparative figures as of September 30, 2015 and December 31, 2015 have been adjusted retrospectively for order entry only.

		Dec. 31, 2015	Dec. 31, 2014	Change	Change (%)	Dec. 31, 2013
Order Entry[1]	**(millions of €)**	**6,005**	**7,456**	**(1,451)**	**(19.5)**	**7,792**
Computing & Desktop Services						
Number of servers managed and serviced	units	62,590	61,654	936	1.5	62,308
Number of workstations managed and serviced	**(millions)**	1.71	1.58	0.13	8.2	1.31
Systems Integration						
Hours billed	(millions)	5.3	6.1	(0.8)	(13.1)	6.6
Utilization rate	%	82.9	83.8		(0.9) p.p.	82.5

p.p. – percentage points

[1] Business customer operations at Magyar Telekom in Hungary, which had previously been organizationally assigned to the Systems Solutions operating segment, have been bundled and reported under the Europe operating segment since January 1, 2016. The figures as of December 31, 2015, 2014 and 2013 have not been adjusted retrospectively.

Development of Business

In the first nine months of 2016, our Systems Solutions operating segment recorded a slight decline compared with the prior-year period, although the Market Unit profited from the completion of the set-up phase in connection with our corporate customer project to set up and operate a satellite-based toll collection system for trucks in Belgium, which we were awarded in 2014. Strengthened by the realignment, our standard solutions from the growth area of cloud computing in particular was competitive in an aggressive pricing market. Another key component in the expansion of our cloud business is strategic partnerships, by offering 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.

In the 2015 financial year, our realignment Transformation 2015+, initiated in 2014, the main focus of which was to bring the business model of the Market Unit in line with market needs, was successfully completed. As a result, the 2015 financial year was mainly dominated by our realignment. The expected targets for order entry at T-Systems were not achieved in full in the 2015 financial year. Despite new major agreements in Germany and abroad, order entry decreased overall by 19.5 percent year-on-year. This was due on the one hand to the major contracts that were secured in 2014 including for the Belgian toll collection system for trucks, and from the automotive sector. On the other hand, the decline can be attributed to the continued realignment of the business model already described, with the aim of ensuring sustained profitable growth. In this connection, we tightened the profitability criteria for the acceptance of new orders: We intend to offer services with a persistently low level of profitability only via specialized partners or discontinue them completely if demand is not lucrative enough. Strengthened by the realignment, our standard solutions from the growth area of cloud computing in particular won out over strong competition, for example, with the customers Union Investment, KONE, and the Swiss National Railways.

In 2014, T-Systems concluded new agreements in Germany and abroad. For example, we concluded significant deals with ThyssenKrupp and Daimler. We were also awarded the contract to set up the Belgian toll collection system for trucks the set-up phase for which was completed in the first half of 2016. The launch of the realignment of our business model, Transformation 2015+, resulted in order entry decreases of 4.3 percent over the 2014 financial year.

To meet the requirements from the new deals, we are continuously modernizing and consolidating our ICT resources. Against this background, in the first nine months of 2016, the number of servers managed and serviced increased by 15.0 percent compared with the first nine months of 2015 and by 1.5 percent over the 2015 financial year compared with 2014. This followed a 1.0 percent decrease over the 2014 financial year due to high-performance servers and improved capacity utilization.

At the data centers, technical advances made it possible to set up ever larger and higher-performance units, which had a positive impact on our cost efficiency. 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 6.0 percent to 1.77 million in the first nine months of 2016 compared with the first nine months of 2015, by 8.2 percent to 1.71 million over the 2015 financial year and by 20.6 percent to 1.58 million over the 2014 financial year.

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.

Development of Operations

	Q1 -Q3 2016	Q1 – Q3 2015[1]	Change		2015[1]
	(millions of €)			(%)	(millions of €)
	(unaudited, except as otherwise indicated)				
Total revenue	**5,929**	**6,031**	**(102)**	**(1.7)**	**8,194**
Profit (loss) from operations (EBIT)	(144)	(406)	262	64.5	(541)
Depreciation, amortization and impairment losses	(426)	(495)	69	13.9	(634)
EBITDA	282	89	193	n.a.	93
Special factors affecting EBITDA[2]	(240)	(435)	195	44.8	(647)
Adjusted EBITDA	**522**	**524**	**(2)**	**(0.4)**	**740**
Cash capex	**(738)**	**(806)**	**68**	**8.4**	**(1,151)**

n.a. – not applicable

[1] Business customer operations at Magyar Telekom in Hungary, which had previously been organizationally assigned to the Systems Solutions operating segment, have been bundled and reported under the Europe operating segment since January 1, 2016. The comparative figures for the first nine months of the financial year 2015 and the full financial year 2015 have been adjusted retrospectively.

[2] For more information on special factors affecting EBITDA, see "*Development of Business in the Group—Results of Operations of the Group—Reconciliation of EBITDA and adjusted EBITDA*".

	2015[1]	2014[1]	Change		2013[1]
	(millions of €)			(%)	(millions of €)
	(unaudited, except as otherwise indicated)				
Total revenue[2]	**8,592**	**8,601**	**(9)**	**(0.1)**	**9,038**
Loss from operations (EBIT)	(516)	(422)	(94)	(22.3)	(294)
Depreciation, amortization and impairment losses	(649)	(717)	68	9.5	(652)
EBITDA	133	295	(162)	(54.9)	358
Special factors affecting EBITDA[3]	(649)	(540)	(109)	(20.2)	(416)
Adjusted EBITDA	**782**	**835**	**(53)**	**(6.3)**	**774**
Cash capex	**(1,169)**	**(1,171)**	**2**	**0.2**	**(1,066)**

[1] Business customer operations at Magyar Telekom in Hungary, which had previously been organizationally assigned to the Systems Solutions operating segment, have been bundled and reported under the Europe operating segment since January 1, 2016. The figures for the financial years 2015, 2014 and 2013 have not been adjusted retrospectively.

[2] Audited.

[3] For more information on special factors affecting EBITDA, see "*Development of Business in the Group—Results of Operations of the Group—Reconciliation of EBITDA and adjusted EBITDA*".

Total Revenue

2016 First Nine Months

Total revenue in our Systems Solutions operating segment in the first nine months of 2016 amounted to EUR 5.9 billion, a year-on-year decrease of 1.7 percent.

Revenue of the Market Unit — essentially comprising business with external customers — decreased by 1.4 percent year-on-year to EUR 4.9 billion. Both national and international revenue in this unit declined, despite the completion of the set-up phase of the toll collection system in Belgium in the first quarter of 2016. The general downward price trend in ICT business and exchange rate effects had a negative impact on the Market Unit 's revenue.

In the Telekom IT business unit, which mainly pools the Group 's domestic internal IT activities, revenue decreased by 3.2 percent against the prior-year period, to EUR 1.1 billion. We expect Telekom IT's revenue to decrease below the prior-year level over the course of the year due to planned further IT cost savings by the Group.

2015 Financial Year

In 2015, total revenue in our Systems Solutions operating segment amounted to EUR 8.6 billion, almost the same level as in the prior year. The revenue increase in the Market Unit largely offset the planned decline in revenue in the Telekom IT unit.

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

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

2014 Financial Year

In 2014, total revenue in our Systems Solutions operating segment amounted to EUR 8.6 billion, a year-on-year decrease of 4.8 percent, primarily due to the expected decline in revenue in connection with the initiated realignment.

Revenues of the Market Unit decreased by 5.1 percent to EUR 6.9 billion compared with 2013, 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, revenue was slightly lower against the prior year, primarily reflecting the Group's planned savings in IT costs.

EBITDA, Adjusted EBITDA

2016 First Nine Months

Adjusted EBITDA in our Systems Solutions operating segment in the first nine months of 2016 remained at the prior-year level. The substantially higher contribution from the Market Unit, which increased by 11.8 percent, largely offset the decline within Telekom IT. The increase in the Market Unit 's earnings was primarily attributable to the successful completion in the first quarter of 2016 of the set-up phase of the toll collection system in Belgium. By contrast, the assessment of risks from individual corporate customer contracts had a negative impact on provisions. Adjusted EBITDA at Telekom IT decreased year-on-year by 39.2 percent to EUR 76 million, mainly due to lower intragroup onward charging of costs from the licensing of the Group-wide ERP system. The adjusted EBITDA margin of our Systems Solutions operating segment increased from 8.7 percent in the prior-year period to 8.8 percent.

EBITDA increased by EUR 193 million compared with the prior-year period to EUR 282 million, mainly due to the effects described under adjusted EBITDA and to a EUR 195 million decrease in special factors, primarily due to restructuring programs in the prior year.

2015 Financial Year

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

In 2015, EBITDA declined by 54.9 percent to EUR 133 million due to the effects described under adjusted EBITDA in connection with the realignment of our business model. Special factors were higher than in the prior year, mainly due to restructuring programs, the settlement of a dispute with a customer, and the optimization of transactions.

2014 Financial Year

In 2014, adjusted EBITDA in our Systems Solutions operating segment increased by EUR 61 million, or 7.9 percent, 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.

In 2014, EBITDA decreased 17.6 percent to EUR 295 million. Special factors were higher than in the prior year, mainly due to restructuring programs.

Profit (loss) from Operations

2016 First Nine Months

Loss from operations decreased by EUR 262 million, or 64.5 percent, compared with the prior-year period, due in particular to the one-time effect in the Market Unit described under EBITDA. Decreases in depreciation, amortization and impairment losses due to the migration of IT platforms also had a positive impact on our profit from operations.

2015 Financial Year

In 2015, loss from operations increased by EUR 94 million, or 22.3 percent, against the prior year. The key factors were the effects described under adjusted EBITDA and lower depreciation, amortization and impairment losses, especially in connection with the licensing of the Group-wide ERP system.

2014 Financial Year

In 2014, loss from operations increased by EUR 128 million, or 43.5 percent, compared with 2013, due in part to higher depreciation and amortization, especially in connection with the advanced implementation of the Group-wide ERP system.

Cash Capex

2016 First Nine Months

In the first nine months of 2016, cash capex remained at a high level, amounting to EUR 738 million, and was attributable to the continuing increasing advancement of the digitization of enterprises. The decrease of 8.4 percent year-on-year was due to enhanced efficiency, for example as a result of the standardization of the ICT platforms and the consolidation of data centers. We intend to further invest in growth areas such as connected car and healthcare, as well as in cutting-edge digital innovation areas such as cloud computing and cyber security.

2015 Financial Year

At EUR 1.2 billion, cash capex in 2015 remained at the prior-year's high level and was again attributable to the realignment of the business model, which we continued to develop further in line with the increasing digitization of enterprises. Enhanced efficiency, for example as a result of the standardization of the ICT platforms and the consolidation of data centers, had an offsetting effect.

2014 Financial Year

In 2014, cash capex stood at EUR 1.2 billion, an increase of EUR 105 million, or 9.8 percent, compared to the prior year. This increase was related to the realignment of the business model, which we developed further in line with the increasing digitization of enterprises. Enhanced efficiency, for example as a result of the standardization of the ICT platforms, had an offsetting effect.

Group Headquarters & Group Services

Group Headquarters & Group Services comprises all Group units that cannot be allocated directly to one of our four operating segments. For more information on our Group Headquarters & Group Services segment, see "*Description of our Business and Operations—Group Organization—Organization*".

Development of Operations

	Q1 – Q3 2016	Q1 – Q3 2015	Change		2015
	(millions of €)			(%)	(millions of €)
	(unaudited, except as otherwise indicated)				
Total revenue	**1,614**	**1,704**	**(90)**	**(5.3)**	**2,275[1]**
Profit(loss) from operations (EBIT)	1,392	(824)	2,216	n.a.	(860)
Depreciation, amortization and impairment losses	(389)	(456)	67	14.7	(627)
EBITDA	1,781	(368)	2,149	n.a.	(233)
Special factors affecting EBITDA[2]	2,116	(137)	2,253	n.a.	319
Adjusted EBITDA	**(335)**	**(231)**	**(104)**	**(45.0)**	**(552)**
Cash capex	**(175)**	**(230)**	**55**	**23.9**	**(342)**

n.a. – not applicable
[1] Audited.
[2] For more information on special factors affecting EBITDA, see "*Development of Business in the Group—Results of Operations of the Group—Reconciliation of EBITDA and adjusted EBITDA*".

	2015	2014	Change		2013
	(millions of €)			(%)	(millions of €)
	(unaudited, except as otherwise indicated)				
Total revenue[1]	**2,275**	**2,516**	**(241)**	**(9.6)**	**2,879**
Loss from operations (EBIT)	(860)	(109)	(751)	n.a.	(1,582)
Depreciation, amortization and impairment losses	(627)	(671)	44	6.6	(699)
EBITDA	(233)	562	(795)	n.a.	(883)
Special factors affecting EBITDA[2]	319	1,229	(910)	(74.0)	(228)
Adjusted EBITDA	**(552)**	**(667)**	**115**	**17.2**	**(655)**
Cash capex	**(342)**	**(381)**	**39**	**10.2**	**(411)**

n.a. – not applicable
[1] Audited.
[2] For more information on special factors affecting EBITDA, see "*Development of Business in the Group—Results of Operations of the Group—Reconciliation of EBITDA and adjusted EBITDA*".

Total Revenue

2016 First Nine Months

Total revenue in our Group Headquarters & Group Services segment in the first nine months of 2016 decreased by 5.3 percent year-on-year, mainly due to revenue lost in connection with the sale of our online platform t-online.de and our digital marketing company InteractiveMedia in November 2015 as well as the realignment of the Group Innovation+ unit. In addition, intragroup revenue decreased due to the continued efforts to optimize the use of land and buildings.

2015 Financial Year

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

2014 Financial Year

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

2016 First Nine Months

In the first nine months of 2016, adjusted EBITDA in our Group Headquarters & Group Services segment decreased by EUR 104 million year-on-year, mainly due to income of EUR 175 million recorded in the first quarter of 2015 in connection with an agreement to settle a complaints procedure under antitrust law. Excluding this one-time effect, adjusted EBITDA increased by EUR 71 million compared with the first nine months of 2015, primarily due to lower personnel costs as a result of continued staff restructuring, especially at Vivento. Additional positive effects on adjusted EBITDA resulted from the realignment of the Group Innovation+ unit and the reversal of provisions. By contrast, the adjusted EBITDA trend was negatively impacted by continued efforts to optimize the use of land and buildings. The loss of positive contributions in connection with the sale of t-online.de and InteractiveMedia and reduced income from reimbursements related to the sale of our EE joint venture to the UK company BT completed in January 2016 also had a negative impact on adjusted EBITDA in the first nine months of 2016.

In the first nine months of 2016, EBITDA was affected by positive special factors of EUR 2.1 billion. These factors resulted primarily from the sale of our EE joint venture to the UK company BT, which was completed in January 2016. We generated income of EUR 2.5 billion from this sale. The sale of our shares in Scout24 AG in April 2016 also generated income of approximately EUR 0.1 billion. By contrast, expenses of around EUR 0.4 billion, especially for staff-related measures, had a negative impact on EBITDA in the first nine months of 2016. Special factors of approximately EUR 0.1 billion in the prior-year period consisted primarily of expenses for staff-related measures.

2015 Financial Year

In 2015, adjusted EBITDA at Group Headquarters & Group Services increased by EUR 115 million compared with 2014, primarily due to income of EUR 175 million resulting from an agreement to settle an ongoing complaints procedure under antitrust law in the first quarter of 2015. Lower personnel costs as a result of the continued staff restructuring as well as increased income from the real estate sales also had a positive impact on earnings. By contrast, adjusted EBITDA was negatively affected by the following factors: efficiency gains achieved through continued cost management and passed on to our operating segments, the loss of the contribution to earnings of the Scout24 group as a result of our sale of 70 percent of the shares thereof and lower income at Vivento due to a decrease in headcount and order volume.

Overall, positive special factors of EUR 0.3 billion affected EBITDA in 2015, in particular as a result of the IPO of Scout24 AG, in which we sold a share package of a total 13.3 million shares, resulting in income of EUR 0.3 billion. The sale of our online platform and our digital marketing company InteractiveMedia also generated income of EUR 0.3 billion. EBITDA was negatively affected by expenses — in particular in connection with staff restructuring — of EUR 0.3 billion. In the prior year, special factors were dominated in particular by income from the disposal of the Scout24 group.

2014 Financial Year

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 was 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 Vivento.

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.

Profit (loss) from Operations

2016 First Nine Months

In the first nine months of 2016, profit from operations increased year-on-year by EUR 2.2 billion to EUR 1.4 billion, primarily due to income from the disposal of our EE joint venture recorded in the first nine months of 2016. Depreciation, amortization and impairment losses were EUR 67 million lower than the prior-year level, mainly due to

lower depreciation and impairment losses on land and buildings as a result of our continued optimization of the real estate portfolio.

2015 Financial Year

In 2015, loss from operations increased by EUR 0.8 billion compared to 2014 to EUR 0.9 billion, primarily as a result of income from the disposal of the Scout24 group recognized in 2014. The improvement in adjusted EBITDA had a positive effect in 2015.

2014 Financial Year

In 2014, loss from operations amounted to EUR 0.1 billion. The year-on-year decrease in loss from operations by EUR 1.5 billion was mainly due to the income from the deconsolidation of the Scout24 group.

Cash Capex

2016 First Nine Months

In the first nine months of 2016, cash capex decreased year-on-year by EUR 55 million, or 23.9 percent, due to the purchase of fewer vehicles and licenses.

2015 Financial Year

In 2015, cash capex decreased year-on-year by EUR 39 million, or 10.2 percent, mainly due to the set-up of the new Group Innovation+ unit and a decrease in the purchase of software licenses. This was partially offset by the procurement of more vehicles.

2014 Financial Year

In 2014, cash capex decreased year-on-year by EUR 30 million, or 7.3 percent, largely due to the purchase of fewer software licenses and the non-recurrence of the contribution from the Scout24 group.

Outlook

Market Expectations

We expect the telecommunications market in Germany to have remained on a slight downward trend in 2016, but we forecast positive growth from 2017. EITO (European Information Technology Observatory) expected a market decline of 0.6 percent for 2016, with the growth in mobile and stationary data services almost completely compensating the clear revenue decline in traditional and mobile voice telephony as a result of changes in the EU roaming regulation. We believe that innovative, integrated products and attractive solutions offered together with partners play an ever greater role for positioning in competition. Other important differentiators include the available download and upload bandwidths and the data volumes included in rate plans. At the level of products and services, we expect consumer business to grow, especially in market segments like television and Smart Home, and both business customer and consumer business to grow in terms of cloud services and data security.

While the infrastructure in the mobile market has a comparable structure and the majority of the population in Germany currently also has access to high-speed mobile Internet with 4G/LTE, the market for fixed-network broadband is characterized by a large number of competitors and different infrastructures. We expect continued growth not only for cable network operators, but also for providers with DSL- or fiber-optic-based networks.

In terms of a broader-based ICT market that includes IT services as well as telecommunications, EITO even expected slight growth of a little over one percent in Germany for 2016. This is attributable to projected growth of 2.5 percent in the IT market, driven above all by strong growth in services for business customers, e. g., outsourcing, projects, and consulting, as well as in software.

The U. S. mobile market continues to be characterized by intense competition among mobile carriers. Competitive factors within the U. S. mobile market include dynamic changes in pricing, voice market saturation, service and product offerings, customer experience, network quality, development and deployment of technologies, availability of spectrum licenses, and regulatory changes. The mobile postpaid market in the United States is embracing device financing options, such as T-Mobile US's equipment installment plans and device leasing through JUMP! On Demand, allowing customers to subscribe for wireless services separately without the purchase of or payment for a bundled device.

Additionally, data services continue to be a growth driver, and despite the high level of competition, the U. S. mobile market is expected to have grown in 2016 and expected to grow in 2017 from mobile broadband data services, further supporting network investment by mobile carriers in the U. S. mobile market.

We expect our European markets will continue to be dominated in 2017 by intense competition between market players from the traditional telecommunications industry, alternative broadband providers, such as cable and fiber-optic network operators, and providers of Internet-based services such as short messaging (e. g., WhatsApp) and Internet TV (e. g., Netflix).

In Europe, the trend towards convergent products comprising fixed-network and mobile (FMC) offerings continued to accelerate in 2015. We expect most market players to move towards an integrated business model in the future. As a result, we expect consolidation pressure to continue to grow in the telecommunications market, especially on non-integrated providers, and at the same time, the already high competitive and price pressure to increase.

We expect the macro-economic framework conditions in most of our European markets to continue improving. Fiscal interventions again had a negative impact on telecommunications markets, for example, in Croatia and Romania. Furthermore, we expect decisions by national regulatory authorities and the European Union which will put the markets under pressure and have a negative impact on mobile revenues in future, such as the EU roaming regulation. Overall, we expect the decline in revenue in the telecommunications markets in the individual countries of our Europe operating segment to have been less pronounced in 2016 than in the prior year and to stabilize from 2017. This is due to the fact that the reduction in termination rates is lower than in prior years and the propagation of smartphones with mobile broadband is growing, especially in Eastern Europe, as is demand for broadband and pay-TV lines in the fixed network.

We expect the global economic recovery to hold such that the growth trend in the ICT market intensifies again over the next two years. In our view, the ICT market will be shaped by digitization, ongoing cost pressure, and strong competition. Digitization is leading to greater demand for solutions from the areas of cloud services, big data, intelligent network services like Industry 4.0, the Internet of Things, and M2M, as well as the mobilization of business processes.

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

- *Telecommunications:* A range of factors are leading to new challenges in the intensely contested telecommunications market. Innovative change, the high intensity of competition, and persistent price erosion, as well interventions by national regulatory authorities result in a steady market decline, even though we expect business with mobile data services will continue to grow over the next few years.

- *IT services:* After clear growth in 2015, we expect the market for IT services to have grown steadily in 2016 and to grow steadily in 2017. The IT services market is undergoing major change, however, brought about by progressive standardization, demand for intelligent services, changes in outsourcing business caused by cloud services, and new challenges posed by issues such as ICT security, big data, and increasing mobility. We expect 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. Accordingly, we plan to 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.

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.

Financial performance indicators	For the year ended December 31,				
	2015	**2014**	**2013**	**2012**	**2011**
	(billions of €, except as otherwise indicated)				
	(audited, except as otherwise indicated)				
Net revenue	69.2	62.7	60.1	58.2	58.7
Profit (loss) from operations (EBIT)[1]	7.0	7.2	4.9	(4.0)	5.6
Adjusted EBITDA[1]	19.9	17.6	17.4	18.0	18.7
Free cash flow (before dividend payments, spectrum investment)[1, 2]	4.5	4.1	4.6	6.2	6.4
Cash capex[1, 3]	(10.8)	(9.5)	(8.9)	(8.0)	(8.3)
Rating (Standard & Poor's, Fitch)[1]	BBB+	BBB+	BBB+	BBB+	BBB+
Rating (Moody's)[1]	Baa1	Baa1	Baa1	Baa1	Baa1

[1] Unaudited.
[2] Also excluding PTC and AT&T transactions and compensation payments for MetroPCS employees.
[3] Excluding goodwill and spectrum investment.

See also "*Risk Factors—Risks Related to our Business—Our forecasts and forward-looking information may prove to be incorrect.*".

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 our success. New products and services as well as additional sales activities are only successful if they increase revenue. For further information on the measures of financial performance which we use, see "*Special Note on Non-GAAP Financial Measures*".

Financial Flexibility

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 2015, the focus was on further extending the reverse factoring program in Germany, evaluating inventories management in Germany and Europe, and optimizing receivables management in all our operating segments; this also involved factoring measures. We intend to continue improving working capital over the coming years. To this end, we will focus on the following areas: further improvements in the area of liabilities, e. g., through reverse factoring programs, and improvements in the area of receivables and inventories management at T-Mobile US, in Germany and in Europe.

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

A rating is an assessment or classification of the creditworthiness of debt securities and its issuer according to uniform criteria. Assessment of creditworthiness by rating agencies influences interest rates on debt securities and thus also our borrowing costs. As part of our finance policy, we have defined a target range for our ratings. We believe that with a rating between A– and BBB (Standard & Poor's, Fitch) or between A3 and Baa2 (Moody's) we will be able to obtain required financing in the capital markets at reasonable terms.

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 our success. 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, as we believe that satisfied customers will act as multipliers for our success. As a responsible, service-oriented company, the needs and opinions of our customers are of great importance to us, and we want to retain our customers for the long term. For this reason we measure customer retention/satisfaction in our companies using the TRI*m method. The results of systematic surveys are expressed by an indicator known as the

TRI*M index. To underscore the major significance of customer retention/satisfaction for our operations, since 2010 we have made this key indicator one of four parameters for the long-term variable remuneration (Variable II) for our executives. It was also used as a parameter in the long-term incentive plan which ran again in 2015. We take the TRI*M indices 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, our executives can benefit from the development of customer retention/satisfaction across the Group.

Expectations for the Group

We believe that our Group will continue to grow profitably in the next few years. From 2017, we expect our revenues and our adjusted EBITDA in all operating segments to at least remain stable or even increase. We believe that this puts us in an excellent position to achieve our financial ambitions by 2018, described in further detail under "*Description of our Business and Operations—Group Strategy*".

Overall, we expect to see the following developments in our financial performance indicators:

- We expect **revenue** to have increased year-on-year in 2016 and to increase year-on-year in 2017, driven mainly by our United States operating segment, which enjoys great success on the market with its innovative business model.

- We expect **adjusted EBITDA** to have increased in 2016, and to rise sharply again in 2017. In addition to the positive revenue trend, the switch to the terminal equipment lease model at T-Mobile US is one of the key drivers. Under this model, expenses for terminal equipment do not impact adjusted EBITDA, but rather are recognized in depreciation over the term of the contract. We expect the development of our financial figures to be more volatile in the future in connection with the terminal equipment lease model, since they are increasingly dependent on the trend in customer numbers and on customer decisions in the United States.

- **EBIT** and **EBITDA** are expected to have grown significantly year-on-year in 2016 and expected to grow significantly year-on-year in 2017, primarily as a result of the positive trend in adjusted EBITDA in the respective periods, as well as a positive special factor in 2016 following the sale of our stake in the UK mobile joint venture EE. Due to the switch to the terminal equipment lease model at T-Mobile US, depreciation is expected to have increased substantially from 2016 as a result of the capitalization of the leased mobile devices. This is expected to reduce the positive effect in EBIT resulting from the reduction of expenses in EBITDA.

- We plan to continue to invest heavily in modernizing and building-out our network infrastructure in our Germany, United States, and Europe operating segments. In 2017, we expect **cash capex** (before spectrum investments) to increase against 2016. We intend partly to generate the funds needed for our investments by taking measures to enhance cost efficiencies, for example the implementation of the target costing approach and the establishment of Deutsche Telekom Services Europe, in which we pool various functional services of Deutsche Telekom for cost-efficiency.

- Our **free cash flow** (before dividend payments and spectrum investment) is expected to have increased in 2016 and to increase in 2017. This is expected to make a substantial contribution to keeping our relative debt — measured as the ratio of net debt to adjusted EBITDA — within our expectations over the next two years.

- At the end of 2016, the **rating agencies** Standard & Poor's, Fitch, and Moody's rated us as an investment grade company at BBB+/BBB+/Baa1. The outlook from all three rating agencies was "stable". In order to retain unrestricted access to the international financial markets in the future, an investment grade rating within the range A– to BBB is part of our finance strategy.

Our expectations may change if the macroeconomic situation deteriorates and/or there is any unforeseen government or regulatory intervention. See "*Risk Factors—Risks Related to our Business—Recent moderate economic growth in Germany, Europe and the United States and uncertainties about prospects for growth going forward, including a potential slowdown in consumer spending, could adversely affect our customers' purchases of our products and services in each of our operating segments, which could have a negative impact on our operating results and financial condition.*", "*Risk Factors—Risks Related to our Business—Continued elevated levels of political uncertainty could have unpredictable consequences for the markets in which we operate and for the greater economy, potentially leading to declines in business levels and losses across our businesses*" and "*Risk Factors—Risks Related to our Business—We are subject to regulatory and legislative action by regulatory authorities, which may increase our costs of providing products or services, require us to change our business operations, products, or services or subject us to material adverse impacts if we fail to comply with such regulations.*".

Under our finance strategy, we plan to continue maintaining a liquidity reserve that covers all our maturities over a minimum of the next 24 months.

Repayments totaling EUR 3.7 billion in bonds and promissory notes became due in 2016. In 2017, we expect to refinance maturities and maintain the liquidity reserve through new issues of debt in different currencies. The execution of potential transactions depends on developments on the international finance markets. We also plan to partially cover our liquidity requirement by issuing commercial paper.

In order to provide preliminary financing for the planned investments in mobile licenses, T-Mobile US issued new bonds in the amount of USD 2.0 billion in 2015 and generated another USD 2.0 billion by taking out a term loan. In April 2016, T-Mobile US issued senior notes with a total volume of USD 1.0 billion. In addition, in March 2016 and in April 2016, Deutsche Telekom made three irrevocable and temporary loan commitments to T-Mobile US in the total amount of up to USD 4.0 billion. Under these commitments, Deutsche Telekom has undertaken to purchase senior notes from T-Mobile US for a nominal value of USD 2.0 billion at a fixed-interest rate of 5.3 percent p.a., USD 1.35 billion at a fixed-interest rate of 6.0 percent p.a. and USD 650 million at a fixed-interest rate of 6.0 percent p.a., respectively, with their respective terms running until March 15, 2021, April 15, 2024 and April 15, 2024. T-Mobile US has the right to make use of these loan commitments up to May 31, 2017. In addition, on December 29, 2016, T-Mobile US terminated its previous USD 500 million revolving credit facility with Deutsche Telekom and entered into a new three-year $2.5 billion revolving credit facility (consisting of a $1.0 billion senior unsecured revolving credit facility and a $1.5 billion senior secured revolving credit facility) and a $660 million secured term loan facility with Deutsche Telekom. At the time of termination, there were no amounts outstanding under the previous unsecured revolving credit facility and no amounts have yet been drawn under the new revolving credit facility, other than commitment fees which have been paid in full. T-Mobile intends to draw the $660 million incremental term loan on January 31, 2017. The new revolving credit facility offers T-Mobile US a much more flexible and cost-effective liquidity reserve going forward, and makes it possible for the company to use previously unavailable cash reserves, since surplus liquidity can be used to repay high-interest debt.

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.

We are aiming to achieve a slight improvement in the development of our customer retention/customer satisfaction in 2016 and 2017 respectively, measured in terms of the TRI*M index performance indicator.

REGULATION

Overview

Our operations worldwide, as well as those of our subsidiaries and affiliates, are subject to sector-specific telecommunications regulations and general competition law, as well as a variety of other regulations. The extent to which telecommunications regulations apply to us depends largely on the nature of our activities in a particular country, with the provision of traditional fixed-line telephony services usually being subject to the most extensive regulation. Regulations can have a very direct and material effect on our overall business, particularly in jurisdictions that favor regulatory intervention.

In recent years, as well as at present, the main areas of focus of regulatory intervention were:

- at the EU level, regulations, directives and other binding legislation, which, for example, regulate network access, traffic management and roaming;
- regulation of charges, such as monthly line rental for the unbundled local loop and termination rates; and
- regulation of future wholesale broadband services and investments in new networks and infrastructure, including bitstream access and VDSL-Vectoring.

The EU Regulatory Framework for Electronic Communications

General

EU Member States are required to enact EU legislation in their domestic law and to take EU legislation into account when applying domestic law. In each EU Member State, an NRA is responsible for enforcing national telecommunications laws that are based on the EU Framework. The NRAs generally have significant powers under their relevant telecommunications laws, including the authority to impose obligations regarding network access and interconnection and regarding non-discrimination, including 'functional separation,' and to approve or review the charges and general business terms and conditions of providers with "significant market power" (see "—*Special Requirements Applicable to Providers with Significant Market Power*" below). The NRAs also have the authority to assign wireless spectrum (often in cooperation with the relevant national ministry or government department), to supervise the efficient use of frequencies and to impose universal service obligations.

Since much of our business is undertaken in the European Union, a significant portion of our operations is subject to the EU Framework and related telecommunications regulations.

The EU regulatory framework is largely determined by regulations to be applied directly by the EU Member States, by directives to be transposed into national law by the EU Member States and by recommendations of the European Commission that, while not binding, must be taken into account by the NRAs. As part of a strategy for the Digital Single Market (DSM), the European Commission announced regulatory initiatives in May 2015. These include, most notably, a complete review of the applicable EU legal framework for telecommunications. The process comprises a review of the current ex-ante regulation for network access, a reform of universal service regulation, as well as a renewed initiative to create a more harmonized framework for the allocation and assignment of mobile spectrum. Separately, the European Commission announced a review of the role of online platforms in the digital economy with a view to adopting possible legislative and non-legislative measures.

On September 14, 2016, the European Commission published a number of legislative proposals aiming at the revision of the EU Framework, which are currently under review by the European Parliament and Council. The new rules are expected to be adopted in 2018 at the earliest. Following their adoption and to the extent enacted in the form of directives, they would still have to be transposed into national law. At present, it is very difficult to predict the outcome of the extensive legislative process.

We believe that these initiatives offer the opportunity to assess our current regulatory responsibilities and those of Internet companies with a view to potentially achieving more balanced competitive conditions (level playing field) between telecommunications and Internet companies. The revision of the EU Framework could provide an opportunity to reduce regulation in certain areas, such as network access to very high capacity networks, and increase it in other areas, such as customer protection or obligations relating to the universal access to communication services. It is not yet possible at present to conclusively assess the specific opportunities and risks arising from these initiatives.

On November 25, 2015, the EU Parliament and the Council adopted Regulation (EU) 2015/2120 concerning the single market for electronic communications, which contains provisions on the open internet, access (“net neutrality”) international roaming and end-user protection, including transparency obligations. Regulation (EU) 2015/2120 allows for the provision of “Specialised Services” with assured quality when objectively necessary, and Internet access services on a shared IP network. Equal treatment of all data traffic will be established as a principle, with the exception of reasonable traffic management being permitted in limited cases, if based not on commercial considerations, but on objectively different technical quality of service requirements of specific categories of traffic, *e.g.*, to prevent potential network overloads. Zero rating, *i.e.*, not charging for certain amounts of data traffic in connection with volume-based rate plans, remains permissible in principle; however, offers making such services available are subject to scrutiny by the NRAs. Regulation (EU) 2015/2120 also provides NRAs with extensive powers to monitor and intervene, includes provisions on fines and stipulates requirements for the provision of information to consumers concerning an open internet and performance of the internet access service (“IAS”). The information to consumers on IAS performance, which must be published and included in individual contracts, includes, for example, the impact of specialized services on the IAS’ performance, minimum and maximum available speed or the normally available speed of IAS. Any significant discrepancy between the contractual information and the individually measured actual performance may trigger remedies for consumers, depending on national provisions. On August 30, 2016, the body of EU telecommunications regulators published Guidelines on the implementation of the net neutrality provisions. These Guidelines are designed to facilitate NRAs’ tasks under Regulation 2015/2120 by providing a number of clarifications on the concrete application of its provisions. The Guidelines take a strict approach and their application by NRAs may limit our ability to provide specialized services or new service offers over 5G networks.

With regard to international roaming, Regulation (EU) 2015/2120 provides for an initial reduction of roaming rates to the level of national rates plus a strictly limited surcharge. This reduction took effect on April 30, 2016. With effect from June 15, 2017, surcharges for roaming services within the EU will be eliminated entirely (commonly known as “Roam like at Home”), unless permitted under implementing rules on fair usage policy. On September 5, 2016, the European Commission published draft implementing measures on fair usage policy for consultation with the Body of European Regulators for Electronic Communications (BEREC) and Member States; on September 26, 2016, the European Commission published revised draft rules and on December 12, 2016, representatives of Member States voted on the revised proposal. The final act, which was adopted on December 15, 2016, provides safeguards for operators, allowing them to detect and address potential abuses. For instance, a greater volume of roaming traffic than domestic traffic over the course of a four-month period may be an indicator of improper use, which ultimately may allow operators to apply a small roaming charge.

Also with a view to preparing for the end of roaming charges, in addition to the proposals on fair usage policy, the European Commission published, on June 15, 2016, its legislative proposal for the future regulation of IOTs which network operators charge to other network operators when their roaming customers use the other operator’s network. It proposes substantial cuts in the regulated wholesale roaming rates for data, as well as more moderate cuts for the prices of voice and SMS wholesale roaming services. In response to the proposals published by the European Commission, the European Parliament and Council have published revised proposals, which provide for further cuts compared to the European Commission proposals. We anticipate that the proposals will be agreed and adopted in the spring of 2017.

The introduction of Roam like at Home and a general reduction in regulated IOTs will have a negative effect on our revenues and will result in substantial implementation costs. In addition, the introduction of Roam like at Home could also give rise to arbitrage risks — i.e., risks from the misuse of the international roaming mechanism to circumvent national terms and conditions — for us and our international subsidiaries.

Special Requirements Applicable to Providers with Significant Market Power

The most significant regulatory impact on our business comes from the EU Framework’s special requirements applicable to providers with significant market power, which is equivalent to the notion of dominance under EU competition law. As explained in the European Commission’s guidelines on market analysis and the assessment of significant market power, single dominance concerns normally may arise in the case of undertakings with market shares of over 40%. Obligations in relation to network access, price setting, separate accounting for interconnection services, publication and non-discrimination, can be imposed on those operators that are designated by the relevant NRA as having significant market power in an electronic communications market. Such determinations are based on EU guidelines and EU competition case law. We have been designated as having significant market power primarily in most fixed-line markets in which we operate, as well as in mobile voice call termination markets.

In particular, an NRA may subject providers with significant market power, and their affiliates, to several rules and obligations specified within the EU Regulatory Framework and its directives and guidelines, such as:

- The obligation to offer other companies interconnection and unbundled network access as well as access to certain services and facilities on a non-discriminatory basis. This includes full unbundled access to copper-paired wire lines as well as bitstream access and access to other parts of the networks. In particular, unbundling has led to a considerable loss of our market share. For more information regarding the effects of unbundling obligations, see "*—German Fixed-Network Telecommunications Regulation—Local Loop Access*" below.

- Prior approval or retroactive review of charges, insofar as such charges and conditions relate to a market in which the provider holds significant market power.

- The obligation of transparency in relation to interconnection and/or access, requiring operators to make public specified information, such as accounting information, technical specifications, network characteristics, terms and conditions for supply and use, including any conditions limiting access to and/or use of services and applications.

- The obligation of non-discrimination in relation to interconnection and/or access. Obligations of non-discrimination require the operator to apply equivalent conditions in equivalent circumstances to other companies providing equivalent services and to provide services and information to others under the same conditions and of the same quality as it provides for its own services, or those of its subsidiaries or partners.

- The obligation to maintain separate accounting systems with regard to interconnection and access services. This obligation is intended to allow for transparency with respect to various telecommunications services in order to prevent, among other things, the cross-subsidization of services. In this regard, an NRA may specify the structure of a provider's internal accounting for particular telecommunications services, which can increase costs of compliance.

- The obligation on vertically integrated undertakings to place activities related to the wholesale provision of relevant access products in an independently operating business entity (functional separation). This is an exceptional measure to be employed if the NRA concludes that the respective obligations already imposed have failed to achieve effective competition and that there are important and ongoing competition problems and/or market failures identified in relation to the wholesale provision of certain access product markets.

Fixed and Mobile Termination Rate Recommendation

In October 2014 the European Commission revised the "Recommendation on relevant product and service markets", which, among other things, requires the NRAs to analyze the call termination markets to determine whether regulatory remedies are warranted. In 2009, the European Commission issued the Recommendation on the regulatory treatment of fixed and mobile termination rates in the EU (Recommendation 2009/396/EC, the "Recommendation") that defines details for the cost calculation of termination rates by the NRAs. With the Recommendation, the European Commission intended to harmonize cost standards for mobile termination rates throughout the EU. Although some NRAs did not follow the Recommendation, which is legally not binding, most European regulators applied the Recommendation, which is known as the "pure LRIC cost standard", and, in these markets, fixed and mobile termination rates therefore decreased significantly. In 2016, the European Commission conducted a public consultation regarding the Recommendation on the regulatory treatment of terminations rates. which was intended, on the one hand, to examine the effects of the pure LRIC cost standard, and, on the other hand, to inquire into opportunities associated with pertinent future regulatory measures including a deregulation of the termination market by the European Commission. As a result of the consultation, the European Commission included into one of the September 14, 2016 legislative proposals (see "—*General*" above) a provision on termination rates. The proposed rules would make binding the principles of the Recommendation. In addition, the proposed rules would create a mechanism for establishing maximum rates at the EU level for mobile and fixed-network termination.

German Fixed-Network Telecommunications Regulation

German telecommunications regulation has a particularly significant impact on our business due to the significant share of our operations that is based or conducted in Germany. German telecommunications regulation is based on the EU Framework, as in all EU Member States, and is mainly derived from the German Telecommunications Act (*Telekommunikationsgesetz*) and implemented by the Federal Network Agency (*Bundesnetzagentur*) as competent NRA.

We believe that, for the foreseeable future, the Federal Network Agency is likely to view us as a provider with significant market power in the fixed network and in other markets, including most of those in which we held monopoly rights in the past. Additionally, we have been determined to be a provider with significant market power in the German market for mobile voice call termination. There is a significant risk that the strict regulatory provisions of the German

Telecommunications Act relating to providers deemed to have significant market power will continue to be applied in the future to our activities in the markets described above. Considering that in many markets our competitors are unlikely to gain significant market power in the near future, we expect that we will have to compete in important markets with providers not subject to those regulatory obligations. Therefore, these competitors may have more flexibility than we have in terms of the selection of services offered and customers served, pricing and the granting of network access.

Under the German Telecommunications Act, tariffs for telecommunications access services offered by providers with significant market power and their affiliates can be subject to price regulation, insofar as the tariffs relate to a market in which significant market power has been determined to exist. In particular, network access fees (in relation to both fixed-network and mobile networks) charged by providers with significant market power are subject to approval by the Federal Network Agency. Pursuant to the German Telecommunications Act, such approvals are subject to judicial review and can be appealed when deemed to be inadequately low by providers with significant market power, including, subject to certain restrictions, approvals with retroactive effect. In a decision dated November 22, 2016, the German Federal Constitutional Court (*Bundesverfassungsgericht*) found these restrictions to be partly unconstitutional and ordered the legislator to amend the German Telecommunications Act by July 31, 2018, resulting in a strengthened legal position for providers with significant market power. Other tariffs are essentially unregulated. The tariffs of all providers in Germany are, however, subject to generally applicable EU and German laws, including competition and consumer protection laws (see "—*Consumer Protection*" below).

In January 2010, the Federal Network Agency determined that we are a provider with significant market power for the access market. The agency included all-IP accesses to this market for the first time and imposed on us the obligation to periodically provide a resale offer on the terms of our retail tariffs for every type of access. In addition, the Federal Network Agency maintained ex-post controls on our offers. In August 2013, the Federal Network Agency released a regulatory order enabling for the first time Deutsche Telekom to introduce what is known as "VDSL-Vectoring" technology in areas not in proximity to local exchanges.

In October 2015, the Federal Network Agency released its final regulatory order regarding the broadband bitstream access market, reaffirming the obligation for Deutsche Telekom to offer to its competitors what is known as "bitstream access services" at different network layers ("Layer 2" and "Layer 3"). We expect the demand for such regulated access services to increase. See "*—Broadband Access – IP Bitstream*" below.

On September 1, 2016 the Federal Network Agency updated our obligations to provide local loop access, confirming the utilization of the VDSL-Vectoring technology for areas not in proximity to local exchanges but also — as a new element — for areas that are in proximity to local exchanges. See "*—Local Loop Access*" below.

According to provisional tariff decisions of the Federal Network Agency in the fourth quarter of 2016, fixed termination rates were reduced by 58%, effective as of January 1, 2017 for fixed termination rates. The steep decrease is due to the application of a new costing method (known as "pure-LRIC") which was recommended by the European Commission. We expect final rulings following an EU-wide consultation procedure with the European Commission in the first quarter of 2017. (See also "*—Mobile Regulation—Germany*" below.)

Local Loop Access

We have been offering unbundled local loop ("ULL") access since 1998. We are obliged to publish a reference offer for access to the ULL and prices require ex-ante approval. By allowing competitors to connect to customer access lines within our local networks, unbundling of the local loop allows our competitors to gain direct access to customers without having to build local networks of their own. This allows competitors to use our customer access lines to offer a wide range of local services directly to customers.

In August 2013, the Federal Network Agency released a regulatory order authorizing for the first time Deutsche Telekom to introduce "VDSL-Vectoring" technology to areas not in proximity to its local exchanges, substantially increasing the potential bandwidth Deutsche Telekom can offer to its retail customers in areas where the technology is applied. The individual bandwidth available depends on local technical conditions. Wholesale customers benefit from the bandwidth increases via regulated broadband wholesale products, e.g., bitstream access products or an additional wholesale product offered at the level of the serving area interfaces within the access network (known as the "KVz alternative product"). Alternatively, competitors can invest in the vectoring technology themselves. However, only one provider is entitled to utilize the vectoring technology within the area served by a given distribution point, and whether this is Deutsche Telekom or one of its competitors, depends on a complex set of rulings and conditions including the "first come first served" principle. Since November 1, 2016, Deutsche Telekom has also been obligated to offer a Layer 2 bitstream access (BSA) product (see "—*Broadband Access – IP Bitstream*" below).

On September 1, 2016, the Federal Network Agency issued the final regulatory order for the ULL market after the required consultation with the European Commission. The obligation to provide access to the cable duct between the main distribution frame and the multi-functional street cabinet remains in force. The Federal Network Agency also maintained an obligation to provide access to dark fiber for the section between the main distribution frame and the multi-functional street cabinet. However, this access obligation only applies in the event that no cable duct capacity is available. An exception has been imposed for the implementation of vectoring within areas in proximity to a local exchange. In that case, competitors may choose between renting cable ducts or having access to dark fiber. This obligation is limited for two years after the street cabinet has been made accessible for the operator seeking access. The Federal Network Agency has maintained applicable regulations to new fiber-optic ULLs. Under this regime, rates have to be reviewed by the Federal Network Agency prior to market launch and then remain subject to ex-post control, with the agency being permitted to initiate proceedings at any time on the basis of complaints raised by competitors. The specific conditions applicable to us in relation to VDSL-Vectoring within areas in proximity to a local exchange are currently being reviewed by the Federal Network Agency in a reference offer procedure. The review is expected to be completed by mid-2017.

Broadband Access – IP Bitstream

Since 2015 we have been required to offer Layer 2 and Layer 3 wholesale bitstream access products. The rates in the standard offering for the layer 3 product are subject to ex-post control by the Federal Network Agency. The rates of the Layer 2 bitstream access product are subject to ex-ante control, but without cost-oriented price control.

In June 2016 the Federal Network Agency issued a provisional ruling on our new offer for the Layer 2 access products, reducing the rates we proposed; we have been offering Layer 2 wholesale bitstream access products under these provisional rates since November 1, 2016. The final ruling entered into effect on December 9, 2016, following the required consultation with the European Commission. The bitstream access regulation continues to have a negative impact on our revenue generation.

Southern and Eastern European Telecommunications Regulation

Our subsidiaries in Greece, Hungary, Romania, Slovakia and Croatia are subject to the same EU Framework as our fixed-line business in Germany. We also operate fixed-line networks in the F.Y.R.O Macedonia and Montenegro. These countries' regulatory frameworks are converging towards the EU Framework. Therefore, all of our subsidiaries in Southern and Eastern Europe are generally exposed to a set of regulatory rules similar to those in Germany described above.

Mobile Regulation

Germany

In June 2015, TDG purchased spectrum through auction in the 700 MHz, 900 MHz, 1.5 GHz and 1.8 GHz frequency ranges. TDG received the assignment notices from the Federal Network Agency for 1.8 GHz in June 2016 and for 900 MHz in July 2016, respectively. We expect to receive the assignment notices for 700 MHz and 1.5 GHz following an application from TDG in advance of the planned commencement of usage.

The coverage requirements stipulate that any successful bidder is obliged to offer an area-wide broadband coverage of at least 50 MBit/s (megabit per second) downlink at the antenna. Within three years after the assignment of the frequencies each holder of a frequency needs to cover at least 98% of all households nationwide and at least 97% of all households per federal state providing the performance mentioned above. For the main traffic routes (state highways and ICE rail tracks) area-wide coverage is obligatory (subject to legal and factual restrictions).

According to the provisional tariff decisions of the Federal Network Agency mentioned under "—*German Fixed-Network Telecommunications Regulation*" above, mobile termination rates were reduced by more than 30% as of December 1, 2016.

United States

Our U.S. mobile operations, conducted through our majority owned subsidiary T-Mobile US are regulated by the FCC and by various other federal, state and local governmental authorities. Wireless communications providers must be licensed by the FCC to provide communications services at specified spectrum frequencies within specified geographic areas and must comply with the rules and policies governing the use of the spectrum as adopted by the FCC. The FCC issues each license for a fixed period of time, typically 10 years in the case of cellular, PCS and point-to-point microwave licenses. For Advanced Wireless Services ("AWS") licenses, AWS-1 licenses issued on or before

December 31, 2009 have an initial term of 15 years, while licenses issued after this date as well as renewals have 10-year terms, and AWS-3 licenses have an initial term of 12 years and 10 years for subsequent terms. While the FCC has generally renewed licenses given to operating companies like T-Mobile US, the FCC has authority to both revoke a license for cause and to deny a license renewal if a renewal is not in the public interest. Furthermore, T-Mobile US could be subject to fines, forfeitures and other penalties for failure to comply with FCC regulations, even if any such non-compliance was unintentional. In extreme cases, penalties could include the revocation of T-Mobile US' licenses. The loss of any licenses, or any related fines or forfeitures, could adversely affect T-Mobile US' business, results of operations and financial condition.

Additionally, the U.S. Congress' and the FCC's allocation of additional spectrum for broadband commercial mobile radio service ("CMRS"), which includes cellular, PCS and specialized mobile radio, could significantly increase competition. We cannot assess the impact that any developments that may occur in the U.S. economy or any future spectrum allocations by the FCC may have on license values. FCC spectrum auctions and other market developments may adversely affect the market value of T-Mobile US' licenses in the future. A significant decline in the value of these licenses could adversely affect the company's financial condition and results of operations. In addition, the FCC periodically reviews its policies on how to evaluate a carrier's spectrum holdings. A change in these policies could affect spectrum resources and competition among T-Mobile US and other carriers.

The U.S. Congress and the FCC have imposed limitations on foreign ownership of CMRS licensees that exceed 20% direct ownership or 25% indirect ownership. The FCC has ruled that higher levels of indirect foreign ownership, even up to 100%, are presumptively consistent with the public interest albeit subject to review. Consistent with that established policy, the FCC has issued a declaratory ruling authorizing up to 100% ownership of T-Mobile US by Deutsche Telekom. This declaratory ruling and T-Mobile US' licenses are conditioned on Deutsche Telekom's and T-Mobile US' compliance with a network security agreement with the Department of Justice, the Federal Bureau of Investigation and the Department of Homeland Security. Failure to comply with the terms of this agreement could result in fines, injunctions and other penalties, including potential revocation of T-Mobile US' spectrum licenses.

Only the FCC has authority to regulate "rates and entry" by CMRS operators, while both the individual states of the United States and the FCC have authority to regulate "other terms and conditions" of CMRS. The FCC has refrained from regulating rates charged by CMRS operators. However, under its authority to license CMRS operators to serve the public, the FCC has imposed a number of requirements on operators, including, for example, rules regarding the provision of 911 and E-911 services, porting telephone numbers, interconnection, roaming, internet openness or net neutrality and the universal service and Lifeline programs. Many of these and other issues are being considered in ongoing FCC proceedings, and we cannot predict whether or how such actions will affect T-Mobile-US' business, financial condition or results of operations. Our ability to provide services and generate revenues could be harmed by adverse regulatory action or changes to existing laws and regulation. In addition, regulation of companies that offer competing services can impact T-Mobile-US' business indirectly.

Other current U.S. regulatory issues that may significantly impact T-Mobile US' business include:

- *Open Internet/Net Neutrality:* The FCC issued new net neutrality rules in 2015 that contained three bright-line rules: 1) no blocking of lawful content; 2) no throttling of content; and 3) no pay-for-priority arrangements. They also contained a general conduct standard under which the FCC can prohibit on a case-by-case basis practices that "unreasonably interfere with or unreasonably disadvantage" consumers or over-the-top service providers. This could impact what are known as "zero-rating" programs that certain carriers such as T-Mobile US offer (*e.g.*, "Binge On"), whereby certain streaming services' data usage (*e.g.*, Netflix) is not counted against customers' data caps. The FCC has monitored the development of these programs. The rules also require increased transparency and public disclosure regarding network management practices and commercial terms. In June 2016, a federal appeals court panel upheld the rules, however, opponents to the FCC's rules have sought a higher level "en banc" appeal by the whole court.

  The legal case for the net neutrality rules required the FCC to reclassify broadband service as a common carriage service governed by Title II of the Communications Act. However, the FCC simultaneously decided to forbear from applying all of the provisions of the Title II or its own regulations promulgated under Title II that it felt could harm consumers or the industry, such as price regulation. Yet this decision could be reversed in the future if the FCC decided to initiate a new rulemaking, and end its policy of forbearance. Reversal of this forbearance could substantially impact T-Mobile US by imposing compliance costs and restrictions on the services the company delivers.

  When the FCC declared broadband a common carriage service it thereby deprived its sister agency the FTC of its consumer protection and privacy authority over broadband providers, and initiated a rulemaking process to establish consumer privacy rules for broadband providers. The Notice of Proposed Rulemaking was adopted in

early 2016, and contains proposed regulations on data security, data breach notifications and requirements that customers opt-in to programs that allow the carrier to share customers' data with affiliates. These regulations will only apply to the regulated carriers and not over-the-top competitors, so they could hamper data monetization opportunities. Depending on whether the regulations are ultimately adopted and on the contents of any such regulations so adopted, such new requirements could impose costs on the company as well as restrict its ability to market its services.

- *Spectrum:* On May 31, 2016 the FCC began the Broadcast Incentive Auction of 600 MHz band spectrum. It is a two-sided auction with broadcasters bidding to sell in a reverse auction followed by wireless carriers bidding to buy licenses in a forward auction. The Broadcast Incentive Auction is still ongoing. At this time, it is not clear how much CMRS spectrum will be licensed as a result of the auction. Further, the company is bidding against over 60 other bidders, including AT&T, Verizon, Dish and Comcast. Given the number and caliber of the other bidders, any spectrum won may be very expensive, or T-Mobile US may not be able to obtain as much spectrum as it hopes to obtain. The auction is ongoing.

- *Special Access:* On May 2, 2016, the FCC issued an Order and Further Notice of Proposed Rulemaking in the ongoing proceeding on special access (now named Business Data Services or BDS). The FCC sought to implement a technology neutral regulatory framework for business data services to maintain price cap constrains where necessary and thereby ultimately update the Competitive Market Test used to determine whether pricing caps should be implemented in a given market and at what rate. However, on November 17, 2016, the FCC announced a withdrawal of the proposal for further consideration.

We currently face some level of uncertainty with respect to these regulatory proposals, as following the outcome of the November 2016 presidential and congressional elections in the United States there is the possibility that such regulatory proposals may not be adopted or might otherwise be reversed.

While the Communications Act generally preempts state and local governments from regulating the entry of, or the rates charged by, wireless communication providers, certain state and local governments regulate other terms and conditions of wireless service, including billing, termination of service arrangements and the imposition of early termination fees, advertising, network outages, the use of handsets while driving, zoning and land use. Further, the FCC and the Federal Aviation Administration regulate the siting, lighting and construction of transmitter towers and antennas. Tower siting and construction are also subject to state and local zoning, as well as federal statutes regarding environmental and historic preservation. The future costs to comply with all relevant regulations are to some extent unknown and regulatory changes could result in higher operating expenses for T-Mobile US in the future.

Consumer Protection

Deutsche Telekom, as a telecommunications services provider, is subject to a variety of rules and regulations aimed at customer and consumer protection.

Regulation published by Federal Network Agency

In February 2014, the Federal Network Agency presented a draft regulation designed to achieve increased transparency and better cost control in telecommunications services. This regulation was finalized on December 1, 2016 and, following a six-month transposition period, will come into force on June 1, 2017, though for some rules an extended transposition period of twelve months will apply.

In September 2015, the Federal Network Agency also launched a system that enables consumers to measure the bandwidths available on their fixed-network and mobile lines. A report on the bandwidths available throughout Germany was published in June 2016. The Federal Network Agency intends to publish an additional report in the second quarter of 2017 including key findings on measured service quality.

Dutch Supreme Court decision regarding the combined sales of mobile contracts and devices

In a case not involving Deutsche Telekom, the Dutch Supreme Court (*Hoge Raad der Nederlanden*) found in the final instance that mobile contracts that are sold in combination with a free or discounted device to the effect that the price of the device as such is not apparent for the customer are to be treated as consumer credit or installment purchase contracts. As a consequence, such contracts are subject to certain consumer protection provisions under Dutch law, and contracts that do not comply with these provisions can be rescinded by the consumer. While T-Mobile Netherlands B.V. is currently examining the consequences of this decision for its business, the decision might lead to an increased amount of legal proceedings brought against T-Mobile Netherlands B.V.

Data Protection

The European General Data Protection Regulation (Regulation (EU) 2016/679) will enter into force on May 25, 2018. These new data protection law close a large gap in the regulation of service providers outside of the EU and generally impose uniform rules for all market participants operating within the EU. Regulation (EU) 2016/679 is designed to assure a high level of data protection in Europe and, at the same time, to level the playing field for new digital business models. Regulation (EU) 2016/679 will apply directly in the EU Member States and does not need to be transposed into national law. In Germany, contrary or redundant existing law will need to be repealed by way of a specific act (*Rechtsbereinigungsgesetz*).

Following the judgment of the European Court of Justice ("ECJ") dated October 6, 2015, holding the European Commission's Safe Harbor Decision ("Safe Harbor") to be invalid, the European Commission put forward a successor agreement (known as the EU-U.S. Privacy Shield – "Privacy Shield") at the beginning of February 2016. As in the case of the former Safe Harbor Agreement, the Privacy Shield is intended to enable personal data of EU citizens to be transmitted to and be processed in the United States. The final draft of the Privacy Shield, which was adopted by the European Commission on July 11, 2016 following a majority vote of the EU Member States, includes privacy principles which stipulate heightened data protection requirements compared to Safe Harbor, with which U.S. companies must comply if they want to be certified under the Privacy Shield. Following criticism of the first draft of the Privacy Shield, the European Commission has, in a revised draft, sought to assuage the concerns expressed recently by the Article 29 Working Party, in particular, which is comprised of representatives from national data protection authorities in Europe. It cannot be ruled out that the Privacy Shield will be referred to the ECJ again, in particular with regard to the legality of the large-scale recording of personal data by national U.S. authorities that remains permissible under the Privacy Shield.

Payment Services

The EU parliament adopted the new Payment Service Directive 2 in October 2015. The Directive will replace the 2007 Payment Directive 1 and must be implemented by the EU Member States by the end of 2017. Under the new rules, billing models for voice and non-voice services will cap the amounts that can be charged for third-party services through telephone bills (to a maximum of EUR 200 per month and EUR 50 per transaction), unless a payment service license is in place. Depending on the transposition into national law, this will lead to restrictions in business models for billing third-party services and to costs for implementing compliance with the thresholds. Furthermore, there may be additional reporting obligations to the German Federal Financial Supervisory Authority (BaFin).

IT Security

On May 3, 2016, a new ordinance (*Bestimmung Kritischer Infrastrukturen-Verordnung*, "KRITIS-VO") under the German IT Security Act (*IT-Sicherheitsgesetz*, "*IT-SiG*") entered into force, which sets out the criteria that enable operators of critical infrastructure in the information technology and telecommunications, water, energy and food sectors to identify whether they are subject to the provisions of the IT-SiG. As a result, the provisions of the German Telecommunications Act (*Telekommunikationsgesetz*) applicable to the telecommunications sector has become more stringent, in particular with regard to the reliability of networks and services in accordance with current technological developments. We had already made the necessary adjustments even before the German IT Security Act was amended, and we therefore believe that we satisfy the main obligations for safeguarding public security as required by German law.

The European Parliament approved the EU Network and Information Security Directive on July 6, 2016 ("IT Security Directive"), based on which online marketplaces, search engine operators and cloud service providers will also have to ensure compliance with minimum requirements for the security of their infrastructure and report incidents. The IT Security Directive must be implemented by the national legislatures of the EU Member States. As the obligations set forth in the IT Security Directive go beyond what is entailed in the IT-SiG, the implementation of the IT Security Directive may prompt the German legislature to amend the IT-SiG accordingly. It remains to be seen whether the German legislature, in connection with such an amendment, would also regulate hardware and software manufacturers, which the IT-SiG currently does not regulate.

LEGAL PROCEEDINGS

The companies in our Group are involved in a number of legal proceedings in the ordinary course of our business. In addition, proceedings involving alleged abuse of a market-dominant position by us and other alleged antitrust violations, as well as other regulatory controversies, are pending before competition and regulatory authorities.

Securities and Corporate Law-Related Proceedings

German prospectus liability suits

Since 2001, around 16,000 purported purchasers of our shares sold pursuant to prospectuses dated June 25, 1999 (second public offering, or "DT2") and May 26, 2000 (third public offering, or "DT3"), have filed more than 2,600 lawsuits in Germany predominantly alleging that the book values of our real property portfolio were improperly established and maintained under German GAAP and that we allegedly failed to adequately disclose detailed information relating to merger negotiations between us and VoiceStream Wireless Corporation (the predecessor of T-Mobile USA). 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. These lawsuits are currently pending before the Regional Court (*Landgericht*) in Frankfurt am Main. The aggregate amount of all shareholders' claims filed in Germany in these lawsuits is approximately EUR 80 million plus interest.

In 2006, the court issued reference orders (*Vorlagebeschluesse*) for model proceedings (*Musterverfahren*) with respect to these lawsuits based on the German Act on Model Proceedings in Disputes under Capital Markets Law (*Kapitalanleger-Musterverfahrensgesetz*) seeking a decision of the Frankfurt am Main Higher Regional Court (*Oberlandesgericht*) as to common questions of law and fact with respect to the above-mentioned allegations. On May 16, 2012 and July 3, 2013, the Frankfurt am Main Higher Regional Court (*Oberlandesgericht*) issued its decisions in the model proceedings (*Musterentscheid*) regarding the offerings DT3 and DT2, respectively, holding that, in both instances, the prospectuses in dispute did not contain any material errors. Upon appeal, the Federal Court of Justice (*Bundesgerichtshof*), in its decision of October 21, 2014, overruled the Higher Regional Court's decision on the DT3 prospectus holding that the prospectus contained a material error, and remanded the case to the Higher Regional Court. The Federal Court of Justice did not address the question of liability of Deutsche Telekom for damages. On remand, the Higher Regional Court held on November 30, 2016 that Deutsche Telekom could in principle be held liable for damages caused by the error in the prospectus. However, it also held that whether Deutsche Telekom was ultimately liable for damages of the individual claimants would have to be decided on a case-by-case basis by the competent courts. Deutsche Telekom has filed an appeal against the decision of the Higher Regional Court. We continue to believe that there are compelling arguments that Deutsche Telekom should not be held liable for damages. The proceedings before the Federal Court of Justice with regards to DT2 are still pending.

Prospectus liability conciliation proceedings

In addition, many purported shareholders have initiated conciliation proceedings with a state-operated legal institution in Hamburg (*Oeffentliche Rechtsauskunfts- und Antragsstelle der Freien und Hansestadt Hamburg*, the "OeRA"), in our view, mainly in an attempt to toll the statute of limitations. The claims made in these conciliation proceedings are analogous to those made in the prospectus liability lawsuits described above. Our participation in these conciliation proceedings would be voluntary, and we have declined to participate. The OeRA has closed around 8,000 of the proceedings on the grounds of a lack of participation of either or both parties. In February 2010, the Hamburg Higher Regional Court granted our request to order the closing of the pending proceedings. As a result, about 4,000 conciliation proceedings that had not yet been fully completed were closed in March 2010. Upon the closing of the conciliation proceedings, the statute of limitations with respect to the time within which to bring a civil action is tolled for six months. A number of applicants have already filed civil proceedings, and we cannot rule out that additional applicants will file lawsuits analogous to those made in the prospectus liability lawsuits described above. The aggregate value of all shareholders' prospectus liability claims of EUR 80 million plus interest includes a total EUR 14.5 million worth of prospectus liability litigation which was, as of November 30, 2015, preceded by conciliation proceedings.

Toll Collect Arbitration

The Toll Collect consortium was formed to establish and operate a toll collection system for select vehicle categories on German highways. It was organized in the consortium company Toll Collect GbR, with Daimler Financial Services AG and Deutsche Telekom AG as principal members. By a statement of claims served on us on August 2, 2005, the Federal Republic initiated arbitration proceedings against Daimler Financial Services AG, Deutsche Telekom AG and the consortium as joint and several debtors for damages allegedly suffered as a result of both the delay in the commencement of operations and alleged breaches of the related operating agreement and other violations. In this statement, the Federal Republic claimed to have lost toll revenues of approximately EUR 3.51 billion plus interest due to

the delay and demanded an additional EUR 1.65 billion plus interest for alleged breaches of the operating agreement and other alleged violations. 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 to approximately EUR 3.33 billion plus interest. As of December 31, 2015, the claims by the Federal Republic (without regard for subsidiary motions) — including both the damages suffered due to the delay in the commencement of operations and alleged breaches of the operating agreement and other violations — thus totaled EUR 4.98 billion plus interest.

Following exchanges of briefs, hearings took place in the spring and fall of 2014. In connection with the hearing in the spring of 2014, we reexamined the proceedings and the share of the risk borne by us and, as a result, recognized appropriate provisions for risk in the statement of financial position. Further hearings took place in June 2015 and June 2016. The duration of the arbitration proceedings is unforeseeable at present. Further hearings are scheduled for March and September 2017.

In addition, in December 2006, Toll Collect GmbH initiated an arbitration proceeding seeking a determination that the Federal Republic's basis for denying the issuance of the final operating permit is unfounded and claiming that additional remuneration is due to Toll Collect under the operating agreement. The statement of claims of Toll Collect GmbH was served on the Federal Republic on May 25, 2007. The Federal Republic's statement of defense including a counterclaim re-claiming overpayment of remuneration to Toll Collect GmbH was received on January 31, 2008. Hearings took place in January and June 2016. In May 2016, Toll Collect GmbH extended its claim to an amount of EUR 1.64 billion plus interest to encompass the remuneration outstanding for 2014–2015. The arbitration proceedings are still ongoing and further hearings are scheduled for March and September 2017.

General Commercial Disputes

Claims of partnering publishers of telephone directories

At the end of 2013, 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 in civil courts against DeTeMedien GmbH and/or Deutsche Telekom AG. The plaintiffs claimed damages or refunds from DeTeMedien GmbH and, to a certain extent, from Deutsche Telekom AG as joint and several debtor alongside DeTeMedien GmbH totaling EUR 470 million plus interest at the end of 2014. The plaintiffs based or base their claims on allegedly excessive charges for the provision of subscriber data in the joint ventures. So far, the Frankfurt am Main Regional Court has rejected 22 out of 81 claims in the first instance (two of these rulings are legally binding, reducing the total amount in dispute to approximately EUR 467 million plus interest). Most plaintiffs filed appeals against the other rulings with the Frankfurt am Main Higher Regional Court. On October 22, 2015, Deutsche Telekom AG, DeTeMedien GmbH and the majority of the partnering publishers entered into a settlement agreement. As a result, 54 publishers waived their claims and seven publishers withdrew their appeals resulting in the rulings of the first instance that had rejected the claims becoming legally binding. At present, 18 lawsuits are still pending with a remaining total amount in dispute of approximately EUR 132 million plus interest. The appeals of five claimants were rejected by the Higher Regional Court, while eight further appeals are still pending before the same court. Five lawsuits were dismissed in the court of first instance. In addition, five partnering publishers of telephone directories, whose civil actions are still pending, have been pursuing their claims in parallel since June 2016 through administrative court actions against the Federal Network Agency.

Claims relating to charges for the shared use of cable ducts

With an action filed in the spring of 2012, Kabel Deutschland Vertrieb und Service GmbH ("KDG") — now Vodafone Kabel Deutschland GmbH — requested that Telekom Deutschland GmbH reduce the annual charge for the rights to use cable duct capacities in the future and that it partially refund related overpayments made since 2004. Pursuant to the statement of claims, the amount allegedly overpaid up to and including 2012 amounts to approximately EUR 340 million plus interest. The action was dismissed by the Frankfurt am Main Regional Court with a decision dated August 28, 2013, and the appeal — in which KDG included its claims for 2013, increasing the refund sought to approximately EUR 407 million as well as the alleged benefit for Telekom Deutschland GmbH from additional interest received of around EUR 34 million, plus interest in each case — was rejected by the Frankfurt am Main Higher Regional Court on December 9, 2014, and no further appeal was permitted. Upon KDG's complaint, however, the Federal Court of Justice permitted KDG's appeal in a decision dated December 15, 2015. Oral hearings before the Federal Court of Justice are currently scheduled for January 24, 2017.

In similar proceedings, Telekom Deutschland GmbH also received claims filed on January 23, 2013 in which Unitymedia Hessen GmbH & Co. KG, Unitymedia NRW GmbH and Kabel BW GmbH requested Telekom Deutschland GmbH to cease charging the plaintiffs 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, the plaintiffs

currently demand EUR 188.8 million in aggregate, plus interest. The Cologne Regional Court dismissed these claims in the first instance. The claimants have filed an appeal against the decision of the Cologne Regional Court.

Claim for damages in Malaysia

Malaysian communications providers Celcom Malaysia Berhad ("Celcom") and Technology Resources Industries Berhad ("TRI"), have brought actions against eleven defendants in total, including DeTeAsia Holding GmbH ("DTAH"), a subsidiary of Deutsche Telekom AG, and certain (former) directors before the High Court in Kuala Lumpur, Malaysia. The plaintiffs are seeking damages of USD 232 million plus interest. DTAH had recovered this amount from Celcom in 2005 following, and on the basis of, an award granted by the ICC arbitral tribunal in DTAH's favor. Celcom in particular accuses its former directors (including delegated German directors and employees of DTAH or Deutsche Telekom AG) of breach of fiduciary duties and is claiming compensation in the very amount Celcom was ordered to pay, and indeed paid, under the ICC award. The court proceedings in the first instance are expected to take place in the spring of 2017.

Litigation in Connection with Decisions by the Federal Network Agency

Several of our competitors have requested the revocation of decisions by the Federal Network Agency (*Bundesnetzagentur*) that had been favorable to Deutsche Telekom or Telekom Deutschland GmbH. To the extent that these applications have been or were to be successful, the Federal Network Agency is or would generally be required to issue new decisions which might be less favorable to us. In our opinion, the proceedings listed below are of particular importance to us:

Charges for the unbundled local loop

Under the German Telecommunications Act (*Telekommunikationsgesetz*), the Federal Network Agency regulates the access for local loop lines (*Teilnehmeranschlussleitungen*). Under this regulation, we are obliged to publish a reference offer for access to unbundled local loop lines (ULLs), and prices require prior approval by the Federal Network Agency. Certain of our competitors that have demanded access to ULLs, successfully filed complaints with the competent courts to have certain approvals in connection with ULLs revoked to the effect that such approvals — with the exception of the approvals of one-time charges from 1999, 2001, 2005, and 2010 — were not binding for the plaintiff companies. In these cases, the Federal Network Agency had to issue new decisions on the charges in relation to these companies. In 2015, settlement agreements were concluded with the plaintiffs concerning the ULL one-time charges, in which the originally approved charges were agreed and the plaintiffs that were party to the settlement agreement undertook to withdraw pending claims. Against this background, we submitted new rate applications to the Federal Network Agency on September 23, 2015 and November 30, 2015, which were approved on November 5, 2015 and February 1, 2016. The obligations under the agreement were implemented in full by April 2016. The ULL one-time charges in the amount originally approved by the Federal Network Agency have thus become final and binding for almost the entire market. We classify the remaining risk from the proceedings concerning the ULL monthly and one-time charges to be low.

Auction of LTE frequencies

In 2010, the Federal Network Agency auctioned off additional LTE frequencies in the 0.8 GHz, 1.8 GHz, 2.0 GHz, and 2.6 GHz ranges, with all four German mobile network operators, including Telekom Deutschland GmbH, participating in the auction. The legal basis for this frequency auction was a general order issued by the Federal Network Agency on October 12, 2009 ("General Order"). Wireless telecommunications services provider airdata filed actions with the Cologne Administrative Court (*Verwaltungsgericht*) to nullify the General Order and otherwise challenge the rules governing, and other aspects of, the auction. In addition, several mobile communications, cable TV and radio providers filed complaints with the Federal Network Agency to void the allocation of certain frequencies to Telekom Deutschland GmbH. Telekom Deutschland GmbH has not filed an action or a complaint itself and is not involved in the proceedings. As of the date of this offering memorandum, airdata's actions have been dismissed with final and binding effect by the German Federal Administrative Court (*Bundesverwaltungsgericht*) and the German Federal Constitutional Court (*Bundesverfassungsgericht*). Further, the complaints filed with the Federal Network Agency have not been substantiated to date, have been withdrawn or pertinent proceedings have been suspended.

Disputes in Relation to Radio Frequency Emissions

Beginning in 2000, plaintiffs filed numerous state court class-action lawsuits against T-Mobile USA and several other wireless service operators and wireless telephone manufacturers, asserting product liability, breach of warranty and other claims relating to radio frequency transmissions to and from wireless mobile devices. While these lawsuits were dismissed by the United States Supreme Court with final and binding effect in 2011, several new lawsuits have been filed

against T-Mobile USA and other manufacturers and carriers in the industry claiming damages for alleged health problems as a result of the use of wireless handsets. The plaintiffs claim that the use of wireless handsets and wireless transmission equipment, such as transmission towers, may be linked to various health concerns, including cancer and brain tumors. The corresponding court proceedings are still ongoing. T-Mobile believes these cases lack merit and is vigorously defending itself.

Disputes in Relation to Intellectual Property Rights

Like many other telecommunications and Internet providers, we are exposed to an increasing number of intellectual property disputes, especially patent litigation. Generally, this leads to a higher risk of having to pay license fees and compensation. Some disputes may even result in cease-and-desist orders, that could block our access to, and ability to use, key network technologies.

In particular, since 2015, affiliates of Intellectual Ventures, a patent exploitation enterprise, have so far brought 13 cases against us in the Regional Courts of Düsseldorf, Mannheim and Munich. The plaintiffs allege that the defendant Telekom group companies have infringed twelve patents (including relating to LTE and DSL technology). The claimants have further petitioned the relevant courts to grant motions, *inter alia*, for information and disclosure as well as restraining orders. While the claims are targeted at determining that the legal grounds for damages claims do in fact exist, actual claims for payment of damages have not been filed yet. As of December 2016, the aggregate amount in dispute of these pending lawsuits is approximately EUR 46 million.

Antitrust Proceedings

In recent years, we have significantly expanded our compliance activities with respect to antitrust law. In 2015, independent auditors certified our antitrust compliance management system as effective in accordance with IDW AssS 980 of the German Institute of Public Auditors (*Institut der Wirtschaftsprüfer, IDW*) (*Principles for the Proper Performance of Reasonable Assurance Engagements Relating to Compliance Managements Systems*). This assurance standard is designed to assess whether a compliance management system's policies and procedures are comprehensive, appropriate and effective. Nevertheless, we and some of our subsidiaries, affiliates and joint ventures are subject to various proceedings under antitrust or competition law or civil follow-on actions. In our opinion, the proceedings listed below are of particular importance to us:

European Commission proceedings against Slovak Telekom and Deutsche Telekom

Following an investigation opened in April 2009, the European Commission decided on October 15, 2014 that Slovak Telekom had abused its market power in the Slovak broadband market between 2005 and 2010 and, as a result, imposed fines on Slovak Telekom and Deutsche Telekom AG. The European Commission argued that Slovak Telekom denied 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 AG and an additional EUR 31.1 million for Deutsche Telekom AG because Deutsche Telekom AG had previously been subject to a fine for the manipulation of margins in Germany in 2003 (see "*—Terminated Proceedings—Claims for follow-on damages against Deutsche Telekom AG or Telekom Deutschland GmbH*" below). The fines were paid in January 2015. Slovak Telekom and Deutsche Telekom AG challenged the European Commission's decision on December 29, 2014 before the CJEU, arguing that the European Commission lacked a legal basis to hold Deutsche Telekom AG liable for the alleged breach of antitrust law by Slovak Telekom. Furthermore, we are convinced that Slovak Telekom complies and complied with applicable law. Proceedings before the CJEU are still pending.

Claims for follow-on damages against Slovak Telekom

Following the decision of the European Commission dated October 15, 2014 (see "*—European Commission proceedings against Slovak Telekom and Deutsche Telekom*" above), Orange Slovensko and SWAN, two telecommunications services providers, filed civil actions against Slovak Telekom with the competent court in Bratislava in August 2015, claiming damages in amounts of EUR 232 million and EUR 53 million, respectively, in each case plus interest. Further, Slovanet filed an action against Slovak Telekom in 2016 claiming compensation for damages of EUR 63 million plus interest; however, after the original action was dismissed by the court, Slovanet's action has not yet been formally served upon Slovak Telekom. These claims seek damages due to Slovak Telekom's alleged abuse of a dominant market position as determined by the European Commission in its decision. A decision of the CJEU on the validity of the decision of the European Commission is pending (see "*—European Commission proceedings against Slovak Telekom and Deutsche Telekom*" above). Slovak Telekom considers the complaints to be largely unfounded and filed a substantiated statement of defense relating to the Orange Slovensko and SWAN proceedings. Both proceedings are still pending and their potential financial impact currently cannot be assessed with certainty.

Disputes in Relation to the Status and the Rights of Civil Servants

As a legal successor company to Deutsche Bundespost, we employ a substantial number of individuals who, pursuant to the law governing our privatization, have retained their civil servant status. Accordingly, the terms and conditions of their employment and the benefits owed to them continue to be governed by German regulations regarding civil servants.

In particular, pursuant to the German Postal Employees Act (*Postpersonalrechtsgesetz*), we are legally required to make annual contributions — generally 33 percent of the pensionable gross remuneration of active civil servants and the notional pensionable gross remuneration of civil servants on leave of absence — to a special pension fund established to fund pension obligations for the civil servants employed at Deutsche Telekom. The German Postal Employees Act states that the obligation of a Deutsche Bundespost successor company to contribute to the fund may be reduced to a level that is in line with market standards and the obligations borne by peer companies if such successor company can provide evidence to the German government that the current payment obligations would result in an unreasonable burden on its competitiveness.

Deutsche Telekom filed an application with the Federal Ministry of Finance to have its contribution obligations reduced, which was rejected. Deutsche Telekom filed an appeal with the competent administrative court seeking reimbursement of a portion of the contributions paid and a reduction of the contributions to be paid in the future which was dismissed in a ruling dated October 2, 2015. Deutsche Telekom filed an appeal against this ruling with the Higher Administrative Court (*Oberverwaltungsgericht*) Berlin-Brandenburg in November 2015 for which a decision is outstanding.

Terminated Proceedings

Reimbursement and damages for subscriber data costs

From December 2004 through January 2009 a number of telephone directory service providers, including, among others, telegate, datagate, klicktel and Vodafone, that received data from us relating to subscribers for voice telephony services for the purpose of providing their own directory services, filed lawsuits with the Regional Courts in Cologne and Bonn claiming an aggregate amount of approximately EUR 118 million as reimbursement for payments made to us since 1998. The plaintiffs, referring to a decision by the Court of Justice of the European Union ("CJEU") (C-109/03; *KPN vs. Onafhankelijke Post en Telecommunicatie Autoriteit*), allege that we included inadmissible costs in our charges for providing customer data. All the claims were terminated with final and binding effect.

In a matter related to the proceedings described above, two lawsuits were served on us on October 19, 2005: one by telegate for damages of approximately EUR 86 million, plus interest, and another by telegate's founding shareholder, Dr. Klaus Harisch, for damages of approximately EUR 329 million, plus interest (the latter was subsequently increased to an amount of approximately EUR 612 million, plus interest). Both plaintiffs claimed that they incurred losses, on the grounds of adverse effects that our alleged inclusion of inadmissible costs in our provision of customer data had on telegate's position in the market, the resulting capital measures that such alleged behavior caused telegate to require, and the weaker development of telegate's share price and the loss of shares of certain shareholders. The Cologne Regional Court dismissed both actions in its decisions dated May 28, 2013 and the Düsseldorf Higher Regional Court dismissed the appeals filed by the claimants on July 2, 2014 and April 22, 2015, respectively, in both cases not permitting an appeal to the Federal Court of Justice. The Federal Court of Justice dismissed the complaints by Dr. Harisch and telegate against the decision not to permit an appeal on April 14, 2015 and April 12, 2016, respectively, to the effect that both claims have been dismissed with final and binding effect.

Claim for compensation against OTE

In May 2009, Lannet Communications S.A., a company providing telecommunications services in Greece, filed a lawsuit against our partially owned subsidiary Hellenic Telecommunications Organization S.A. ("OTE") claiming damages in the amount of EUR 176 million as a result of the allegedly unlawful termination of services (mainly interconnection services, unbundling and leasing of dedicated lines) by OTE. The hearing was scheduled by the competent court for February 17, 2011, but was postponed and rescheduled for May 30, 2013. Following further hearings in June 2015 and the plaintiff's failure to provide security for the claims filed, the competent court in Athens ruled on April 8, 2016 in favor of OTE, and requested that OTE withdraw its claim. The decision has become final and legally binding and the proceedings have been terminated.

Federal Network Agency proceedings on MagentaZuHause Hybrid

Since 2015, we have been offering MagentaZuhause Hybrid rate plans to retail customers that combine fixed-network capacities (DSL) with mobile communications (LTE) in a single access product. In January 2016, following allegations by competitors 1&1, NetCologne, and M-net that the prices charged by us for MagentaZuhause Hybrid were allegedly too low, the Federal Network Agency opened preliminary investigations in relation to such prices. Since the Federal Network Agency found no basis for the allegations, it closed its investigations on March 10, 2016.

DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

Management and Supervision

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

The Supervisory Board

The Supervisory Board advises the Board of Management and oversees its management of business. In accordance with the German Stock Corporation Act (*Aktiengesetz*) and the German Co-Determination Act of 1976 (*Mitbestimmungsgesetz*), our Supervisory Board consists of twenty members, ten of whom represent our shareholders and ten of whom represent our employees. Members of the Supervisory Board may be elected for a term of up to five years and re-election is permitted. The Chairman and the Deputy Chairman are elected by the Supervisory Board in accordance with the rules of the German Co-Determination Act.

Supervisory Board members representing our shareholders are elected at the annual shareholders' meeting. The terms of office of the shareholder representatives expire at the end of the shareholders' meeting at which the shareholders discharge the Supervisory Board members in respect of the fourth financial year following the member's commencement of tenure of office (unless a shorter term is determined by the shareholders' meeting). The financial year in which tenure of office commences is not counted for this purpose.

Supervisory Board members representing our employees are elected by our employees in accordance with the provisions of the German Co-Determination Act. Employees elect ten representatives, made up of regular employees, at least one senior management employee and three union representatives. Civil servants are included in these groups of employee representatives for purposes of these elections.

Pursuant to the German Stock Corporation Act, as amended by the Law on the Equal Participation of Women and Men in Leadership Positions in the Private and the Public Sector (*Gesetz für die gleichberechtigte Teilhabe von Frauen und Männern an Führungspositionen in der Privatwirtschaft und im öffentlichen Dienst*) which entered into force on May 1, 2015, we are required to maintain a fixed minimum of 30 percent of women on our Supervisory Board. With eight women currently serving as members of our Supervisory Board (40 percent), we are complying with the statutory requirement.

A member of the Supervisory Board elected by our shareholders may be removed by a shareholders' resolution by a simple majority of the votes cast. A member of the Supervisory Board elected by our employees may be removed by a majority of at least three-quarters of the votes cast by the relevant class of employees or union representatives who elected the relevant Supervisory Board members and by an additional majority of at least three-quarters of our employees' delegates in accordance with the German Co-Determination Act.

The Supervisory Board is required by law to meet at least twice every six months. To achieve a quorum, at least ten of the members of the Supervisory Board must be present or cast their votes in writing. Except in situations in which a different majority is required by law, such as the appointment of members of the Board of Management or the election of the Chairman and Deputy Chairman, the Supervisory Board makes decisions by simple majority of the votes cast. If, in the event of a deadlock, a second vote again results in a tie, the Chairman of the Supervisory Board can cast the deciding vote.

Composition of the Supervisory Board

The current members of our Supervisory Board and their principal occupations are listed below:

Shareholder representatives

- Prof. Dr. Lehner, Ulrich, Member of the Shareholders' Committee of Henkel AG & Co. KGaA, Düsseldorf; Chairman of the Supervisory Board of Deutsche Telekom AG, Bonn
- Baldauf, Sari, Chairwoman of the Board of Directors of Fortum Oyj, Espoo (Finland)
- Dr. Bernotat, Wulf H., Managing Director and partner of Bernotat & Cie. GmbH, Essen
- Geismann, Johannes, State Secretary, Federal Ministry of Finance, Berlin

- Hinrichs, Lars, CEO of Cinco Capital GmbH, Hamburg
- Dr. Jung, Helga, Member of the Board of Management of Allianz SE, Munich
- Prof. Dr. Kaschke, Michael, CEO & President of Carl Zeiss AG, Oberkochen
- Kollmann, Dagmar, Deputy Chairwoman of the Supervisory Board of Deutsche Pfandbriefbank AG, Unterschleißheim
- Dr. Schröder, Ulrich, Chairman of the Board of Managing Directors of KfW, Frankfurt am Main
- Streibich, Karl-Heinz, CEO of Software AG, Darmstadt

Employee representatives

- Schröder, Lothar, Member of the ver.di National Executive Committee, Berlin; Deputy Chairman of the Supervisory Board of Deutsche Telekom AG, Bonn
- Bednarski, Josef, Chairman of the Group Works Council at Deutsche Telekom AG, Bonn
- Brandl, Monika, Chairwoman of the Central Works Council of Deutsche Telekom AG, Bonn
- Hanas, Klaus-Dieter, Chairman of the Works Council at Deutsche Telekom Kundenservice GmbH, Central-Eastern District, Bonn
- Hauke, Sylvia, Chairwoman of the Central Works Council at Telekom Deutschland GmbH, Bonn
- Kallmeier, Hans-Jürgen, Chairman of the Central Works Council at T-Systems International GmbH, Frankfurt am Main
- Koch, Nicole, Chairwoman of the Works Council at Telekom Shop Vertriebsgesellschaft mbH, Bonn
- Kreusel, Petra Steffi, Senior Vice President Strategic Development and Support at T-Systems International GmbH, Frankfurt am 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 am Main
- Sommer, Michael, Trade Union Secretary, former Chairman of the German Confederation of Trade Unions (DGB), Berlin
- Spoo, Sibylle, Lawyer, Trade Union Secretary at the ver.di Federal Administration, Berlin

Changes in the composition of the Supervisory Board

Waltraud Litzenberger resigned from her position effective December 31, 2015. Nicole Koch was appointed to the Supervisory Board by court decision with effect as of January 1, 2016. Ms. Koch is currently appointed until the employee delegate conference in 2018.

Dr. Hubertus von Grünberg’s term of office expired on May 25, 2016. Dr. Helga Jung was elected as his successor by our shareholders in the annual shareholders’ meeting on May 25, 2016.

Basis of Supervisory Board compensation

The compensation received by the members of our Supervisory Board is set forth in § 13 of our Articles of Incorporation. Under the compensation system that came into effect on January 1, 2013, each member of the Supervisory Board receives fixed annual compensation of EUR 70,000.00. The Chairman of the Supervisory Board receives an additional EUR 70,000.00 and the Deputy Chairman an additional EUR 35,000.00. Members of the Supervisory Board appointed to a Supervisory Board committee also receive additional compensation. The annual shareholders’ meeting held on May 25, 2016 decided to amend § 13 of our Articles of Incorporation so as to raise the additional compensation for members of Supervisory Board committees. 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. Deutsche Telekom AG also reimburses value-added tax payable on remuneration and expenses.

For additional information, see Note 41 "*Compensation of the Board of Management and the Supervisory Board*" to our consolidated financial statements as of and for the year ended December 31, 2015 included elsewhere in this offering memorandum.

The Board of Management

The members of the Board of Management are appointed and discharged by the Supervisory Board in accordance with § 84 of the German Stock Corporation Act and § 31 of the German Co-Determination Act (or, in exceptional cases in accordance with § 85 of the German Stock Corporation Act by a court).

Pursuant to § 111(5) of the German Stock Corporation Act, as amended by the Law on the Equal Participation of Women and Men in Leadership Positions in the Private and the Public Sector, our Supervisory Board is obliged to define individual targets for the representation of women on the Board of Management on a regular basis. In 2015, our Supervisory Board resolved that the current proportion of women on the Board of Management (1 out of 7) was at least to remain stable until the end of 2015 and that it should increase to at least 2 out of 7 by the end of 2020.

Since January 1, 2017, Board of Management responsibilities have been distributed across eight Board departments. Five of these cover central management areas:

- Chairman of the Board of Management
- Finance
- Human Resources
- Data Privacy, Legal Affairs and Compliance
- Technology and Innovation

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

- Germany
- Europe
- T-Systems

Composition of the Board of Management

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

Changes in the composition of the Board of Management and its Structure

Claudia Nemat was reappointed as a Member of the Board of Management for another five years effective October 1, 2016 per resolution of the Supervisory Board of December 16, 2015.

As of January 1, 2017, our Board of Management has been expanded to include the additional Board department Technology and Innovation, raising the number of Board of Management members from seven to eight. The new Board department is headed by Claudia Nemat. Ms. Nemat's former responsibility for Europe has been assumed by Srini Gopalan, who has joined the Board of Management as a new member. Our Supervisory Board approved this decision in its meeting on June 30, 2016.

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*) 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 is comprised of various components. Under the terms of their service contracts, members of the Board of Management are entitled to annual fixed remuneration and annual variable performance-based remuneration (Variable I), a long-term variable remuneration component (Variable II), as well as fringe benefits and deferred benefits based on a company pension entitlement. The Supervisory Board defines the structure of the compensation system for the Board of Management and reviews this structure and the appropriateness of the 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. Board of Management compensation is oriented toward our sustained development and there is a multi-year measurement base in the new system for the variable components.

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

In accordance with market-oriented and corporate standards, we grant 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.

Employment outside of the Group generally requires prior approval by the Supervisory Board. Generally, no additional compensation is paid to members of the Board of Management for board memberships of other Group entities.

For more information on the compensation of the Board of Management and the disclosures required by § 314 of the German Commercial Code, German Accounting Standard No. 17 (GAS 17), and the German Corporate Governance Code, please refer to Note 41 "*Compensation of the Board of Management and the Supervisory Board*" to our consolidated financial statements as of and for the year ended December 31, 2015 included elsewhere in this offering memorandum.

Employees

Headcount development

	As of	**As of December 31,**		
Employees in the Group	**September 30, 2016**	**2015**	**2014**	**2013**
Total	**219,254**	**225,243**	**227,811**	**228,596**
Of which: Deutsche Telekom AG	23,280	26,205	28,569	29,577
Of which: civil servants (in Germany, with an active service relationship)	16,656	18,483	19,881	20,523
Germany operating segment	67,368	68,638	68,754	66,725
United States operating segment	44,148	44,229	39,683	37,071
Europe operating segment[1]	48,706	51,125	53,499	53,265
Systems Solutions operating segment[1]	43,644	44,504	46,244	49,540
Group Headquarters & Group Services	15,388	16,747	19,631	21,995
Breakdown by geographic area				
Germany	106,620	110,354	114,749	116,643
International	112,634	114,888	113,061	111,953
Of which: other EU Member States	59,079	60,710	63,032	63,939
Of which: rest of Europe	2,610	2,945	3,127	3,238
Of which: North America	44,702	44,803	40,346	37,856
Of which: rest of world	6,244	6,431	6,556	6,920

[1] Business customer operations at Magyar Telekom in Hungary, which had previously been organizationally assigned to the Systems Solutions operating segment, have been bundled and reported under the Europe operating segment since January 1, 2016. The comparative figures as of December 31, 2015 have been adjusted retrospectively. For more information, refer to the section on "*Segment Reporting*" in the "*Other Disclosures*" section of the condensed consolidated interim financial statements as of and for the period ended September 30, 2016 included elsewhere in this offering memorandum.

By September 30, 2016, our Group's headcount decreased by 2.7 percent compared with December 31, 2015, and by December 31, 2015, the headcount had decreased by 1.1 percent compared with December 31, 2014, both for the reasons stated below.

Germany

The headcount in our Germany operating segment as at September 30, 2016 decreased by 1.9 percent compared with December 31, 2015 due to measures to enhance efficiency, a slowdown in recruitment in the operating units, and an increase in civil servants opting for early retirement. This development was partially offset by a transfer of 480 employees from the Systems Solutions operating segment to the Germany operating segment as of January 1, 2016.

As at December 2015, the headcount in this segment had decreased slightly by 0.2 percent compared with December 31, 2014 as increases in staff to expand and update our network were offset by staff downsizing measures implemented primarily in central functions.

United States

The total number of employees in our United States operating segment decreased by 0.2 percent as at September 30, 2016 compared to December 31, 2015, due to a decrease in customer acquisition employees, which was partially offset by an increase in network and administrative employees.

As at December 31, 2015, the total number of employees in in this segment had increased by approximately 11.5 percent compared with December 31, 2014 due to an increase in retail, customer support and administrative employees to support the growing T-Mobile US customer base.

Europe

In our Europe operating segment, staff levels had decreased by 4.7 percent as at September 30, 2016 compared with December 31, 2015, mainly as a result of efficiency enhancement measures in the segment, especially in Hungary, Poland, and Croatia.

As at December 31, 2015, staff levels in this segment had decreased by 4.5 percent compared with December 31, 2014, in particular due to efficiency enhancement measures in several countries in the segment.

Systems Solutions

The headcount in our Systems Solutions operating segment had decreased by 1.9 percent as at September 30, 2016, compared with December 31, 2015, largely due to staff restructuring measures in Germany and abroad, and the relocation of 480 employees to the Germany operating segment (see "*—Employees—Germany*" above).

As at December 31, 2015, the headcount in this segment had declined by 3.8 percent compared with December 31, 2014, largely due to staff restructuring measures in Germany and abroad.

Group Headquarters & Group Services

The number of employees in our Group Headquarters & Group Services segment had decreased by 8.1 percent as at September 30, 2016, compared with December 31, 2015, mainly due to continued staff restructuring.

As at December 31, 2015, the number of employees in this segment decreased by 14.7 percent compared with December 31, 2014, mainly due to the continued staff restructuring program — including the placement of employees within the Group — and the sale of the online platform t-online.de and the digital content marketing company InteractiveMedia in November 2015.

Collective bargaining

On April 13, 2016, Deutsche Telekom and the union Vereinte Dienstleistungsgewerkschaft ("ver.di") reached agreement on the terms for a collective bargaining agreement (*Tarifvertrag*) for Deutsche Telekom AG, Telekom Deutschland GmbH, Deutsche Telekom Kundenservice GmbH, Deutsche Telekom Technischer Service GmbH, Deutsche Telekom Technik GmbH, and Deutsche Telekom Regional Services and Solutions GmbH. The new collective bargaining agreement, *inter alia*, provides for salary increases of 2.2 percent (2.6 percent for lower salary groups) with retroactive effect as of April 1, 2016 and an additional 2.1 percent increase as of April 1, 2017 for all salaries covered by

the collective bargaining agreement. The new agreement took effect retroactively as of February 1, 2016 and has a two-year term.

In the collective negotiations for T-Systems and its German subsidiaries, an agreement was reached with ver.di on June 15, 2016. Among other matters, an agreement was reached to increase salaries covered by the collective bargaining agreement by 1.0 percent (1.5 percent for lower salary groups) with retroactive effect as of July 1, 2016, and by an additional 1.5 percent as of April 1, 2017. The new agreement took effect retroactively as of April 1, 2016 and has a two-year term.

Under both collective bargaining agreements, dismissals for operational reasons (*betriebsbedingte Kündigungen*) are ruled out until December 31, 2018.

Civil servants

Although no employees hired after January 1, 1995 have been granted civil servant status, we employ a substantial number of civil servants. Pursuant to the law governing our privatization, our civil servant employees retained their civil servant status. Accordingly, the terms and conditions of their employment and the benefits owed to them continue to be governed by German regulations regarding civil servants. In particular, civil servant salaries are set by statute and not by us or by collective bargaining agreements. In addition, civil servants are tenured employees and may not be unilaterally terminated except in extraordinary, statutorily defined circumstances. Civil servants are not permitted to participate in work-related actions such as strikes, but are permitted to join labor unions. Although we are authorized, pursuant to the law governing our privatization, to exercise generally the rights and duties of the Federal Republic as the employer of civil servants, the Federal Postal and Telecommunication Agency (*Bundesanstalt für Post und Telekommunikation or the Federal Agency*) has a right of consultation in the implementation of certain aspects of the terms under which we employ civil servants.

Under the German Postal Employees Act (*Postpersonalrechtsgesetz*), which governs the legal position of civil servants at Deutsche Telekom AG, we have been given greater flexibility with respect to our relationship with our civil servants. Among other things, we were able to eliminate the Christmas bonus thus enabling us to finance the reduction in weekly working hours from 41 to 38 under our employment alliance, which also applied to civil servants from April 2004. Based on the agreement and the applicable law, we may assign tasks in companies within or outside the Group to active civil servants. The civil servants' compensation, healthcare and pension entitlements have been maintained. Under certain circumstances, civil servants may also be transferred, even without their consent, to companies in which Deutsche Telekom AG has a direct or indirect majority shareholding. However, there is a risk that civil servants who have been transferred and whose civil servant status has been temporarily suspended may return to Deutsche Telekom AG, for example, after the completion of their work at one of our subsidiaries. Although we attempt to reduce the financial impacts of this risk through compensation payments from the subsidiaries to Deutsche Telekom AG, we cannot eliminate it completely.

Since 2004, the measures agreed upon for civil servants in the collective bargaining agreement between Deutsche Telekom AG and ver.di (*Manteltarifvertrag*) have been funded by various measures, including the elimination of year-end bonuses (Christmas bonuses) based on an amendment of the legal provisions relating to the German Postal Employees Act. Civil servants have raised objections and taken legal action against this amendment but, after the Federal Constitutional Court confirmed its constitutionality in 2012, most claims and appeals were withdrawn or dismissed by the competent courts. For more information, see "*Legal Proceedings—Terminated Proceedings—Litigation relating to reduced pay tables*".

Pensions

We manage our pension commitments based on our Group-wide Global Pension Policy. This policy is designed to ensure that Group minimum standards regarding the granting and management of company pension benefits are complied with on a worldwide basis, that 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 the requirements for the launch, adjustment, and closure of corresponding plans. The regulations and provisions in our Group policy take into account national differences in state pension and other commitments under labor, tax, and social law and common business practices in the area of pension commitments.

In Germany, we offer defined benefit plans based on defined contribution-like pension commitments (*Beitragsorienterte Leistungszusagen*). We also established a contractual trust arrangement ("CTA"), Deutsche Telekom Trust e. V., 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. In addition, specific arrangements are in place with respect to pensions for civil-servants.

Defined benefit plans

We maintain defined benefit pension plans in various countries on the basis of the pensionable compensation of our employees and their length of service. Some of these pension plans are financed through external pension funds (including the German CTA), and some remain unfunded. 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 as of the end of the financial year 2015, but also expected future salary and benefit increases.

As of December 31, 2015, provisions for pensions and other employee benefits (defined benefit liability according to International Accounting Standard 19) amounted to EUR 8.0 billion (December 31, 2014: EUR 8.5 billion). The decrease in provisions was attributable in part to actuarial losses of EUR 0.2 billion (before taxes), due to lower interest rate levels, recognized directly in equity. Benefits of EUR 0.4 billion paid in the reporting year and the increase of our plan assets by EUR 0.3 billion (allocation under the CTA) also reduced provisions. By contrast, current service costs increased provisions for pensions by EUR 0.3 billion.

With respect to the defined benefit pension plans the following table presents the development of plan assets at fair value for the periods indicated:

	2015	2014	2013
		(millions of €)	
		(audited)	
Plan assets at fair value as of January 1	**2,498**	**1,973**	**1,680**
Changes attributable to business combinations/transfers of operation/acquisitions and disposals	0	0	(1)
Interest income on plan assets (calculated using the discount rate)	50	65	54
Amount by which the actual return exceeds (falls short of) the interest income on plan assets (remeasurement)	(82)	207	13
Contributions by employer	276	266	269
Contributions by plan participants	5	5	5
Benefits actually paid from plan assets	(31)	(30)	(42)
Settlements	–	–	0
Administration costs	0	0	0
Tax payments	–	–	–
Exchange rate fluctuations for plans in foreign currency	28	12	(5)
Plan assets at fair value as of December 31	**2,744**	**2,498**	**1,973**

Contributions by employer as of December 31, 2015 include a payment of EUR 250 million (December 31, 2014: EUR 250 million) to our CTA in Germany. The contributions by employer are usually allocated at year-end. Due to general trends in the capital markets in 2015, the positive development of actual income observed in the prior year did not continue in 2015.

The following tables present the breakdown of plan assets at fair value by investment category as of the dates indicated:

	December 31, 2015	Of which: price in an active market	Of which: price without an active market
		(millions of €)	
		(audited)	
Equity securities	609	609	0
Debt securities	1,825	1,825	0
Real estate	54	54	0
Derivatives	0	0	0
Investment funds	0	0	0
Asset-backed securities	0	0	0
Structured debt instruments	0	0	0
Cash and cash equivalents	200	200	0
Other	56	14	42

Plan assets at fair value	**2,744**	**2,702**	**42**

	December 31, 2014	Of which: price in an active market	Of which: price without an active market
		(millions of €)	
		(audited)	
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
Plan assets at fair value	**2,498**	**2,456**	**42**

	December 31, 2013	Of which: price in an active market	Of which: price without an active market
		(millions of €)	
		(audited)	
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
Plan assets at fair value	**1,973**	**1,940**	**33**

As of December 31, 2015, the plan assets at fair value include shares issued by Deutsche Telekom amounting to EUR 1,116 thousand (December 31, 2014: shares totaling EUR 736 thousand; December 31, 2013: shares totaling EUR 600 thousand). No other own financial instruments were included in the years shown.

The following table presents the amounts of defined benefit obligations, plan assets and defined benefit obligations in excess of plan assets as of the dates indicated:

	As of December 31,		
	2015	2014	2013
		(millions of €)	
		(audited)	
Defined benefit obligation	10,753	10,940	8,965
Plan assets at fair value	(2,744)	(2,498)	(1,973)
Defined benefit obligations in excess of plan assets	**8,009**	**8,442**	**6,992**

The following table presents the experience-based adjustments with respect to defined benefit obligations and plan assets for the periods indicated:

	2015	2014	2013
		(%)	
(Adjustments)		(audited)	
Experience-based increase (decrease) of defined benefit obligation	0.0	(0.1)	0.3
Experience-based increase (decrease) of plan assets	(3.0)	8.3	0.7

Defined contribution plans

Our contribution paid to the statutory pension scheme (*Deutsche Rentenversicherung*) in Germany in the 2015 financial year totaled EUR 0.3 billion (2014: EUR 0.4 billion, 2013: EUR 0.4 billion). Group-wide, we recognized EUR 94 million (2014: EUR 88 million, 2013: EUR 103 million) from current contributions for additional defined contribution plans in the consolidated income statement in 2015.

Pension contributions for civil servants in the Group

Civil servants employed by us are entitled to pension benefits provided by the German federal government pursuant to the German Civil Servants' Benefits Act (*Beamtenversorgungsgesetz*). Pursuant to the law governing our privatization, we are required to make annual contributions to a special pension fund established to fund such pension obligations. Since January 1, 2013, and based on the Act on the Reorganization of the Civil Service Pension Fund (*Gesetz zur Neuordnung der Postbeamtenversorgungskasse*), the special pension fund is operated by the Federal Postal and Telecommunication Agency. Our contributions under the law governing our privatization generally amount to 33 percent of the pensionable gross remuneration of active civil servants and the notional pensionable gross remuneration of civil servants on leave of absence. In the 2015 financial year, the corresponding expense amounted to EUR 538 million. The present value of future payment obligations was EUR 4.2 billion at December 31, 2015 (December 31, 2014: EUR 5.1 billion, December 31, 2013: EUR 5.0 billion).

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 (*Gesetz zur Verbesserung der personellen Struktur beim Bundeseisenbahnvermögen und in den Unternehmen der Deutschen Bundespost*) allows us to include civil servants in staff restructuring measures. Civil servants of all service grades, who are working in areas where there is a surplus of staff and for whom employment in another area is not possible or cannot reasonably be expected in line with civil service legislation, have been able to apply for early retirement from the age of 55. By virtue of the Act on the Reorganization of the Civil Service Pension Fund, the provisions for early retirement for civil servants were last extended until December 31, 2016. As of December 31, 2015, this resulted in liabilities in an amount of EUR 1,451 million of which EUR 512 million were current (2014: EUR 1,669 million, of which EUR 566 million were current; 2013: EUR 2,053 million, of which EUR 629 million were current).

For more information regarding pensions, see "*Employee Benefits*" and "*Judgments and Estimates—Pension obligations for benefits to non-civil servants*" both contained in the section "*Summary of accounting policies*" in the notes to our consolidated financial statements as of and for the year ended December 31, 2015 included elsewhere in this offering memorandum as well as notes 12 "*Provisions for pensions and other employee benefits*", 14 "*Other liabilities*" and 35 "*Other financial obligations*".

Personnel costs

The following table presents information on personnel costs in the Group for the periods indicated:

	Q1 – Q3 2016	**2015**	**2014**	**2013**
	(billions of €)			
	(unaudited)			
Personnel costs in the Group	12.3	15.9	14.7	15.1
Of which: expenses relating to staff-related measures	1.2	1.2	0.9	1.4

ADDITIONAL INFORMATION

We are a stock corporation organized under the laws of the Federal Republic of Germany. Deutsche Telekom AG, Bonn, is the parent company of our Group. Its ordinary registered shares are traded on the Frankfurt Stock Exchange as well as on other German stock exchanges. Information on the capital stock in accordance with § 289(4) No. 1 of the German Commercial Code (*Handelsgesetzbuch*) can be found in Note 15 "*Shareholders' equity*" to our consolidated financial statements as of and for the financial year ended December 31, 2015 and is included elsewhere in this offering memorandum.

Voting Rights

Each share of Deutsche Telekom AG entitles its holder to one vote. However, no voting rights exist for treasury shares (currently around 20 million). The treasury shares include the former trust shares (around 19 million) — shares originated in connection with the acquisitions of VoiceStream and Powertel (now T-Mobile USA) in 2001 — that were transferred to a custody account of Deutsche Telekom AG following the dissolution of the trusts at the beginning of 2016 (see "*—Share Repurchase / Treasury Shares*" below).

Authorized Capital and Contingent Capital

The shareholders' meeting on May 16, 2013 authorized our Board of Management to increase our share capital with the approval of the Supervisory Board by up to EUR 2,176,000,000 by issuing up to 850,000,000 no par value registered shares against cash and/or non-cash contributions in the period ending May 15, 2018. This authorization may be exercised in full or in part. The Board of Management is authorized, subject to the approval of the Supervisory Board, to exclude residual amounts from shareholders' subscription rights. Further, the Board of Management is authorized, subject to the approval of the Supervisory Board, to exclude 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 our company. The Board of Management is also authorized, subject to the approval of the Supervisory Board, to determine the rights ancillary to such shares in the future and the conditions for issuing shares (2013 authorized capital). Following the increases in share capital against contribution of dividend entitlements in 2013, 2014, 2015 and 2016, the 2013 authorized capital amounts to EUR 1,598,139,059.20 as of the date of this offering memorandum.

The share capital was contingently increased by EUR 1,100,000,000 as of December 31, 2015, 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 pursuant to the terms 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 respective option or conversion obligations under such instruments

and other forms of fulfillment are not used. The new shares 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. Our Supervisory Board is authorized to amend § 5 (3) of our Articles of Incorporation in accordance with the particular usage of the contingent capital and after the expiry of all the option or conversion periods.

Shareholder Remuneration

Policy

For the financial years 2016 and 2017, we intend to retain our current shareholder remuneration policy. We envisage to pay a dividend of at least EUR 0.50 per dividend-bearing share. When determining the dividend amount, *inter alia*, the relative growth of free cashflow is taken into account.

The implementation of this policy is subject to the availability of sufficient distributable balance sheet profits of Deutsche Telekom AG for the financial year in question, our ability to establish the necessary reserves for any share repurchases and other legal requirements that may be applicable. It is also contingent upon our governing bodies adopting resolutions to this effect, taking into account the company's situation at the time.

Dividend in the Form of Shares

In 2013 we began granting shareholders the option, exercisable by eligible shareholders under the securities laws of their respective jurisdictions, of converting dividend payments into Deutsche Telekom shares instead of receiving a cash payment, which we have repeated every year since then. We proposed to the annual shareholders' meeting held on May 25, 2016, and the shareholders' meeting approved, a dividend of EUR 0.55 per dividend-bearing share for the 2015 financial year. We again offered our shareholders the choice of having their dividend paid out in cash or converting it into Deutsche Telekom AG shares. The holders of about 41 percent of the dividend-bearing shares chose for their dividend to be converted into Deutsche Telekom AG shares resulting in a total of approximately 70 million newly issued shares, increasing the total number of shares to almost 4,677 million. The cash dividend paid out to our shareholders who did not choose this option totaled around EUR 1,491 million.

Share Repurchase / Treasury Shares

Our annual shareholders' meeting resolved on May 25, 2016 to authorize our Board of Management to repurchase shares representing a total share capital of up to EUR 1,179,302,878.72 by May 24, 2021. The shares to be repurchased on the basis of this authorization, when included with the other shares of our company which we already purchased and still possessed or were to be assigned to us under § 71d and § 71e of the German Stock Corporation Act may not at any time account for more than 10 percent of our share capital. Moreover, the requirements under § 71 (2) sentences 2 and 3 of the German Stock Corporation Act must be complied with. In addition, 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 of the German Stock Corporation Act 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 of the German Stock Corporation Act are also entitled to purchase the shares. The shares shall be purchased through the stock exchange in adherence to the principle of equal treatment (§ 53a of the German Stock Corporation Act). Shares can 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 resolution of the shareholders' meeting of May 25, 2016, also authorized our Board of Management to acquire the shares through the use of equity derivatives.

The shares may be used for one or several of the purposes permitted by the authorization granted by the shareholders' meeting on May 25, 2016. The shares may also be used for purposes for which an exclusion of subscription rights is intended, but can also be withdrawn or sold through the stock market or by way of an offer to all shareholders. The shares may also be used to fulfill the rights of our Board of Management members to receive shares, which the Supervisory Board has granted to these members as part of the arrangements governing the compensation of the Board of Management.

We have not yet repurchased shares based on the authorization granted by the shareholders' meeting on May 25, 2016.

On the basis of corresponding authorizations by the shareholders' meeting on May 12, 2011 and on May 24, 2012, however, we repurchased shares between 2011 and 2015. One hundred and ten thousand shares were acquired in June 2011, 206,000 shares in September 2011, and 268,000 shares in January 2013. The total purchase price amounted to EUR 2,762,000 in 2011 and EUR 2,394,000 in 2013 (excluding transaction costs). On September 29, 2015, the Board of Management decided to acquire a total of 950,000 shares. On September 30, 2015 and October 1, 2015, shares were acquired in accordance with the authorization for a total acquisition price of EUR 14,787,000 (excluding transaction costs) with an average purchase price of EUR 15.57 per share. The treasury shares resulting from the share buy-back accounted for EUR 2,432 thousand of the share capital as at December 31, 2015. Retained earnings thus decreased by EUR 12,355 thousand.

We also dispose of treasury shares, in particular in connection with our Share Matching Plan. Under the Share Matching Plan, certain executives may invest a portion of their variable short-term remuneration component, which is

based on the achievement of targets set for each such executive for the financial year (Variable I), in Deutsche Telekom AG shares. Deutsche Telekom AG, in turn, awards additional shares for every share acquired as part of these executives' aforementioned personal investments. The additional shares are allotted to the beneficiaries of this plan on expiration of a four-year lock-up period. For more information, please refer to the Note 36 "*Share-based payment*" to our consolidated financial statements as of and for the year ended December 31, 2015 included elsewhere in this offering memorandum.

As part of the Share Matching Plan, a total of 2,000 shares were transferred free of charge to the custody accounts of eligible participants in the 2012 and 2013 financial years. A further 90,000 treasury shares were transferred free of charge in the 2014 financial year. Furthermore, a total of 140,000 shares were reallocated in January, May and June 2015 and transferred free of charge to the custody accounts of eligible participants of the Share Matching Plan. As of December 31, 2015, sales of treasury shares resulting from the transfers in 2015 accounted for EUR 358 thousand of share capital. Retained earnings thus increased by EUR 877 thousand. Between January and June 2016, an additional 226,000 shares were transferred free of charge to participants of the Share Matching Plan.

In November 2015, Deutsche Telekom sold 1,882,000 treasury shares from its portfolio. The total sales price was EUR 31,274,000 (excluding transaction costs). The portion of the proceeds that exceeded the notional value of the shares, amounting to EUR 26,457,000, was allocated to the capital reserves. The sale proceeds received were recognized under cash and cash equivalents. As of December 31, 2015, the disposal of treasury shares resulting from the sale in 2015 accounted for EUR 4,817 thousand of share capital.

As part of the acquisition of VoiceStream Wireless Corp., Bellevue, and Powertel, Inc., Bellevue, in 2001 Deutsche Telekom issued new shares from authorized capital to a trustee, for the benefit of holders of warrants, options, and conversion rights, among others. As regards the shares issued to trusts, the respective trustees waived voting rights and subscription rights and, in general, dividend rights for the duration of the trusts' existence. The options or conversion rights mentioned above fully expired in 2013. As a result, the trustee no longer has any obligation to fulfill any claims in accordance with the purpose of the deposit. Following the termination of the trust relationship at the beginning of 2016, the deposited shares were transferred to a custody account of Deutsche Telekom AG as treasury shares.

For more information, please refer to the Note 15 "*Shareholders' equity*" to our consolidated financial statements as of and for the year ended December 31, 2015 included elsewhere in this offering memorandum.

Main Agreements that Include a Change of Control Clause

The main agreements entered into by Deutsche Telekom AG, which include a change of control clause, principally relate to our bilateral credit lines and several loan agreements. In the event of a change of control, the individual lenders have the right to terminate their respective credit line and, if necessary, serve notice or demand repayment of the loans. A change of control is deemed to take place when a third party, which can also be a group acting jointly, acquires control over Deutsche Telekom AG.

In connection with Toll Collect, 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 has the right to purchase from Deutsche Telekom AG all the shares in the Hellenic Telecommunications Organization S. A. ("OTE") held by 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 the purposes of this clause, a change of control with respect to Deutsche Telekom shall be deemed to have occurred 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.

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 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.

Accounting-Related Internal Control System

Our internal control system, or ICS, is based on the internationally recognized COSO (Committee of Sponsoring Organizations of the Treadway Commission) Internal Control — Integrated Framework, COSO I, as amended on

May 14, 2013. The Audit Committee of the Supervisory Board monitors the effectiveness of the ICS — as required by § 107 (3) sentence 2 of the German Stock Corporation Act. The Board of Management has the responsibility to define the scope and structure of the ICS at its discretion.

Internal Audit is in charge of independently reviewing the 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, 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, which is periodically refined, comprises the principles, methods, and measures used to ensure compliant accounting. The accounting-related ICS aims to ensure that the consolidated financial statements of Deutsche Telekom are 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. Another objective of the accounting-related ICS is the preparation of annual financial statements and the combined management report of Deutsche Telekom AG in accordance with German GAAP.

It is generally true of any ICS that regardless of how it is specifically structured there can be no absolute guarantee that it will achieve its objectives. Regarding the accounting-related ICS, there can therefore only ever be relative certainty, but no absolute certainty that material accounting misstatements can be prevented or detected.

Group Accounting manages the processes for the preparation of the consolidated financial statements and the management report. Laws, accounting standards and other pronouncements are continuously analyzed as to whether and to what extent they are relevant and how they impact on financial reporting. The relevant requirements are defined in the Group Accounting Manual, for example, communicated to the relevant units and, together with the financial reporting calendar that is binding throughout the Group, forms the basis of the financial reporting process. In addition, supplementary process directives, standardized reporting formats, IT systems, as well as IT-based reporting and consolidation processes support the process of uniform and compliant Group accounting. Where necessary, we also draw on the services of external service providers, for example, for measuring pension obligations. Group Accounting uses appropriate processes to ensure 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 guidelines and procedures are complied with. They also ensure the compliance and timeliness of their accounting-related processes and systems. They are supported and monitored by Group Accounting.

Operational accounting processes at the national and international level are increasingly managed by our shared service centers. Internal controls are embedded in the accounting process depending on risk levels. The accounting-related ICS comprises both preventive and detective controls, which include IT-based and manual data matching, the segregation of functions, the dual checking principle, general IT checks such as access management in IT systems and change management.

We have implemented a standardized process throughout the Group for monitoring the effectiveness of the accounting-related ICS. This process systematically focuses on risks of possible misstatements in the consolidated financial statements. At the beginning of the year, specific accounts and accounting-related processes are selected based on risk factors. They are then reviewed for effectiveness in the course of the year. If control weaknesses are found, they are analyzed and assessed, particularly in terms of their impact on the consolidated financial statements and the combined management report. Material control weaknesses, the action plans for eliminating them, and ongoing progress are reported to the Board of Management and additionally to the Audit Committee of the Supervisory Board of Deutsche Telekom AG. In order to ensure a high-quality accounting-related ICS, Internal Audit is closely involved in all stages of the process.

Statement by the Board of Management on the Dependent Company Report

Since the Federal Republic of Germany, as minority shareholder of Deutsche Telekom AG, usually represents a 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) of the German Stock Corporation Act.

Deutsche Telekom is not subject to any control or profit and loss transfer agreement with the Federal Republic of Germany. Under § 312 of the German Stock Corporation Act, the Board of Management of Deutsche Telekom 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 dependent company report for the 2015 financial year: "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.”

DESCRIPTION OF THE NOTES AND GUARANTEES

The Notes will be issued under the Agreement, expected to be dated as of January 19, 2017, among the Issuer, the Guarantor and Citibank as fiscal agent and principal paying agent (the "Fiscal Agent," which expression shall, where the context so requires, include any successor for the time being as Fiscal Agent, or the "Paying Agent," where the context so requires, which term shall also include any substitute or additional paying agents from time to time under the Agreement). The Paying Agent is also acting as transfer agent, defeasance agent and registrar of the Notes and, with respect to the Floating Rate Notes, as Calculation Agent.

Holders are deemed to have notice of all provisions of the Agreement. The summary information set forth herein does not purport to be complete and is subject to the actual provisions of the Agreement, the Notes and the Guarantees. Copies of the Agreement, the Notes and the Guarantees are available for inspection at the office of the Fiscal Agent. A copy of the Agreement is also available upon request from the Guarantor.

General

The Notes will be the direct, unconditional, unsecured and unsubordinated general obligations of the Issuer. The Notes will rank equally among themselves, without any preference of one over the other by reason of priority of date of issue or otherwise, and at least equally with all other unsecured and unsubordinated general obligations of the Issuer from time to time outstanding. The Notes will be repaid at maturity at a price of 100% of the principal amount thereof. The Notes will be issued in denominations of $150,000 and integral multiples of $1,000 in excess thereof. The Notes do not provide for any sinking fund.

A "Business Day" means a day (other than a Saturday or Sunday) on which commercial banks are open for business (including dealings in foreign exchange and foreign currency) in New York City.

A "London and New York Business Day" means a day (other than a Saturday or Sunday) on which commercial banks are open for business (including dealings in foreign exchange and foreign currency) in London and New York.

A "London Business Day" means a day (other than a Saturday or Sunday) on which commercial banks are open for business (including dealings in foreign exchange and foreign currency) in London.

Principal and Interest

Fixed Rate Notes

The 2020 Fixed Rate Notes will be initially limited to $850,000,000 aggregate principal amount and will mature on January 17, 2020, the 2022 Fixed Rate Notes will be initially limited to $1,000,000,000 aggregate principal amount and will mature on January 19, 2022 and the 2027 Fixed Rate Notes will be initially limited to $1,250,000,000 aggregate principal amount and will mature on January 19, 2027. The 2020 Fixed Rate Notes will bear interest at the rate per annum of 2.225%, the 2022 Fixed Rate Notes will bear interest at the rate per annum of 2.820% and the 2027 Fixed Rate Notes will bear interest at the rate per annum of 3.600%, in each case from January 19, 2017. Interest on the 2020 Fixed Rates will be payable semiannually in arrears on January 17 and July 17 of each year, commencing on July 17, 2017 (short first coupon), and interest on the 2022 Fixed Rate Notes and the 2027 Fixed Rate Notes will be payable semiannually in arrears on January 19 and July 19 of each year, commencing on July 19, 2017. Interest on the Fixed Rate Notes will in each case be payable to the holders of record on the Business Day immediately preceding the relevant interest payment date. Interest on the Fixed Rate Notes will be calculated on the basis of a 360-day year consisting of twelve 30-day months.

The Fixed Rate Notes may be redeemed at any time prior to maturity in the circumstances described under "—*Optional Redemption*" and "—*Optional Tax Redemption*".

If the date of maturity of interest on or principal of the Fixed Rate Notes or the date fixed for redemption of any Fixed Rate Note is not a Business Day, then payment of interest or principal need not be made on such date, but may be made on the next succeeding Business Day with the same force and effect as if made on the date of maturity or the date fixed for redemption, and no interest shall accrue for the period after such date.

Floating Rate Notes

The Floating Rate Notes will be initially limited to $400,000,000 aggregate principal amount and will mature on January 17, 2020. The Floating Rate Notes will bear interest at the rate per annum of three-month U.S. dollar LIBOR (as defined below), reset quarterly as described below, plus a spread of 0.58% from January 19, 2017, payable quarterly in

arrears on January 17, April 17, July 17 and October 17 of each year, commencing on April 17, 2017 (short first coupon), to the holders of record on the 15th day preceding such interest payment date, whether or not such day is a London and New York Business Day. Interest on the Floating Rate Notes will be set in respect of the issue date, and then reset quarterly in respect of each interest payment date (other than on the maturity date), as described below. Interest on the Floating Rate Notes will be calculated on the basis of the actual number of calendar days in the calculation period divided by 360.

The Floating Rate Notes may be redeemed at any time prior to maturity in the circumstances described under "*—Optional Tax Redemption*".

If any interest payment date with respect to the Floating Rate Notes would otherwise be a day that is not a London and New York Business Day, such interest payment date will be the next succeeding London and New York Business Day unless that London and New York Business Day is in the next succeeding calendar month, in which case the interest payment date will be the immediately preceding London and New York Business Day. If the maturity date in respect of the Floating Rate Notes or any date fixed for redemption of the Floating Rate Notes is not a London and New York Business Day, the payment of principal and interest will not be made until the next following London and New York Business Day, and no further interest will be paid in respect of the delay in such payment.

Citibank, N.A., as calculation agent (the "Calculation Agent"), in consultation with the Issuer, will determine the annual interest rate applicable for each interest period to the Floating Rate Notes on the second London Business Day prior to the commencement of the relevant interest period for the Floating Rate Notes (the "Interest Determination Date"). The interest period for the Floating Rate Notes will be each period from (and including) an interest payment date for the Floating Rate Notes, or in the case of the initial interest period, from (and including) the issue date of the Floating Rate Notes to (but excluding) the following interest payment date and, in the case of the final interest period, from and including the interest payment date immediately preceding the maturity date of the Floating Rate Note to (but excluding) such maturity date.

The 3-month U.S. dollar LIBOR will be the offered quotation (expressed as a percentage rate per annum) for deposits in U.S. dollars having a maturity of 3 months that appears on the Screen Page as of 11:00 a. m. (London time) on the Interest Determination Date as determined by the Calculation Agent (in consultation with the Issuer).

"Screen Page" means Reuters screen page LIBOR01 or any successor page. The Reuters screen "LIBOR01" is the display designated as the Reuters screen "LIBOR01", or such other page as may replace the Reuters screen "LIBOR01" on that service or such other service or services as may be nominated by the British Bankers' Association for the purpose of displaying London interbank offered rates for U.S. dollar deposits.

If the Screen Page is not available or if, no such quotation appears as at such time, the Calculation Agent (in consultation with the Issuer) shall request each of the Reference Banks to provide the Calculation Agent with its offered quotation (expressed as a percentage rate per annum) for deposits in U.S. dollars for the relevant interest period to leading banks in the London interbank market at approximately 11:00 a.m. (London time) on the Interest Determination Date and in a principal amount that is representative for a single transaction in U.S. dollars in such market at such time. If two or more of the Reference Banks provide the Calculation Agent with such offered quotations, the interest rate for such Interest Period shall be the arithmetic mean of such offered quotations (rounded if necessary to the nearest one hundred-thousandth of a percentage point, with 0.000005 being rounded upwards) of such offered quotations.

If fewer than two such quotations are so provided, the interest rate on such Interest Determination Date will be the arithmetic mean calculated by the Calculation Agent (in consultation with the Issuer) (rounded if necessary to the nearest one hundred-thousandth of a percentage point, with 0.000005, being rounded upwards) of the rates quoted at approximately 11:00 a.m., in New York, on such Interest Determination Date by three major banks (which may include affiliates of the agents) in New York selected by the Calculation Agent (in consultation with the Issuer) for, loans in the U.S. dollars for the relevant interest period and in a principal amount that is representative for a single transaction U.S. dollars in such market at such time; provided, however, that if the banks so selected by the Calculation Agent (in consultation with the Issuer) are not quoting as mentioned in this sentence, the interest rate determined as of such Interest Determination Date shall be the interest rate in effect on such Interest Determination Date.

As used above, "Reference Banks" means four major banks in the London interbank market.

Guarantees

The Guarantor will fully, unconditionally and irrevocably guarantee (each a "Guarantee" and, collectively, the "Guarantees") the payment of the principal of, premium, if any, and interest on the Notes issued by the Issuer, including any additional amounts that may be payable by the Issuer in respect of its Notes, as described under "*—Additional*

Amounts". The Guarantor guarantees the payment of such amounts when such amounts become due and payable, whether at the stated maturity of the Notes, by declaration or acceleration, call for redemption or otherwise.

In the distribution of the assets of any subsidiary of the Guarantor upon the subsidiary's liquidation or reorganization, any creditor of the subsidiary will have a right to participate in the distribution before the creditors of the Guarantor, including holders of the Notes (the "Holders") issued by the Issuer. The Guarantees will be unsecured obligations of the Guarantor.

Additional Notes

The Notes will be issued in the initial aggregate principal amount set forth above. The Issuer may, from time to time, without notice to or the consent of the Holders, create and issue, pursuant to the Agreement and in accordance with applicable laws and regulations, additional notes (the "Additional Notes") maturing on the same maturity date as the other Notes of that series (the Fixed Rate Notes or the Floating Rate Notes) and having the same terms and conditions under the Agreement (including with respect to the Guarantor and the Guarantees) as the previously outstanding Notes of that series in all respects (or in all respects except for the issue date and the amount and the date of the first payment of interest thereon) so that such Additional Notes shall be consolidated and form a single series with the previously outstanding Notes of that series. Any Additional Notes shall be issued under a separate CUSIP or ISIN number unless the Additional Notes are issued pursuant to a "qualified reopening" of the original series or are otherwise treated as part of the same "issue" of debt instruments as the original series for U.S. federal income tax purposes. Additional Notes, if any, will be issued under a separate offering document or a supplement to this offering memorandum.

Optional Redemption

The Issuer may, at its option, redeem the 2020 Fixed Rate Notes as a whole or in part at any time upon not less than 30 nor more than 60 days' prior notice, at a redemption price equal to the greater of:

- 100% of the principal amount of the 2020 Fixed Rate Notes plus accrued and unpaid interest (and Additional Amounts, if any) to the date of redemption; or

- as determined by the Quotation Agent, the sum of the present values of the remaining scheduled payments of principal and interest (and Additional Amounts, if any) on the 2020 Fixed Rate Notes (not including any portion of such payments of interest accrued as of the date of redemption) plus accrued and unpaid interest (and Additional Amounts, if any) to the date of redemption. The present values will be determined by discounting the remaining principal and interest payments to the redemption date on a semiannual basis (assuming a 360-day year consisting of twelve 30-day months), using the Adjusted Treasury Yield.

The Issuer may, at its option, redeem the 2022 Fixed Rate Notes or 2027 Fixed Rate Notes as a whole or in part at any time prior to the Optional Redemption Relevant Date upon not less than 30 nor more than 60 days' prior notice, at a redemption price equal to the greater of:

- 100% of the principal amount of the 2022 Fixed Rate Notes or 2027 Fixed Rate Notes, as applicable, plus accrued and unpaid interest (and Additional Amounts, if any) to the date of redemption; or

- as determined by the Quotation Agent, the sum of the present values of the remaining scheduled payments of principal and interest (and Additional Amounts, if any) on the 2022 Fixed Rate Notes or 2027 Fixed Rate Notes that would be due if such 2022 Fixed Rate Notes or 2027 Fixed Rate Notes, as applicable, matured on the Optional Redemption Relevant Date but for the redemption (not including any portion of such payments of interest accrued as of the date of redemption) plus accrued and unpaid interest (and Additional Amounts, if any) to the date of redemption. The present values will be determined by discounting the remaining principal and interest payments to the redemption date on a semiannual basis (assuming a 360-day year consisting of twelve 30-day months), using the Adjusted Treasury Yield.

In addition, the Issuer may, at its option, redeem the 2022 Fixed Rate Notes or 2027 Fixed Rate Notes as a whole or in part at any time on or after the relevant Optional Redemption Relevant Date upon not less than 30 nor more than 60 days' prior notice, at a redemption price equal to 100% of the principal amount of the 2022 Fixed Rate Notes or 2027 Fixed Rate Notes, as applicable, plus accrued and unpaid interest (and Additional Amounts, if any) to the date of redemption.

"Adjusted Treasury Yield" means, with respect to any redemption date, the rate per annum equal to the semiannual equivalent yield to maturity of the Comparable Treasury Issue, assuming a price for the Comparable Treasury Issue (expressed as a percentage of its principal amount) equal to the Comparable Treasury Price for such redemption

date plus 15 basis points in the case of the 2020 Fixed Rate Notes, 15 basis points in the case of the 2022 Fixed Rate Notes and 20 basis points in the case of the 2027 Fixed Rate Notes.

"Comparable Treasury Issue" means the U.S. Treasury security selected by the Quotation Agent as having a maturity comparable to the remaining term of the Fixed Rate Notes to be redeemed (assuming, for this purpose, that the 2022 Fixed Rate Notes and the 2027 Fixed Rate Notes matured on the Optional Redemption Relevant Date) that would be utilized, at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate debt securities of comparable maturity to the remaining term of the Fixed Rate Notes.

"Comparable Treasury Price" means, with respect to any redemption date, the average of the Quotation Agent's Quotations for the redemption date.

"Independent Investment Banker" means an independent investment banking institution of national standing in the United States appointed by the Issuer.

"Optional Redemption Relevant Date" means, in the case of the 2022 Fixed Rate Notes, December 19, 2021 (one month prior to the maturity date), and in the case of the 2027 Fixed Rate Notes, October 19, 2026 (three months prior to the maturity date).

"Quotation Agent" means a reference treasury dealer that is a primary U.S. government securities dealer in New York City. The Independent Investment Banker will appoint the Quotation Agent after first consulting with the Guarantor.

"Quotation Agent's Quotations" means with respect to any redemption date, the average, as determined by the Independent Investment Banker, of the bid and asked prices for the Comparable Treasury Issue (expressed in each case as a percentage of its principal amount) quoted in writing to the Independent Investment Banker by the Quotation Agent at 5:00 p. m. on the third business day before the redemption date.

From and after the redemption date, if money for the redemption of the Fixed Rate Notes called for redemption is made available as provided in the Agreement and the Fixed Rate Notes called for redemption on the redemption date, the Fixed Rate Notes will cease to bear interest, and the only right of the Holders will be to receive payment of the redemption price and all unpaid interest accrued to the date of redemption.

If fewer than all of the Fixed Rate Notes are to be redeemed, the Fiscal Agent shall select, no more than 60 days prior to the date fixed for redemption, the particular Fixed Rate Notes or portions thereof for redemption from the outstanding Fixed Rate Notes not previously called for redemption, on a pro rata basis or by such method as the Fiscal Agent deems fair and appropriate and in accordance with the procedures of the Depositary in the case of global securities.

Optional Tax Redemption

The Notes may be redeemed at any time, at the Issuer's (or, if applicable, the Guarantor's) option, as a whole or in part, upon not less than 30 nor more than 60 days' prior notice, at a redemption price equal to 100% of the principal amount of the Notes being redeemed plus accrued and unpaid interest on the principal amount being redeemed (and all Additional Amounts, if any) to (but excluding) the redemption date, if

- (i) as a result of a change in, execution of or amendment to any laws or treaties or the official application or interpretation of such laws or treaties, (a) either the Issuer or the Guarantor would be required to pay Additional Amounts (as described in "*Additional Amounts*" below); or (b) the Guarantor or any of its subsidiaries would have to deduct or withhold tax on any payment to the Issuer to enable the Issuer to make a payment of principal or interest on a Note and (ii) such obligation cannot be avoided by the Issuer (or the Guarantor) taking reasonable measures available to it. This applies only in the case of changes, executions, amendments, applications or interpretations that occur on or after the date specified in this offering memorandum for the Notes and in the jurisdiction where the Issuer or the Guarantor is incorporated. If the Issuer or the Guarantor is succeeded by another entity, the applicable jurisdiction will be the jurisdiction in which the successor entity is organized, and the applicable date will be the date the entity became a successor; or

- A person into which either the Issuer or Guarantor is merged or to whom it has conveyed, transferred or leased its property (a "successor person") is required to pay an Additional Amount. In this event, the Issuer or the Guarantor would have the option to redeem the Notes even if the Issuer or the Guarantor is required to pay Additional Amounts immediately after such merger, conveyance, transfer or lease. In this case, the Issuer or Guarantor is not required to use reasonable measures to avoid the obligation to pay additional amounts in this situation.

Prior to the giving of notice of redemption, the Issuer, the Guarantor or the successor person, as the case may be, will deliver to the Fiscal Agent an officer's certificate, stating that the Issuer, the Guarantor or the successor person, as the case may be, is entitled to effect such redemption and setting forth in reasonable detail a statement of circumstances showing that the conditions precedent to the right of the Issuer, the Guarantor or the successor person to redeem the Notes pursuant to the Agreement have been satisfied.

Modifications and Amendment

The Issuer, the Guarantor and the Fiscal Agent may, with the consent of the Holders of not less than a majority in aggregate principal amount of the Notes then outstanding, evidenced as provided in the Agreement, execute agreements adding any provisions to or changing in any manner or eliminating any of the provisions of the Agreement or of any supplemental agreement or modifying in any manner the rights of the Holders; provided that no such agreement shall (a) change the maturity of the principal of any Note, or reduce the principal amount thereof, or reduce the rate or extend the time of payment of any installment of interest thereon, or change the place or currency of payment of principal of, or interest on, any Note, or change the Issuer’s or the Guarantor’s obligation to pay Additional Amounts, impair or affect the right of any Holder to institute suit for the enforcement of any such payment on or after the due date therefor (or in the case of redemption, on or after the redemption date) or change in any manner adverse to the interests of the Holders the terms and provisions of the Guarantees in respect of the due and punctual payment of principal amount of the Notes then outstanding plus accrued and unpaid interest (and all Additional Amounts, if any) without the consent of the Holder of each Note so affected; or (b) reduce the aforesaid percentage of Notes, the consent of the Holders of which is required for any such agreement, without the consent of the Holders of the Notes then outstanding.

The Issuer, the Guarantor and the Fiscal Agent may, without the consent of the Holders, from time to time and at any time, enter into a separate or supplemental fiscal and paying agency agreement to:

- to convey, transfer, assign, mortgage or pledge to the Fiscal Agent or another person as security for the Notes any property or assets;

- to evidence the succession of another person to the Issuer or the Guarantor, or successive successions, and the assumption by the successor person of the covenants, agreements and obligations of the Issuer or the Guarantor, pursuant to the Agreement;

- to evidence and provide for the acceptance of appointment of a successor or successors to the Fiscal Agent in any of its capacities;

- to add to the covenants of the Issuer, or the Guarantor, such further covenants, restrictions, conditions or provisions as the Issuer or the Guarantor, as the case may be, shall consider to be for the protection of the Holders, to surrender any power conferred upon the Issuer or the Guarantor and to make the occurrence, or the occurrence and continuance, of a default in any such additional covenants, restrictions, conditions or provisions an Event of Default under the Notes permitting the enforcement of all or any of the several remedies provided in the applicable fiscal agency agreement; *provided*, that in respect of any such additional covenant, restriction, condition or provision such supplemental agreement may provide for a particular period of grace after default (which period may be shorter or longer than that allowed in the case of other defaults) or may provide for an immediate enforcement upon such an Event of Default or may limit the right of the Holders of a majority in aggregate principal amount of the Notes to waive such an Event of Default;

- to modify the restrictions on, and procedures for, resale and other transfers of the Notes pursuant to law, regulation or practice relating to the resale or transfer of restricted securities generally;

- to cure any ambiguity or to correct or supplement any provision contained in the Agreement, the Notes or the Guarantees, or in any supplemental agreement which may be defective or inconsistent with any other provision contained therein or in any supplemental agreement or to make such other provisions in regard to matters or questions arising under the Agreement or under any supplemental agreement as the Issuer may deem necessary or desirable and which shall not adversely affect the interests of the Holders to which such provisions relate; and

- to “reopen” the Notes of any series and create and issue additional Notes of that series having identical terms and conditions as the existing Notes of such series (or in all respects except for the issue date, issue price, the CUSIP number and first interest payment date) so that the additional Notes are consolidated and form a single series with the outstanding such Notes.

Limitation on Liens

So long as any of the Notes remain outstanding, neither the Issuer nor the Guarantor may become obligated on any present or future Capital Market Indebtedness that is secured by a lien on the whole or any part of its present or future assets, unless an equivalent or higher-ranking lien on the same property is granted to the Holders. For the avoidance of doubt, this undertaking shall not apply to any security which is provided by the Issuer or any other subsidiary of the Guarantor over any claims of the Issuer or such other subsidiary of the Guarantor, as the case may be, against the Guarantor or any of its subsidiaries, which claims exist now or arise at any time in the future, as a result of the passing on of the proceeds from the sale by the Issuer or another subsidiary of the Guarantor, as the case may be, of any bonds, provided that any such security serves to secure obligations under such bonds of the Issuer or the other subsidiary of the Guarantor, as the case may be. Any security to be provided pursuant to the preceding sentence may also be provided to a person acting as trustee for the holders of such bonds.

"Capital Market Indebtedness" means any obligation to repay money that is borrowed through the issuance of bonds, notes or other debt securities, which are capable of being quoted, listed or traded on a stock exchange or other recognized securities market. Capital Market Indebtedness does not include any off-balance sheet assets and obligations. For the avoidance of doubt in respect of asset-backed financings originated by the Issuer or the Guarantor, the expression "assets" does not include assets of the Guarantor that are sold on a non-recourse basis determined in accordance with the civil law applicable to such transaction.

Events of Default

The occurrence and continuance of one or more of the following events will constitute an event of default (an "Event of Default") under the Agreement and the Notes:

a) the Issuer fails to pay principal or interest upon any Note within 30 days from the relevant due date; or

b) the Issuer fails duly to perform any other obligation arising from any Note, or the Guarantor fails to perform any obligation arising from the Guarantee, which failure is not capable of remedy or, if such failure is capable of remedy, such failure continues for more than 60 days after the Issuer or Guarantor has received notice thereof from a Holder; or

c) (i) any Capital Market Indebtedness of the Issuer or the Guarantor becomes prematurely repayable as a result of a default in respect of the terms thereof; or (ii) the Issuer or the Guarantor fails to fulfill any payment obligation in excess of EUR 25,000,000 or the equivalent thereof under any Capital Market Indebtedness or under any guarantee or suretyship given for any Capital Market Indebtedness of any other person within 30 days from its due date or, in the case of a guarantee or suretyship, within 30 days after the guarantee or suretyship has been invoked, unless the Issuer or the Guarantor shall contest in good faith that such payment obligation exists or is due or that such guarantee or suretyship has been validly invoked; or (iii) if a security granted in respect of any Capital Market Indebtedness or any guarantee or suretyship therefor is enforced on behalf of or by the creditor(s) entitled thereto; or

d) the Issuer or the Guarantor announces its inability to meet its financial obligations or ceases its payments; or

e) a court opens insolvency proceedings against the Issuer or the Guarantor, or the Issuer or the Guarantor applies for or institutes such proceedings or offers or makes an arrangement for the benefit of its creditors generally, or the Issuer applies for a "*surseance van betaling*" (within the meaning of the Bankruptcy Act (*Faillissementswet*) of the Netherlands; or

f) the Issuer or the Guarantor goes into liquidation unless this is done in connection with a merger, or other form of combination with another company and such company assumes all obligations contracted by the Issuer or the Guarantor, as the case may be, in connection with this issue; or

g) any governmental order, decree or enactment shall be made in or by The Netherlands or Germany whereby the Issuer or the Guarantor is prevented from observing and performing in full its obligations as set forth in this Indenture and in the Guarantee, respectively, and this situation is not cured within 90 days; or

h) the Guarantee ceases to be valid and legally binding for any reason whatsoever.

If an Event of Default with respect to the Notes occurs and is continuing, then in every such case the Holders of not less than 25% in principal amount of the Notes outstanding may declare the principal amount of all of the Notes to be

due and payable immediately, by a notice in writing to the Issuer and the Guarantor, specifying and upon any such declaration such principal amount (or specified amount) shall become immediately due and payable.

At any time after such a declaration of acceleration with respect to the Notes has been made and before a judgment or decree for payment of the money due has been obtained by the Fiscal Agent as provided in the Agreement, the Holders of a majority in principal amount of the outstanding Notes, by written notice to the Issuer, the Guarantor and the Fiscal Agent, may rescind and annul such declaration and its consequences if:

(1) the Issuer or the Guarantor has paid or deposited with the Fiscal Agent a sum sufficient to pay:

(A) all overdue interest on the Notes,

(B) the principal of (and premium, if any, on) any Notes which have become due otherwise than by such declaration of acceleration and any interest thereon at the rate or rates prescribed therefor in the Notes,

(C) to the extent that payment of such interest is lawful, interest upon overdue interest at the rate or rates prescribed therefor in the Notes, and

(D) all sums paid or advanced by the Fiscal Agent hereunder and the reasonable compensation, expenses, disbursements and advances of the Fiscal Agent, its agents and counsel;

and

(2) all Events of Default with respect to the Notes, other than the non-payment of the principal of the Notes which have become due solely by such declaration of acceleration, have been cured or waived as provided in the Agreement.

The Holders of a majority in aggregate principal amount of the Notes then outstanding may, by written notice to the Issuer and to the Fiscal Agent, waive all defaults and rescind and annul such declaration and its consequences, except a default

(1) in the payment of the principal of, or any premium or interest on, any Note of such series, or

(2) in respect of a covenant or provision which under the Agreement cannot be modified or amended without the consent of the Holder of each Outstanding Security of such series affected;

and no such waiver or rescission and annulment shall extend to or shall affect any subsequent default or impair any right consequent thereon.

Limitations on Suits; Unconditional Right of Holder to Initiate Certain Actions

Before a Holder can bring its own lawsuit or other formal legal action or take other steps to enforce its rights or protect its interests relating to the Notes, the following must occur:

- The Holder must give the Fiscal Agent written notice that an event of default has occurred and remains uncured. The holders of 25% in principal amount of the Notes must make a written request that the Fiscal Agent take action because of the default, and must offer indemnity and/or security satisfactory to the Fiscal Agent against the cost and other liabilities of taking that action.

- The Fiscal Agent must have not taken action for 60 days after receipt of the above notice and offer of indemnity and/or security.

Notwithstanding the above, however, the right of any Holder to receive payment of the principal of and interest on its Note on or after the respective due dates expressed in such Note, or to institute suit for the enforcement of any such payment on or after such respective dates, will not be impaired or affected without the consent of such Holder.

Substitution of Issuer; Consolidation, Merger and Sale of Assets

Each of the Issuer and the Guarantor, without the consent of the Holders, is generally permitted to consolidate or merge into, or sell, transfer, lease or convey all or substantially all of their respective assets to, any corporation and the Issuer may at any time substitute for the Issuer either the Guarantor or any Subsidiary (as defined below) of the Guarantor as principal debtor under the Notes, provided that:

(1) in case the Issuer or the Guarantor shall consolidate with or merge into another person or convey, transfer or lease its properties and assets substantially as an entirety to any person, the person formed by such consolidation or into which the Issuer or the Guarantor is merged or the person which acquires by conveyance or transfer, or which leases, the properties and assets of the Issuer or the Guarantor substantially as an entirety shall be a corporation, partnership or trust, shall be organized and validly existing, under the laws of the jurisdiction of its organization shall expressly assume, by an agreement supplemental hereto executed and delivered to the Fiscal Agent in form reasonably satisfactory to the Fiscal Agent, the due and punctual payment of the principal of and any premium and interest (including all Additional Amounts and any additional amounts payable pursuant to subsection (3) below) on all the Notes and the performance or observance of every covenant of the Agreement on the part of the Issuer to be performed or observed, and, in the case of the Guarantor, the due and punctual performance of the Guarantees (including all Additional Amounts and any additional amounts payable pursuant to subsection (3) below) and the performance of every covenant of the Agreement on the part of the Guarantor to be performed or observed;

(2) immediately after giving effect to such transaction and treating any indebtedness which becomes an obligation of the Issuer or the Guarantor as a result of such transaction as having been incurred by the Issuer or the Guarantor at the time of such transaction, no Event of Default, and no event which, after notice or lapse of time or both, would become an Event of Default, shall have happened and be continuing;

(3) the person formed by such consolidation or into which the Issuer or the Guarantor is merged or to whom the Issuer or the Guarantor has conveyed, transferred or leased its properties or assets (if such person is organized and validly existing under the laws of a jurisdiction other than the United States, any State thereof, or the District of Columbia) agrees to indemnify the Holder of each Note against (a) any tax, assessment or governmental charge imposed on any such Holder or required to be withheld or deducted from any payment to such Holder as a consequence of such consolidation, merger, conveyance, transfer or lease; and (b) any costs or expenses of the act of such consolidation, merger, conveyance, transfer or lease; and

(4) the Issuer or the Guarantor, as the case may be, has delivered to the Fiscal Agent an Officer's Certificate and an Opinion of Counsel, each stating that such consolidation, merger, conveyance, transfer or lease and, if a supplemental agreement is required in connection with such transaction, such supplemental agreement comply with the Agreement and that all conditions precedent herein provided for relating to such transaction have been complied with.

Discharge and Defeasance

The Agreement provides that the Issuer and the Guarantor will be discharged from any and all obligations in respect of the Agreement (except for certain obligations to register the transfer of or exchange Notes, replace stolen, lost or mutilated Notes, make payments of principal and interest and maintain paying agencies) if:

- the Issuer has paid or caused to be paid in full the principal of and interest on all Notes outstanding thereunder;

- the Issuer shall have delivered to the Fiscal Agent for cancellation all Notes outstanding theretofore authenticated; or

- all Notes not theretofore delivered to the Fiscal Agent for cancellation (i) have become due and payable; (ii) will become due and payable in accordance with their terms within one year or (iii) are to be, or have been, called for redemption as described under "—*Optional Redemption*" or "—*Optional Tax Redemption*" within one year under arrangements satisfactory to the Fiscal Agent for the giving of notice of redemption, and, in any such case, the Issuer shall have irrevocably deposited with the Fiscal Agent, in irrevocable trust for the benefit of the holders of such Notes, (a) cash in U.S. dollars in an amount, or (b) U.S. Government Obligations (as defined below) which through the payment of interest thereon and principal thereof in accordance with their terms will provide not later than the due date of any payment, cash in U.S. dollars in an amount, or (c) any combination of (a) and (b), sufficient to pay all the principal of, and interest on (and Additional Amounts, if any), all such Notes not theretofore delivered to the Fiscal Agent for cancellation on the dates such payments are due in accordance with the terms of the Notes and all other amounts payable under the Agreement by the Issuer.

"U.S. Government Obligations" means securities which are (i) direct obligations of the U.S. government or (ii) obligations of a person controlled or supervised by and acting as an agency or instrumentality of the U.S. government, the payment of which is unconditionally guaranteed by the U.S. government, which, in either case, are full faith and credit obligations of the U.S. government payable in U.S. dollars and are not callable or redeemable at the option of the issuer thereof and shall also include a depositary receipt issued by a bank or trust company as custodian with respect to any

such U.S. Government Obligation or a specific payment of interest on or principal of any such U.S. Government Obligation held by such custodian for the account of the holder of a depositary receipt; provided that (except as required by law) such custodian is not authorized to make any deduction from the amount payable to the holder of such depositary receipt from any amount received by the custodian in respect of the U.S. Government Obligation or the specific payment of interest on or principal of the U.S. Government Obligation evidenced by such depositary receipt.

Covenant Defeasance

The Agreement also provides that the Issuer and the Guarantor need not comply with certain covenants of the Agreement (including those described under "*—Limitation on Liens*"), if:

- the Issuer or the Guarantor, as the case may be, irrevocably deposits with the Fiscal Agent as trust funds in irrevocable trust, specifically pledged as security for, and dedicated solely to, the benefit of the Holders, (i) cash in U.S. dollars in an amount, or (ii) U.S. government obligations which through the payment of interest thereon and principal thereof in accordance with their terms will provide not later than the due date of any payment cash in U.S. dollars in an amount, or (iii) any combination of (i) and (ii), sufficient to pay all the principal of, and interest on, the Notes then outstanding on the dates such payments are due in accordance with the terms of the Notes;

- certain Events of Default, or events which with notice or lapse of time or both would become such an Event of Default, shall not have occurred and be continuing on the date of such deposit;

- the Issuer, or the Guarantor, as the case may be, delivers to the Fiscal Agent an opinion of tax counsel with respect to U.S. federal income tax matters to the effect that the beneficial owners of the Notes will not recognize income, gain or loss for U.S. federal income tax purposes as a result of the exercise of such Covenant Defeasance and will be subject to U.S. federal income tax on the same amounts, in the same manner and at the same times as would be the case if such Covenant Defeasance had not occurred;

- the Issuer, or the Guarantor, as the case may be, delivers to the Fiscal Agent an opinion of tax counsel in its jurisdiction of incorporation to the effect that such deposit and related Covenant Defeasance will not cause the Holders, other than Holders who are or who are deemed to be residents of such jurisdiction of incorporation or use or hold or are deemed to use or hold their Notes in carrying on a business in such jurisdiction of incorporation, to recognize income, gain or loss for income tax purposes in such jurisdiction of incorporation, and to the effect that payments out of the trust fund will be free and exempt from any and all withholding and other income taxes of whatever nature of such jurisdiction of incorporation or political subdivision thereof or therein having power to tax, except in the case of Notes beneficially owned (i) by a person who is or is deemed to be a resident of such jurisdiction of incorporation or (ii) by a person who uses or holds or is deemed to use or hold such Notes in carrying on a business in such jurisdiction of incorporation; and

- the Issuer, or the Guarantor, as the case may be, delivers to the Fiscal Agent an officers' certificate and an opinion of legal counsel of recognized standing, each stating that all conditions precedent provided for relating to such covenant defeasance have been complied with.

The effecting of these arrangements is also known as "Covenant Defeasance".

Additional Amounts

The Issuer or the Guarantor, as the case may be, will make all payments in respect of the Notes or the Guarantees without withholding or deduction for or on account of any present or future taxes or duties of whatever nature imposed or levied by way of withholding or deduction at source unless such withholding or deduction is required by law. The Issuer or, as the case may be, the Guarantor will pay such additional amounts as shall be necessary in order that the net amounts received by the Holders, after such withholding or deduction by or on behalf of a Relevant Jurisdiction (as defined below) shall equal the respective amounts of principal and interest which would otherwise have been receivable in the absence of such withholding or deduction; except that no such additional amounts shall be payable with respect to:

(a) any tax or other governmental charge which would not have been imposed but for the existence of any present or former connection between such Holder and the Relevant Jurisdiction (other than the mere holding of the Notes and the receipt of payments thereon), including, without limitation, such Holder being or having been a citizen or resident thereof or being or having been present or engaged in trade or business therein or having or having had a permanent establishment therein;

(b) any tax or other governmental charge which would not have been imposed but for the status of such Holder as an individual resident of a member state of the European Union;

(c) any tax or other governmental charge that would not have been imposed but for a failure by the Holder to comply with any applicable certification, information, identification, documentation or other reporting requirements concerning the nationality, residence, identity or connection with the Relevant Jurisdiction if such compliance is required as a precondition to relief or exemption from such tax or other governmental charge (including without limitation a certification that such Holder is not resident in the Relevant Jurisdiction);

(d) any tax or other governmental charge which would not have been imposed but for a change in law that becomes effective more than 30 days after a payment by the Issuer on the Notes, or by the Guarantor under the Guarantees, as the case may be, becomes due and payable, or is duly provided for and notice thereof is duly published, whichever occurs later;

(e) any tax that would not have been so withheld or deducted if the Notes had been presented for payment within 30 days after the date on which such payment first becomes due, except to the extent that the Holder would have been entitled to Additional Amounts had the Notes been presented for payment on the last day of such 30-day period;

(f) any estate, inheritance, gift, value added, sales, use, excise, transfer, personal property or similar tax, duties, assessments or other governmental charge;

(g) any tax that is payable other than by deduction or withholding from payments on the Notes;

(h) any tax or other governmental charge required to be withheld by any Paying Agent from a payment on the Notes, if such payment can be made without such deduction or withholding by any other Paying Agent; or

(i) any combination of items (a), (b), (c), (d), (e), (f), (g) and (h) above.

The foregoing provisions shall apply mutatis mutandis to any withholding or deduction for or on account of any present or future taxes or governmental charges of whatever nature of any jurisdiction in which any successor Person to the Issuer or the Guarantor, as the case may be, is organized, or any political subdivision or taxing authority thereof or therein. As used in (a), (b), (c) and (e) above, references to Holder shall include the legal or beneficial owner of the Notes and any other party to which the Notes may be attributed for tax purposes as well as, regarding all such parties, including a trustor, trustee, beneficial or legal owner, a fiduciary, settler, beneficiary, member or shareholder of, or possessor of a power over, such party.

References to principal or interest in respect of the Notes shall be deemed to include any Additional Amounts which may be payable as set forth in the Agreement.

"Relevant Jurisdiction" means the jurisdiction (or any political subdivision or taxing authority thereof or therein) in which the Issuer or the Guarantor is incorporated.

Governing Law; Submission to Jurisdiction

The Agreement, the Notes and the Guarantees will be governed by and construed in accordance with the laws of the State of New York.

The Issuer and the Guarantor have irrevocably submitted to the non-exclusive jurisdiction of the courts of any U.S. state or federal court in the Borough of Manhattan in the City of New York, New York with respect to any legal suit, action or proceeding arising out of or based upon the Agreement, the Notes or the Guarantees.

Regarding the Fiscal Agent, Paying Agent, Transfer Agent and Registrar

In acting under the Agreement, and in connection with the Notes and the Guarantees, the Fiscal Agent is acting solely as an agent of the Issuer and does not assume any obligation towards or relationship of agency of trust for or with the Holders of the Notes (and will not be considered a fiduciary). Any funds held by any paying agent for payment of principal of or interest on the Notes shall be held in trust by it for the persons entitled thereto and applied as set forth in the Agreement and in the Notes, but need not be segregated from other funds held by it except as required by law and as agreed upon separately by the Issuer, the Guarantor and the Fiscal Agent.

The Agreement will not oblige the Fiscal Agent to exercise certain responsibilities that may be exercised by trustees with respect to debt securities issued under an indenture, including certain discretionary actions customarily

taken by trustees in connection with events of default under such debt securities. For a description of the duties and the immunities and rights of any fiscal agent, paying agent, transfer agent or registrar under the Agreement, reference is made to the Agreement, and the obligations of any fiscal agent, paying agent, transfer agent and registrar to the Holder are subject to such immunities and rights.

The Agreement provides that the Fiscal Agent may resign and that the Issuer may remove the Fiscal Agent or any other Paying Agent in respect of the Notes, but any such resignation or removal will take effect only upon the appointment by the Issuer of, and acceptance of such appointment by, a successor Fiscal Agent or other Paying Agent.

Notices

So long as any Notes are represented by a global note and such global note is held on behalf of a clearing system, notices to Holders may be given by delivery of the relevant notice to that clearing system for communication by it to entitled accountholders or, if any such delivery is not practicable, by publication in a leading English language daily newspaper having general circulation in Europe. Any such notice will be deemed to have been given on the date of first publication or, if published more than once or on different dates, on the first date on which publication is made.

BOOK-ENTRY; DELIVERY AND FORM; SUMMARY OF PROVISIONS RELATING TO NOTES IN GLOBAL FORM

The information set out in the sections of this offering memorandum describing clearing and settlement arrangements is subject to any change or reinterpretation of the rules, regulations and procedures of DTC as currently in effect. The information in such sections concerning clearing systems has been obtained from sources that the Issuer and Guarantor believe to be reliable. The Issuer and Guarantor accept responsibility only for the correct extraction and reproduction of such information, but not for the accuracy of such information. If an investor wishes to use the facilities of any clearing system, it should confirm the applicability of the rules, regulations and procedures of the relevant clearing system. The Issuer and Guarantor will not be responsible or liable for any aspect of the records relating to, or payments made on account of, book-entry interests held through the facilities of any clearing system or for maintaining, supervising or reviewing any records relating to such book-entry interests.

The certificates representing the Notes and the Guarantees will be issued in fully registered form without interest coupons. Notes sold in offshore transactions in reliance on Regulation S will initially be represented by one or more permanent Regulation S global notes in fully registered form without interest coupons, and will be deposited with the fiscal agent as custodian for, and registered in the name of a nominee of, DTC for the accounts of its participants, including Euroclear and Clearstream. Prior to the 40th day after the later of the commencement of the offering of the Notes and the date of the original issue of the Notes, any resale or other transfer of such interests to U.S. persons shall not be permitted unless such resale or transfer is made pursuant to Rule 144A or Regulation S and in accordance with the certification requirements described below.

Notes sold in reliance on Rule 144A will be represented by one or more permanent Rule 144A global notes in definitive, fully registered form without interest coupons, and will be deposited with the fiscal agent as custodian for, and registered in the name of a nominee of, DTC. Beneficial interests in a Rule 144A global note may be transferred to a person who takes delivery in the form of an interest in a Regulation S global note only upon receipt by the fiscal agent of written certifications (in the form or forms provided in the Agreement) and pursuant to the transfer restrictions related to a Rule 144A global note as described in this offering memorandum.

Each global note (and any Notes issued in exchange therefor) will be subject to certain restrictions on transfer set forth therein described under "*Transfer Restrictions*". Except in the limited circumstances described below under "—*Summary of Provisions Relating to Certificated Notes*", owners of beneficial interests in the global notes will not be entitled to receive physical delivery of certificated Notes.

Ownership of beneficial interests in a global note will be limited to persons who have accounts with DTC, or participants, or persons who hold interests through participants. Ownership of beneficial interests in a global note will be shown on, and the transfer of that ownership will be effected only through, records maintained by DTC or its nominee (with respect to interests of participants) and the records of participants (with respect to interests of persons other than participants). Qualified institutional buyers may hold their interests in a Rule 144A global note directly through DTC if they are participants in such system, or indirectly through organizations that are participants in such system.

Investors may hold their interests in a Regulation S global note directly through Euroclear or Clearstream, if they are participants in such systems, or indirectly through organizations that are participants in such systems. Euroclear and Clearstream will hold interests in the Regulations S global notes on behalf of their participants through DTC.

So long as DTC, or its nominee, is the registered owner or holder of a global note, DTC or such nominee, as the case may be, will be considered the sole owner or holder of the Notes represented by such global note for all purposes under the Agreement and the Notes. No beneficial owner of an interest in a global note will be able to transfer that interest except in accordance with DTC's applicable procedures, in addition to those provided for under the Agreement and, if applicable, those of Euroclear and Clearstream.

Conveyance of notices and other communications by DTC to its participants, by each of those participants to its indirect participants, and by participants and indirect participants to beneficial owners of interests in a global note will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

The fiscal agent will send any notices in respect of the Notes held in book-entry form to DTC or its nominee.

Neither DTC nor its nominee will consent or vote with respect to the Notes unless authorized by a participant in accordance with DTC's procedures. Under its usual procedures, DTC mails an omnibus proxy to the Issuer as soon as possible after the record date. The omnibus proxy assigns DTC's or its nominee's consenting or voting rights to those participants to whose account the Notes are credited on the record date.

Payments of the principal of, and interest on, a global note will be made to DTC or its nominee, as the case may be, as the registered owner thereof. Neither the Issuer, the Guarantor nor the fiscal agent will have any responsibility or liability for any aspect of the records relating to, or payments made on account of, beneficial ownership interests in a global note or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

The Issuer expects that DTC or its nominee, upon receipt of any payment of principal or interest in respect of a global note, will credit participants' accounts with payments in amounts proportionate to their respective beneficial interests in the principal amount of such global note as shown on the records of DTC or its nominee. The Issuer also expects that payments by participants to owners of beneficial interests in such global note held through such participants will be governed by standing instructions and customary practices, as is now the case with securities held for the accounts of customers registered in the names of nominees for such customers. Such payments will be the responsibility of such participants.

Transfers between participants in DTC will be effected in the ordinary way in accordance with DTC rules and will be settled in same-day funds. Transfers between participants in Euroclear and Clearstream will be effected in the ordinary way in accordance with their respective rules and operating procedures.

Cross-market transfers between persons holding directly or indirectly through DTC, on the one hand, and directly or indirectly through Euroclear or Clearstream participants, on the other, will be effected in DTC in accordance with DTC rules on behalf of the relevant European international clearing system by the relevant European depositary; however, those cross-market transactions will require delivery of instructions to the relevant European international clearing system by the counterparty in that system in accordance with its rules and procedures and within its established deadlines (European time). The relevant European international clearing system will, if the transaction meets its settlement requirements, deliver instructions to the relevant European depositary to take action to effect final settlement on its behalf by delivering or receiving securities in DTC, and making or receiving payment in accordance with normal procedures for same-day funds settlement applicable to DTC. Euroclear and Clearstream participants may not deliver instructions directly to the European depositaries.

Because of time zone differences, credits of securities received in Euroclear or Clearstream as a result of a transaction with a person that does not hold the Notes through Euroclear or Clearstream will be made during subsequent securities settlement processing and dated the first day Euroclear or Clearstream, as the case may be, is open for business following the DTC settlement date. Those credits or any transactions in those securities settled during that processing will be reported to the relevant Euroclear or Clearstream participants on that business day. Cash received in Euroclear or Clearstream as a result of sales of securities by or through a Euroclear participant or a Clearstream participant to a DTC participant will be received with value on the DTC settlement date, but will be available in the relevant Euroclear or Clearstream cash account only as of the first day Euroclear or Clearstream, as the case may be, is open for business following settlement in DTC.

The Issuer expects that DTC will take any action permitted to be taken by a holder of Notes (including the presentation of Notes for exchange as described below) only at the direction of one or more participants to whose account the DTC interests in a global note are credited and only in respect of such portion of the aggregate principal amount of Notes as to which such participant or participants has or have given such direction. However, if there is an event of default under the Notes, DTC will exchange the applicable global note for certificated Notes, which it will distribute to its participants and which may be legended as set forth under the heading "*Transfer Restrictions*".

DTC

DTC is a limited purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code and a "clearing agency" registered pursuant to the provisions of Section 17A of the Exchange Act. DTC holds securities for its participants and facilitates the clearance and settlement of securities transactions between participants through electronic book-entry changes in accounts of its participants, thereby eliminating the need for physical movement of securities certificates. Direct participants include securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations. Indirect access to the DTC system is available to others such as banks, brokers, dealers and trust companies that clear through or maintain a custodial relationship with a participant, either directly or indirectly, or indirect participants.

Euroclear

Euroclear holds securities and book-entry interests in securities for participating organizations and facilitates the clearance and settlement of securities transactions between Euroclear participants, and between Euroclear participants and participants of certain other securities intermediaries through electronic book-entry changes in accounts of such

participants or other securities intermediaries. Euroclear provides Euroclear participants, among other things, with safekeeping, administration, clearance and settlement, securities lending and borrowing, and related services. Euroclear participants are investment banks, securities brokers and dealers, banks, central banks, supranationals, custodians, investment managers, corporations, trust companies and certain other organizations. Certain of the Initial Purchasers, or other financial entities involved in this offering, may be Euroclear participants. Non-participants in the Euroclear system may hold and transfer book-entry interests in the Notes through accounts with a participant in the Euroclear system or any other securities intermediary that holds a book-entry interest in the securities through one or more securities intermediaries standing between such other securities intermediary and Euroclear.

Investors electing to acquire Notes in the offering through an account with Euroclear or some other securities intermediary must follow the settlement procedures of such intermediary with respect to the settlement of new issues of securities. Notes to be acquired against payment through an account with Euroclear will be credited to the securities clearance accounts of the respective Euroclear participants in the securities processing cycle for the first day Euroclear is open for business following the settlement date for value as of the settlement date.

Investors electing to acquire, hold or transfer Notes through an account with Euroclear or some other securities intermediary must follow the settlement procedures of such intermediary with respect to the settlement of secondary market transactions in securities. Euroclear will not monitor or enforce any transfer restrictions with respect to the Notes. Investors that acquire, hold and transfer interests in the Notes by book-entry through accounts with Euroclear or any other securities intermediary are subject to the laws and contractual provisions governing their relationship with their intermediary, as well as the laws and contractual provisions governing the relationship between such intermediary and each other intermediary, if any, standing between themselves and the individual Notes.

Euroclear has advised that, under Belgian law, investors that are credited with securities on the records of Euroclear have a co-property right in the fungible pool of interests in securities on deposit with Euroclear in an amount equal to the amount of interests in securities credited to their accounts. In the event of the insolvency of Euroclear, Euroclear participants would have a right under Belgian law to the return of the amount and type of interests in securities credited to their accounts with Euroclear. If Euroclear did not have a sufficient amount of interests in securities on deposit of a particular type to cover the claims of all participants credited with such interests in securities on Euroclear's records, all participants having an amount of interests in securities of such type credited to their accounts with Euroclear would have the right under Belgian law to the return of their pro rata share of the amount of interests in securities actually on deposit. Under Belgian law, Euroclear is required to pass on the benefits of ownership in any interests in Notes on deposit with it (such as dividends, voting rights and other entitlements) to any person credited with such interests in securities on its records. Distributions with respect to the Notes held beneficially through Euroclear will be credited to the cash accounts of Euroclear participants in accordance with the Euroclear terms and conditions.

Clearstream

Clearstream advises that it is incorporated under the laws of Luxembourg and licensed as a bank and professional depositary. Clearstream holds securities for its participating organizations and facilitates the clearance and settlement of securities transactions among its participants through electronic book-entry changes in accounts of its participants, thereby eliminating the need for physical movement of certificates. Clearstream provides to its participants, among other things, services for safekeeping, administration, clearance and settlement of internationally traded securities and securities lending and borrowing. Clearstream interfaces with domestic markets in several countries. Clearstream has established an electronic bridge with the Euroclear operator to facilitate the settlement of trades between Clearstream and Euroclear. As a registered bank in Luxembourg, Clearstream is subject to regulation by the Luxembourg Commission for the Supervision of the Financial Sector. As a professional depository, Clearstream is subject to regulation by the Luxembourg Monetary Institute. Clearstream participants are recognized financial institutions around the world, including underwriters, securities brokers and dealers, banks, trust companies and clearing corporations. In the United States, Clearstream participants are limited to securities brokers and dealers and banks, and may include the Initial Purchasers, or other financial entities involved in, this offering. Other institutions that maintain a custodial relationship with a Clearstream participant may obtain indirect access to Clearstream. Clearstream is an indirect participant in DTC. Distributions with respect to Notes held beneficially through Clearstream will be credited to cash accounts of Clearstream participants in accordance with its rules and procedures.

Although DTC, Euroclear and Clearstream are expected to follow the foregoing procedures in order to facilitate transfers of interests in a global note among participants of DTC, Euroclear and Clearstream, they are under no obligation to perform or continue to perform such procedures, and such procedures may be discontinued at any time. Neither the Issuer nor the Guarantor nor the fiscal agent will have any responsibility for the performance by DTC, Euroclear or Clearstream or their respective participants or indirect participants of their respective obligations under the rules and procedures governing their respective operations.

Summary of Provisions Relating to Certificated Notes

If DTC is at any time unwilling or unable to continue as a depositary for the Global Notes and a successor depositary is not appointed by the Issuer within 90 days, or if there shall have occurred and be continuing an event of default with respect to the Notes and a holder so requests, the Issuer will issue certificated Notes, with Guarantees endorsed thereon by the Guarantor, in exchange for the Global Notes. Certificated notes delivered in exchange for book-entry interests will be registered in the names, and issued in denominations of $150,000 and integral multiples of $1,000 in excess thereof, requested by or on behalf of DTC or the successor depositary (in accordance with its customary procedures). Holders of book-entry interests in a Global Security may receive certificated Notes, which may bear the legend referred to under "*Transfer Restrictions*", in accordance with DTC's rules and procedures in addition to those provided for under the Agreement.

Except in the limited circumstances described above, owners of book-entry interests will not be entitled to receive physical delivery of individual definitive certificates. The Notes are not issuable in bearer form.

Subject to any applicable transfer restrictions, the holder of a certificated note bearing the legend referred to under "*Transfer Restrictions*" may transfer or exchange such Notes in whole or in part by surrendering them to the Fiscal Agent. Prior to any proposed transfer of Notes in certificated form, the holder may be required to provide certifications and other documentation to the Fiscal Agent as described above. In the case of a transfer of only part of a note, the original principal amount of both the part transferred and the balance not transferred must be in authorized denominations, and new Notes will be issued to the transferor and transferee, respectively, by the Fiscal Agent. Upon the transfer, exchange or replacement of certificated Notes not bearing the legend described above, the fiscal agent will deliver certificated Notes that do not bear such legend.

Upon the transfer, exchange or replacement of certificated Notes bearing the legend described above, or upon a specific request for removal of the legend from such certificated note, the Fiscal Agent will deliver only certificated Notes bearing such legend or will refuse to remove such legend, as the case may be, unless there is delivered to the Issuer such satisfactory evidence, which may include an opinion of legal counsel of recognized standing, as may be reasonably required by the Issuer that neither the legend nor the restrictions on transfer set forth therein are required to ensure compliance with the provisions of the Securities Act.

Payment of principal and interest in respect of the certificated Notes shall be payable at the office or agency of the Issuer in the City of New York which shall initially be at the corporate trust office of the Fiscal Agent, which is located at 388 Greenwich Street, 14th Floor, New York, NY 10013, provided that at the option of the Issuer with prior notice to the paying agent, payment may be made by wire transfer, direct deposit or check mailed to the address of the holder entitled thereto as such address appears in the note register.

The certificated Notes, at the option of the Holder and subject to the restrictions contained in the Notes and in the Agreement, may be exchanged or transferred, upon surrender for exchange or presentation for registration of transfer at the office of the Fiscal Agent. Any certificated note surrendered for exchange or presented for registration of transfer shall be duly endorsed, or be accompanied by a written instrument of transfer in form satisfactory to the fiscal agent, duly endorsed by the Holder thereof or his attorney duly authorized in writing. Notes issued upon such transfer will be executed by the Issuer and upon the written request of the Issuer, authenticated by the Fiscal Agent, registered in the name of the designated transferee or transferees and delivered at the office of the Fiscal Agent or mailed, at the request, risk and expense of, and to the address requested by, the designated transferee or transferees.

TAXATION

German Tax Considerations

The following is a discussion of certain German tax considerations that may be relevant to you as a holder of the Notes. The discussion does not purport to be a comprehensive description of all the tax considerations that may be relevant to you. The discussion is based on the law as it stands on the date of this offering memorandum and may be subject to change, potentially with retroactive effect. You should consult your own adviser regarding the tax consequences of the purchase, ownership and disposition of the Notes in a light of your particular circumstances, including the aspect of any state, local or other applicable tax laws.

Income Taxation

If you are not a tax resident of Germany and do not otherwise have a connection with Germany other than the mere purchase, holding and disposition of, or the receipt of payments on, the Notes, you will not be subject to income taxation in Germany with your income from the Notes.

If you are an individual and a tax resident of Germany and the income from the Notes constitutes income from capital investment to you (a "German Private Investor"), interest payments received by you with respect to the Notes as well as the gain from the sale or other disposition (including repayment or redemption) of the Notes (*i.e.,* the difference between the proceeds from the sale or disposition of the Notes, after deduction of the expenses that are directly connected with the sale or disposition, and the cost of acquisition), will be subject to personal income tax at a flat rate of 25% (plus 5.5% solidarity surcharge thereon and, if applicable, church tax). In order to determine the amount of the gain, the proceeds derived from the sale or disposition and the acquisition cost are converted into euro at the conversion rate as of the date of acquisition and disposition, respectively (*i.e.,* currency gains are taxable).

Subject to an annual lump-sum allowance for savers (*Sparer-Pauschbetrag*) in the amount of EUR 801 (EUR 1,602 for married couples and registered partners filing jointly) for your overall income from capital investment, you will not be entitled to deduct any expenses incurred in connection with your investment in the Notes. In addition, you will only be able to offset losses from the investment in the Notes against positive income from capital investment but not against other types of income (*e.g.*, employment income).

Collection of the tax (including, if applicable, church tax) by way of withholding through a Disbursing Agent (as described under the caption "*Withholding Tax*" below) will satisfy your tax liability with respect to the aforementioned interest payments and gains (*Abgeltungsteuer*). If a Disbursing Agent has not withheld the tax, you must include the interest payments and the gain from the sale or other disposition of the Notes in your annual income tax return filing; the tax will then be collected by way of assessment.

Upon request, your income from the Notes (and any other income from capital investment) will be taxed at your individual progressive personal income tax rate (in lieu of the flat tax rate) together with your other taxable income if this results in a lower tax burden than the application of the flat tax rate. In this case, the tax withheld by a Disbursing Agent is credited against your final personal income tax liability or, if in excess of such final tax liability, refunded. But even then, you will not be allowed to claim a deduction of expenses actually incurred in connection with your investment in the Notes or to offset losses from the investment in the Notes against other types of positive income.

If you are a tax resident of Germany or otherwise have a connection with Germany other than the mere purchase, holding and disposition of, or the receipt of payments on, the Notes, *e.g.,* because the Notes form part of the business property of a permanent establishment or fixed base maintained in Germany, but you are not a German Private Investor (*e.g.,* because you hold the Notes as business assets), the flat tax regime does not apply to you. In this case, your income from the Notes will be subject to personal income tax at individual progressive tax rates of up to 45% (plus 5.5% solidarity surcharge on such personal income tax and, if applicable, church tax) or, as the case may be, corporate income tax at a rate of 15% (plus 5.5% solidarity surcharge on such corporate income tax). When computing your income, you will be allowed to deduct your expenses incurred in connection with your investment in the Notes under general rules. Income derived from the Notes will also be subject to trade tax at the applicable municipal rate (which varies generally between 7 and 18%) if the Notes form part of the property of a permanent establishment of a commercial business in Germany.

Withholding Tax

If you are not a tax resident of Germany and do not otherwise have a connection with Germany other than the mere purchase, holding and disposition of, or the receipt of payments on, the Notes, interest payments to you under the

Notes as well as gains realized by you on the sale or other disposition of the Notes will not be subject to German withholding tax.

If you are a tax resident of Germany or otherwise have a connection with Germany other than the mere purchase, holding and disposition of, or the receipt of payments on, the Notes, *e.g.,* because the Notes form part of the business property of a permanent establishment or fixed base maintained in Germany, and you keep the Notes in Germany in a custodial account with a Disbursing Agent (as defined below), the Disbursing Agent will be required to withhold tax at a rate of 25% (plus 5.5% solidarity surcharge thereon, resulting in an aggregate withholding rate of 26.375%) from the gross amount of the interest payments to be disbursed or credited to you with respect to the Notes. The Disbursing Agent will be informed by the Federal Central Tax Office (*Bundeszentralamt für Steuern*) about your affiliation with a religious group that levies the church tax. The Disbursing Agent will then automatically withhold church tax (where applicable). You can object in writing to the Federal Central Tax Office providing information about your religious affiliation to the Disbursing Agent. If you so object, the Federal Central Tax Office will notify your local tax office. The local tax office will then request you to file a tax return.

The term "Disbursing Agent" relates to a bank, a financial services institution, a securities trading enterprise or a securities trading bank, each as defined in the German Banking Act (and, in each case, including a German branch of a foreign enterprise, but excluding a foreign branch of a German enterprise) that holds the Notes in custody for you or conducts their sale or other disposition and disburses or credits the income from the Notes to you.

In the event that you sell or otherwise dispose of the Notes (including the redemption or repayment of Notes), the Disbursing Agent will generally be required to withhold tax as in the case of interest payments. If you have kept the Notes in a custodial account with the same Disbursing Agent since their acquisition or, in the event of a transfer of the Notes, your acquisition cost of the Notes has been evidenced to the Disbursing Agent (as described below), the tax is withheld at the above-mentioned rate from the gain (*i.e.,* the difference between the proceeds from the sale or the disposition of the Notes, after deduction of the expenses that are directly connected with the sale or disposition, and the acquisition cost). In order to determine the amount of the gain, the proceeds derived from the sale or disposition and the acquisition cost, are converted into euro at the conversion rate as of the date of acquisition and disposition, respectively (*i.e.,* currency gains are taken into account for withholding).

When you transfer the Notes to another custodial account within Germany, the releasing Disbursing Agent has to inform the accepting Disbursing Agent of your acquisition cost. When you transfer the Notes to a Disbursing Agent from a bank or financial services institution that has its seat in another member state of the European Union or the European Economic Area or in another contracting state pursuant to Article 17 (2) (i) of the directive adopted by the Council of the European Union on June 3, 2003 (2003/48/EC) on the taxation of savings income in the form of interest payments, or from a branch of a German bank or financial services institution established in such state, you can provide evidence of the acquisition cost through certification by such non-German institution. In all other cases, the evidence of the acquisition cost is not permissible.

If, in the event of a transfer of the Notes, the acquisition cost of the Notes has not been evidenced to the Disbursing Agent, the Disbursing Agent has to withhold tax at the above-mentioned rate from an amount equal to 30% of the proceeds from the sale or other disposition of the Notes.

If you transfer Notes that you keep in Germany in a custodial account with a Disbursing Agent to another holder, the Disbursing Agent must treat the transfer as a sale or disposition for withholding tax purposes, unless you inform the Disbursing Agent that the transfer is without consideration. If the Disbursing Agent is not so informed, the Disbursing Agent must withhold tax at the above-mentioned rate from a substitute tax base.

If you are a German Private Investor, you can take advantage of the *Sparer-Pauschbetrag* (as described above) by completing an exemption order (*Freistellungsauftrag*) for the Disbursing Agent. In this case, the Disbursing Agent will not withhold tax on your investment income (including income derived from the Notes) up to the amount shown on the exemption order. Furthermore, the Disbursing Agent will not withhold any tax, if you submit to the Disbursing Agent a certificate of non-assessment (*Nichtveranlagungsbescheinigung*) issued by the local tax office.

If you are subject to personal or corporate income taxation in Germany with your income from the Notes, but the flat tax regime does not apply to you (*i.e.,* because you are not a German Private Investor), the tax withheld by a Disbursing Agent will be credited against your final personal or corporate income tax liability or, if in excess of such final tax liability, refunded. You should consult your tax adviser about ways to avoid or limit withholding by a Disbursing Agent, in particular in the event of a sale or other disposition of the Notes.

Gift or Inheritance Taxation

The gratuitous transfer of Notes by you as a gift or by reason of your death will be subject to German gift or inheritance tax if you are or the recipient is a resident, or deemed to be a resident, of Germany under German gift or inheritance tax law at the time of the transfer. If neither you nor the recipient is a resident or deemed to be a resident of Germany at the time of the transfer, no German gift or inheritance tax will be levied unless the Notes form part of the property of a permanent establishment or a fixed base maintained by you in Germany. Tax treaties concluded by Germany with respect to gift and inheritance taxes generally permit Germany to tax the transfer in this situation.

Other Taxes

No stamp, issue, registration or similar taxes or duties will be payable in Germany in connection with the issuance, delivery or execution of the Notes. At present, a net assets tax (*Vermögensteuer*) is not levied in Germany. Also, the European Commission's proposal to introduce a financial transaction tax, which could also be applicable under certain circumstances to certain dealings in the Notes, has not been adopted or implemented in Germany.

Netherlands Tax Considerations

The following summary of certain Dutch taxation matters is based on the laws and practice in force as of the date of this offering memorandum and is subject to any changes in law and the interpretation and application thereof, which changes could be made with retroactive effect. The following summary does not purport to be a comprehensive description of all the tax considerations that may be relevant to a decision to acquire, hold or dispose of a Note, and does not purport to deal with the tax consequences applicable to all categories of investors, some of which may be subject to special rules.

For the purpose of this summary it is assumed that the Notes will not be redeemable in exchange for, convertible into or linked to shares, other equity instruments or other debt securities issued or to be issued by the Issuer or by any Dutch tax resident entity that is affiliated to the Issuer.

For the purpose of this summary it is assumed that a holder of a Note does not have and will not have a substantial interest, or - in the case of a holder of a Note being an entity - a deemed substantial interest, in the Issuer and that a connected person (verbonden persoon) to the holder of a Note does not and will not have a substantial interest in the Issuer.

Generally speaking, an individual has a substantial interest in a company if (a) such individual, either alone or together with his partner, directly or indirectly has, or is deemed to have or (b) certain relatives of such individual or his partner directly or indirectly have or are deemed to have (i) the ownership of, a right to acquire the ownership of, or certain rights over, shares representing 5 per cent or more of either the total issued and outstanding capital of such company or the issued and outstanding capital of any class of shares of such company, or (ii) the ownership of, or certain rights over, profit participating certificates (winstbewijzen) that relate to 5 per cent or more of either the annual profit or the liquidation proceeds of such company

Generally speaking, a non-resident entity has a substantial interest in a company if such entity, directly or indirectly has (I) the ownership of, a right to acquire the ownership of, or certain rights over, shares representing 5 per cent or more of either the total issued and outstanding capital of such company or the issued and outstanding capital of any class of shares of the Issuer, or (II) the ownership of, or certain rights over, profit participating certificates (winstbewijzen) that relate to 5 per cent or more of either the annual profit or the liquidation proceeds of such company. An entity holding a Note has a deemed substantial interest in a company if such entity has disposed of or is deemed to have disposed of all or part of a substantial interest on a non-recognition basis.

For the purpose of this summary, the term "entity" means a corporation as well as any other person that is taxable as a corporation for Dutch corporate tax purposes.

Where this summary refers to a holder of a Note, an individual holding a Note or an entity holding a Note, such reference is restricted to an individual or entity holding legal title to as well as an economic interest in such Note. It is noted that for purposes of Dutch income, corporate and gift and inheritance tax, assets legally owned by a third party such as a trustee, foundation or similar entity, may be treated as assets owned by the (deemed) settlor, grantor or similar originator or the beneficiaries in proportion to their interest in such arrangement.

Where the summary refers to "The Netherlands" or "Dutch" it refers only to the European part of the Kingdom of the Netherlands.

Investors should consult their professional advisers on the tax consequences of their acquiring, holding and disposing of a Note or Coupon.

Withholding Tax

All payments made by the Issuer of interest and principal under the Notes can be made free of withholding or deduction of any taxes of whatsoever nature imposed, levied, withheld or assessed by The Netherlands or any political subdivision or taxing authority thereof or therein.

Taxes on Income and Capital Gains

Residents

Resident entities

An entity holding a Note which is, or is deemed to be, resident in The Netherlands for corporate tax purposes and which is not tax exempt, will generally be subject to corporate tax in respect of income or a capital gain derived from a Note at the prevailing statutory rates.

Resident individuals

An individual holding a Note who is or is deemed to be resident in The Netherlands for income tax purposes will be subject to income tax in respect of income or a capital gain derived from a Note at rates up to 52 per cent if:

(i) the income or capital gain is attributable to an enterprise from which the holder derives profits (other than as a shareholder); or

(ii) the income or capital gain qualifies as income from miscellaneous activities (*belastbaar resultaat uit overige werkzaamheden*) as defined in the Income Tax Act (*Wet inkomstenbelasting 2001*), including, without limitation, activities that exceed normal, active asset management (*normaal, actief vermogensbeheer*).

If neither condition (i) nor (ii) applies, an individual holding a Note will be subject to income tax on the basis of a deemed return, regardless of any actual income or capital gain derived from a Note. The deemed return amounts to 4 per cent. of the average value of the individual's net assets in the relevant fiscal year (including the Note). As of January 1, 2017 the rate of 4% will be replaced by variable progressive rates ranging from 2.87% to 5.39%. The applicable rates will be updated annually on the basis of historic market yields. The applicable rates will be updated annually on the basis of historic market yields. Subject to application of certain allowances, the deemed return will be taxed at a rate of 30 per cent.

Non-residents

A holder of a Note which is not and is not deemed to be resident in The Netherlands for the relevant tax purposes will not be subject to taxation on income or a capital gain derived from a Note unless:

(i) the income or capital gain is attributable to an enterprise or part thereof which is either effectively managed in The Netherlands or carried on through a permanent establishment (*vaste inrichting*) or a permanent representative (*vaste vertegenwoordiger*) taxable in The Netherlands and the holder of a Note derives profits from such enterprise (other than by way of securities); or

(ii) the holder is an individual and the income or capital gain qualifies as income from miscellaneous activities (*belastbaar resultaat uit overige werkzaamheden*) in The Netherlands as defined in the Income Tax Act (*Wet inkomstenbelasting 2001*), including, without limitation, activities that exceed normal, active asset management (*normaal, actief vermogensbeheer*).

Gift or Inheritance Taxes

Dutch gift or inheritance taxes will not be levied on the occasion of the transfer of a Note by way of gift by, or on the death of, a holder of a Note, unless:

(i) the holder of a Note is, or is deemed to be, resident in The Netherlands for the purpose of the relevant provisions; or

(ii) the transfer is construed as an inheritance or gift made by, or on behalf of, a person who, at the time of the gift or death, is or is deemed to be resident in The Netherlands for the purpose of the relevant provisions.

Value Added Tax

There is no Dutch value added tax payable by a holder of a Note in respect of payments in consideration for the issue of the Notes or in respect of the payment of interest or principal under the Notes, or the transfer of the Notes.

Other Taxes and Duties

There is no Dutch registration tax, stamp duty or any other similar tax or duty payable in The Netherlands by a holder of a Note in respect of or in connection with the execution, delivery and/or enforcement by legal proceedings (including any foreign judgment in the courts of The Netherlands) of the Notes or the performance of the Issuer's obligations under the Notes.

Residence

A holder of a Note will not be, or deemed to be, resident in The Netherlands for tax purposes and, subject to the exceptions set out above, will not otherwise be subject to Dutch taxation, by reason only of acquiring, holding or disposing of a Note or the execution, performance, delivery and/or enforcement of a Note.

United States Federal Income Tax Considerations

The following discussion summarizes certain U.S. federal income tax considerations that may be relevant if you are a U.S. holder. You are a "U.S. holder" if you are an individual who is a citizen or resident of the United States, a U.S. domestic corporation, or any other person that is subject to U.S. federal income tax on a net income basis in respect of an investment in the Notes. You are a "non-U.S. holder" if you are a beneficial owner of the Notes that is not a U.S. holder. This summary is based upon provisions of the Internal Revenue Code of 1986, as amended and regulations, rulings and judicial decisions as of the date hereof. Those authorities may be changed, perhaps retroactively, so as to result in U.S. federal income tax consequences different from those summarized below. This summary does not purport to be a comprehensive description of all of the tax considerations that may be relevant to any particular investor, including tax considerations that arise from rules of general application or that are generally assumed to be known by investors.

This summary deals only with U.S. holders who purchase the Notes at original issuance at their issue price and who hold the Notes as capital assets. It does not address considerations that may be relevant to you if you are an investor that is subject to special tax rules, such as a bank, a thrift, a real estate investment trust, a regulated investment company, an insurance company, a dealer in securities or currencies, a trader in securities or commodities that elects mark-to-market treatment, an entity taxed as a partnership (or the partners therein), a non-U.S. holder present in the United States for 183 days or more during the taxable year, a holder that has ceased to be a U.S. citizen or a lawful permanent resident of the United States, a person that will hold the Notes as a hedge against currency risk or as a position in a "straddle", hedge, conversion or other integrated transaction, a tax-exempt organization or a person whose "functional currency" is not the U.S. dollar. In addition, this summary does not discuss any aspect of U.S. federal taxation other than income taxation (such as estate and gift tax laws, the alternative minimum tax or Medicare tax on net investment income) or state, local or non-U.S. tax considerations.

You should consult your tax adviser about the tax consequences of the acquisition, ownership and disposition of the Notes, including the relevance to your particular situation of the considerations discussed below, as well as the relevance to your particular situation of state, local or other tax laws.

U.S. Federal Income Tax Consequences to U.S. Holders

Payments of Interest

Payments of interest on a Note will generally be taxable to you as ordinary income at the time it is paid or accrued in accordance with your method of accounting for U.S. federal income tax purposes. In addition, if any additional amounts are paid in respect of any taxes withheld from the interest payments, you will also be required to include in income as ordinary income any such additional amounts.

It is expected, and this discussion assumes, that the Notes will not be issued with original issue discount ("OID") in an amount equal to or in excess of a *de minimis* amount. In general, however, if the Notes are issued with OID that is equal to or more than a *de minimis* amount, regardless of your regular method of accounting for U.S. federal income tax

purposes, you will have to include OID as ordinary gross income under a "constant yield method" before the receipt of cash attributable to such income.

Interest payments will be treated as income from sources outside the United States and you generally will be entitled to deduct or credit taxes that are withheld from the interest payments, subject to certain limitations. Payments of interest on the Notes generally will constitute foreign-source "passive category income" for U.S. foreign tax credit purposes. The rules governing the foreign tax credit are complex. You are urged to consult your tax advisers regarding the availability of the foreign tax credit under your particular circumstances.

Sale, Exchange, Redemption and Retirement of Notes

Upon the sale, exchange, redemption, retirement or other disposition of a Note, you will recognize gain or loss equal to the difference between the amount you realized upon the sale, exchange, redemption, retirement or other disposition (less an amount equal to any accrued interest that you did not previously include in income, which will be taxable as interest income as described under "—*Payments of Interest*" above) and your adjusted tax basis in the Note. Your tax basis in a Note will be, in general, your cost for that Note. Such gain or loss will generally be U.S.-source capital gain or loss and generally will be long-term capital gain or loss if, at the time of the disposition, the Notes have been held for more than one year. Consequently, you may not be able to claim a credit for any foreign tax imposed upon a disposition of a Note unless such credit can be applied (subject to applicable limitation) against tax due on other income treated as derived from foreign sources. Capital gains of individuals derived in respect of capital assets held for more than one year may be eligible for reduced rates of taxation. The deductibility of capital losses is subject to limitations.

Substitution of Issuer

The terms of the Notes provide that, in certain circumstances, the obligations of the Issuer under the Notes may be assumed by another entity. Any such assumption might be treated for U.S. federal income tax purposes as a deemed disposition of Notes by a U.S. holder in exchange for new notes issued by the new obligor. As a result of this deemed disposition, you could be required to recognize capital gain or loss for U.S. federal income tax purposes equal to the difference, if any, between the issue price of the new Notes (as determined for U.S. federal income tax purposes), and your tax basis in the Notes. You should consult your tax adviser concerning the U.S. federal income tax consequences to you of a change in obligor with respect to the Notes.

U.S. Federal Income Tax Consequences to Non-U.S. Holders

Subject to the discussion of backup withholding below, a non-U.S. holder generally will not be subject to U.S. federal income tax (including withholding tax) on payments of interest on the Notes. In addition, a non-U.S. holder generally will not be subject to U.S. federal income tax on gain realized on the sale, exchange, redemption, retirement or other taxable disposition of the Notes.

Information Reporting and Backup Withholding

The paying agent must file information returns with the Internal Revenue Service in connection with Note payments made to certain United States persons. If you are a United States person, you generally will not be subject to U.S. backup withholding tax on such payments if you are a corporation (other than an S Corporation) or other exempt recipient. In either case, you must provide your taxpayer identification number and certify that you have not lost your exemption from backup withholding, if so requested. If you are not a United States person, you may have to comply with certification procedures to establish that you are not a United States person in order to avoid information reporting and backup withholding tax requirements. Backup withholding is not an additional tax. The amount of any backup withholding collected from a payment to you will be allowed as a credit against your U.S. federal income tax liability and may entitle you to a refund, provided that certain required information is timely furnished to the IRS. You should consult your tax adviser about these rules and any other reporting obligations that may apply to the ownership or disposition of Notes.

PLAN OF DISTRIBUTION

The Issuer intends to offer the Notes through the initial purchasers listed in the table below (the "Initial Purchasers"). Citigroup Global Markets Inc., Deutsche Bank Securities Inc. and Morgan Stanley & Co. LLC are acting as representatives for the Initial Purchasers. Subject to the terms and conditions contained in a purchase agreement dated January 9, 2017 among the Issuer, the Guarantor and the Initial Purchasers (the "Purchase Agreement"), the Issuer has agreed to sell to the Initial Purchasers, and the Initial Purchasers have severally agreed to purchase from the Issuer, the principal amount of each series of Notes listed opposite their names below:

	Principal Amount			
Initial Purchasers	**2020 Fixed Rate Notes**	**2022 Fixed Rate Notes**	**2027 Fixed Rate Notes**	**Floating Rate Notes**
Citigroup Global Markets Inc.	$198,334,000	$233,334,000	$291,667,000	$93,334,000
Deutsche Bank Securities Inc.	$198,333,000	$233,333,000	$291,667,000	$93,333,000
Morgan Stanley & Co. LLC	$198,333,000	$233,333,000	$291,666,000	$93,333,000
Credit Suisse Securities (USA) LLC	$85,000,000	$100,000,000	$125,000,000	$40,000,000
MUFG Securities Americas Inc.	$85,000,000	$100,000,000	$125,000,000	$40,000,000
Santander Investment Securities Inc.	$85,000,000	$100,000,000	$125,000,000	$40,000,000
Total	**$850,000,000**	**$1,000,000,000**	**$1,250,000,000**	**$400,000,000**

The Initial Purchasers have agreed, severally and not jointly, to purchase all of the Notes being sold pursuant to the Purchase Agreement if any of such Notes are purchased. If an Initial Purchaser defaults, the Purchase Agreement provides that the purchase commitments of the non-defaulting Initial Purchasers may be increased or, in certain cases, the Purchase Agreement may be terminated.

The Initial Purchasers have advised the Issuer that they propose initially to offer the Notes for resale at the price listed on the cover page of this offering memorandum. After the initial offering of the Notes, the offering price and other selling terms may from time to time be varied by the Initial Purchasers. The offering of the Notes by the Initial Purchasers is subject to receipt and acceptance and subject to the Initial Purchasers' right to reject any order in whole or in part.

The Issuer and the Guarantor have agreed to indemnify the several Initial Purchasers against certain liabilities, including certain liabilities under the Securities Act, or to contribute to payments the Initial Purchasers may be required to make in respect of those liabilities.

The expenses of the offering, not including the discount to the Initial Purchasers, are estimated at $300,000 and are payable by the Issuer and the Guarantor.

The Initial Purchasers are offering the Notes, subject to prior sale, when, as and if issued to and accepted by them, subject to approval of legal matters by their counsel, including the validity of the Notes, and other conditions contained in the Purchase Agreement, such as the receipt by the Initial Purchasers of officer's certificates and legal opinions. The Initial Purchasers reserve the right to withdraw, cancel or modify offers to investors and to reject orders in whole or in part. After the Notes are released for sale, the Initial Purchasers may change the offering prices and other selling terms without notice.

The Notes are a new issue of securities with no established trading market. The Issuer and the Guarantor do not intend to apply for listing of the Notes on any national securities exchange or for inclusion of the Notes on any automated dealer quotation system. The Issuer has been advised by the Initial Purchasers that they presently intend to make a market in the Notes after completion of the offering. However, they are under no obligation to do so and may discontinue any market-making activities at any time without any notice. The Issuer cannot assure the liquidity of the trading market for the Notes. If an active trading market for the Notes does not develop, the market price and liquidity of the Notes may be adversely affected. If the Notes are traded, they may trade at a discount from their initial offering price, depending on prevailing interest rates, the market for similar securities, the operating performance and financial condition of the Issuer and the Guarantor, general economic conditions and other factors. See "*Risk Factors—Risks Related to the Notes—Many factors may adversely affect the trading market, value or yield of the Notes*".

Price Stabilization, Short Positions

In connection with the offering, the Initial Purchasers may purchase and sell the Notes in the open market. These transactions may include short sales, purchases on the open market to cover positions created by short sales and stabilizing transactions. Short sales involve the sale by the Initial Purchasers of a greater principal amount of Notes than

they are required to purchase in the offering. The Initial Purchasers must close out short position by purchasing Notes in the open market. A short position is more likely to be created if the Initial Purchasers are concerned that there may be downward pressure on the price of the Notes in the open market after pricing that could adversely affect investors who purchase in the offering.

The Initial Purchasers also may impose a penalty bid. This occurs when a particular Initial Purchaser repays to the Initial Purchasers a portion of the underwriting discount received by it because the representative has repurchased notes sold by or for the account of such Initial Purchaser in stabilizing or short covering transactions.

Any of these activities may cause the prices of the Notes to be higher than the price that otherwise would exist in the open market in the absence of such transactions. These transactions may be effected in any over-the-counter market, and, if commenced, may be discontinued at any time.

Neither the Issuer, the Guarantor nor any of the Initial Purchasers make any representation or prediction as to the direction or magnitude of any effect that the transactions described above may have on the price of the Notes. In addition, neither the Issuer, the Guarantor nor any of the Initial Purchasers make any representation that the Representative will engage in these transactions or that these transactions, once commenced, will not be discontinued without notice.

Settlement

We expect that delivery of the Notes will be made against payment therefor on or about the closing date specified on the cover page of this offering memorandum (the "Settlement Date"), which will be the seventh New York business day following the date of pricing of the Notes of this offering (this settlement cycle being referred to as "T+7"). Under Rule 15c6-1 of the Securities Exchange Act of 1934, trades in the secondary market generally are required to settle in three New York business days, unless the parties to any such trade expressly agree otherwise. Accordingly, purchasers who wish to trade Notes prior to the third business day preceding the Settlement Date will be required, by virtue of the fact that the Notes initially will settle in T+7, to specify an alternative settlement cycle at the time of any such trade to prevent a failed settlement. Purchasers of Notes who wish to trade Notes prior to the third business day preceding the Settlement Date should consult their own adviser.

Other Relationships

Some of the Initial Purchasers and their affiliates have engaged in, and may in the future engage in, investment banking and other commercial dealings in the ordinary course of business with the Issuer, the Guarantor or their respective affiliates. They have received, or may in the future receive, customary fees and commissions for these transactions.

The Initial Purchasers and their respective affiliates are full service financial institutions engaged in various activities, which may include securities trading, commercial and investment banking, financial advisory, investment management, investment research, principal investment, hedging, financing and brokerage activities.

In addition, in the ordinary course of their business activities, the Initial Purchasers and their affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers. Such investments and securities activities may involve securities and/or instruments of the Issuer, the Guarantor or their respective affiliates. Certain of the Initial Purchasers or their affiliates that have a lending relationship with us routinely hedge, certain other of the Initial Purchasers or their affiliates currently hedge and are likely to hedge in future, and certain other of those Initial Purchasers or their affiliates may hedge, their credit exposure to us consistent with their customary risk management policies. Typically, such Initial Purchasers and their affiliates would hedge such exposure by entering into transactions which consist of either the purchase of credit default swaps or the creation of short positions in our securities, including potentially the Notes offered hereby. Any such credit default swaps or short positions could adversely affect future trading prices of the Notes offered hereby. The Initial Purchasers and their affiliates may also make investment recommendations and/or publish or express independent research views in respect of such securities or financial instruments and may hold, or recommend to clients that they acquire, long and/or short positions in such securities and instruments.

Selling Restrictions

General

No action has been or will be taken in any jurisdiction that would permit a public offering of the Notes, or the possession, circulation or distribution of this offering memorandum, or any amendment or supplement to this offering memorandum, or any other offering or publicity material relating to the Notes, in any country or jurisdiction where, or in any circumstances in which, action for that purpose is required. Accordingly, the Notes may not be offered or sold, directly or indirectly, and neither this offering memorandum nor any other offering material or advertisements in connection with the Notes may be distributed or published, in or from any country or jurisdiction except under circumstances that will result in compliance with applicable laws and regulations. Each Initial Purchaser has agreed that it will, to the best of its knowledge, comply with all relevant laws, regulations and directives in each jurisdiction in which it purchases, offers, sells or delivers Notes or has in its possession or distributes this offering memorandum and none of the Issuer, the Guarantor or any other Initial Purchaser shall have any responsibility therefor.

United States

The Initial Purchasers propose to offer the Notes for resale in transactions not requiring registration under the Securities Act or applicable state securities laws, including sales pursuant to Rule 144A. Each Initial Purchaser has represented, warranted and agreed that it will offer and sell the Notes except:

(i) to persons whom it reasonably believes are QIBs pursuant to Rule 144A in transactions meeting the requirements of Rule 144A, or

(ii) to, or for the account or benefit of, persons other than "U.S. persons" (within the meaning of Regulation S under the Securities Act) purchasing in offshore transactions outside the United States within the meaning of Regulation S under the Securities Act.

Any offer or sale of the Notes in the United States in reliance on Rule 144A or another exemption from the registration requirements of the Securities Act will be made by broker-dealers who are registered as such under the Exchange Act.

Canada

The Notes may be sold in Canada only to purchasers purchasing, or deemed to be purchasing, as principal that are accredited investors, as defined in National Instrument 45-106 Prospectus Exemptions or subsection 73.3(1) of the Securities Act (Ontario), and are permitted clients, as defined in National Instrument 31-103 Registration Requirements, Exemptions and Ongoing Registrant Obligations. Any resale of the Notes must be made in accordance with an exemption from, or in a transaction not subject to, the prospectus requirements of applicable securities laws.

Securities legislation in certain provinces or territories of Canada may provide a purchaser with remedies for rescission or damages if this offering memorandum (including any amendment thereto) contains a misrepresentation, provided that the remedies for rescission or damages are exercised by the purchaser within the time limit prescribed by the securities legislation of the purchaser's province or territory. The purchaser should refer to any applicable provisions of the securities legislation of the purchaser's province or territory for particulars of these rights or consult with a legal advisor.

Pursuant to section 3A.3 of National Instrument 33-105 Underwriting Conflicts (NI 33-105), the Initial Purchasers are not required to comply with the disclosure requirements of NI 33-105 regarding underwriter conflicts of interest in connection with this offering.

Hong Kong

Each Initial Purchaser has represented, warranted and agreed that (a) it has not offered and sold, and will not offer or sell, in Hong Kong, by means of any document, any Notes (except for Notes which are a "structured product" as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong ("SFO")) other than (i) to persons whose ordinary business it is to buy or sell shares or debentures, whether as principal or agent, or (ii) in circumstances which do not constitute an offer to the public within the meaning of the Companies Ordinance (Cap. 32) of Hong Kong ("CO") or (iii) to "professional investors" within the meaning of the SFO and any rules made under the SFO, or (iv) in other circumstances which do not result in the document being a "prospectus" within the meaning of the CO; and (b) it has not issued, or had in its possession for the purposes of issue, and will not issue, or have in its possession for the purpose of issue (in each case whether in Hong Kong or elsewhere), any advertisement, invitation or document relating to the Notes,

which is directed at, or the contents of which are likely to be accessed or read by, the public in Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to Notes which are or are intended to be disposed of only to persons outside Hong Kong or only to "professional investors" within the meaning of the SFO and any rules made under the SFO.

Japan

Each Initial Purchaser has represented, warranted and agreed that the Notes have not been and will not be registered under the Financial Instruments and Exchange Act of Japan (Act No. 25 of 1948, as amended, the "Financial Instruments and Exchange Act") and that it will not offer or sell any Notes, directly or indirectly, in Japan or to, or for the benefit of, any Japanese person or to others, for re-offering or resale, directly or indirectly, in Japan or to any Japanese person, except in each case pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the Financial Instruments and Exchange Act and any other applicable laws and regulations of Japan. For purposes of this paragraph, "Japanese person" means any person resident in Japan, including any corporation or other entity organized under the laws of Japan.

Singapore

This offering memorandum has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, this offering memorandum and any other document or material in connection with the offering or sale, or invitation for subscription or purchase, of the Notes may not be circulated or distributed, nor may the Notes be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to Initial Purchasers in Singapore other than (i) to an institutional investor under Section 274 of the Securities and Futures Act, Chapter 289 of Singapore (the "SFA"), (ii) to a relevant person, or any person pursuant to Section 275(1A), and in accordance with the conditions, specified in Section 275 of the SFA or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where the Notes are subscribed or purchased under Section 275 by a relevant person which is: (a) a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or (b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor, securities (as defined in Section 239(1) of the SFA) of that corporation or the beneficiaries' rights and interest (howsoever described) in that trust shall not be transferred within 6 months after that corporation or that trust has acquired the Notes pursuant to an offer made under Section 275 of the SFA except: (1) to an institutional investor or to a relevant person defined in Section 275(2) of the SFA, or any person arising from an offer referred to in Section 275(1A) or Section 276(4)(i)(B) of the SFA; (2) where no consideration is or will be given for the transfer; (3) where the transfer is by operation of law; (4) as specified in Section 276(7) of the SFA; or (5) as specified in Regulation 32 of the Securities and Futures (Offers of Investments) (Shares and Debentures) Regulations 2005 of Singapore.

United Kingdom

Each Initial Purchaser has represented, warranted and agreed that:

(i) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of section 21 of the Financial Services and Markets Act 2000 ("FSMA")) received by it in connection with the issue or sale of the Notes in circumstances in which section 21(1) of the FSMA does not apply to the Issuer or the Guarantor; and

(ii) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Notes in, from or otherwise involving the United Kingdom.

The Netherlands

Each Initial Purchaser has represented, warranted and agreed that it has not offered or sold and will not offer or sell any of the Notes in the Netherlands, unless it has the Dutch regulatory capacity to do so, other than through one or more investment firms acting as principals and having the Dutch regulatory capacity to make such offers or sales.

Each Initial Purchaser has represented, warranted and agreed that it will not make an offer of Notes to the public in The Netherlands in reliance on Article 3(2) of the Prospectus Directive unless:

(i) such offer is made exclusively to legal entities which are qualified investors (as defined in the Dutch Financial Markets Supervision Act (*Wet op het financieel toezicht* ("Wft")) in The Netherlands; or

(ii) standard exemption logo and wording are disclosed as required by article 5:20(5) of the Wft; or

(iii) such offer is otherwise made in circumstances in which article 5:20(5) of the Wft is not applicable,

provided that no such offer of Notes shall require the Issuer or any Initial Purchaser to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive.

For the purposes of this provision, the expressions (i) an "offer of Notes to the public" in relation to any Notes in The Netherlands; and (ii) "Prospectus Directive", have the meaning given to them below in the paragraph headed with "*European Economic Area*".

European Economic Area

In relation to each Member State of the EEA, each initial purchaser has represented and agreed that it has not made and will not make an offer of Notes to the public in that Member State except that it may make an offer of Notes, which are the subject of the offering contemplated by this offering memorandum, to the public in that Member State other than:

(a) to any legal entity which is a qualified investor as defined in the Prospectus Directive;

(b) to fewer than 150 natural or legal persons (other than qualified investors as defined in the Prospectus Directive), as permitted under the Prospectus Directive, subject to obtaining the prior consent of the relevant Initial Purchaser or Initial Purchasers nominated by the Issuer for any such offer; or

(c) in any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no such offer of Notes shall require the Issuer, the Guarantor or any Initial Purchasers to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive, in each case, in relation to such offer. Neither the Issuer nor the Guarantor nor the Initial Purchasers have authorized, nor do they authorize, the making of any offer of Notes in circumstances in which an obligation arises for the Issuer, the Guarantor or the Initial Purchasers to publish or supplement a prospectus for such offer.

For the purposes of this provision, the expression an "offer of Notes to the public" in relation to any Notes in any Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe the Notes, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State and the expression "Prospectus Directive" means Directive 2003/71/EC (as amended by Directive 2010/73/EU), and includes any relevant implementing measure in the Member State.

This EEA selling restriction is in addition to any other selling restrictions set out in this offering memorandum.

TRANSFER RESTRICTIONS

Offers and Sales

The Notes have not been and will not be registered under the Securities Act and may not be offered or sold in the United States except pursuant to an effective registration statement or (i) in a transaction not subject to the registration requirements under the Securities Act and any securities regulatory authority of any state of the United States or (ii) in accordance with an applicable exemption from the registration requirements thereof. Accordingly, the Notes are being offered and sold hereunder only:

- inside the United States or to U.S. persons (as defined under Regulation S), to QIBs; and
- outside the United States to non-U.S. persons or for the account or benefit of non-U.S. persons, in offshore transactions in reliance upon Regulation S.

Any offer or sale of the Notes in the United States in reliance on Rule 144A or another exemption from the registration requirements of the Securities Act will be made by broker-dealers who are registered as such under the Exchange Act.

Until the expiration of 40 days after the later of the commencement of the offering of the Notes and the original issue or sale date of the Notes, an offer or sale of the Notes within the United States by a dealer may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than pursuant to an exemption from registration under the Securities Act.

Each purchaser of the Notes will be deemed by its acceptance of the Notes to have represented, warranted and agreed that it is purchasing the Notes for its own account, or for one or more investor accounts for which it is acting as a fiduciary or agent, in each case for investment, and not with a view to, or for offer or sale in connection with, any distribution thereof in violation of the Securities Act or any state securities laws, subject to any requirement of law that the disposition of its property or the property of such investor account or accounts be at all times within its or their control and subject to its or their ability to resell such Notes pursuant to Rule 144A, Regulation S or any other exemption from registration available under the Securities Act.

Rule 144A Global Notes

Each purchaser of Notes within the United States will be deemed by its acceptance of the Notes to have represented, warranted and agreed on its behalf and on behalf of any investor accounts for which it is purchasing the Notes, that neither the Issuer nor the Guarantor nor the Initial Purchasers, nor any person acting on their behalf, has made any representation to it with respect to the offering or sale of any Notes, other than the information contained in this offering memorandum, which offering memorandum has been delivered to it and upon which it is solely relying in making its investment decision with respect to the Notes, has had access to such financial and other information concerning Deutsche Telekom, Finance and the Notes as it has deemed necessary in connection with its decision to purchase any of the Notes, and that:

(i) the purchaser is not an affiliate of Deutsche Telekom or Finance or a person acting on behalf of Deutsche Telekom or Finance or on behalf of such affiliate; and it is not in the business of buying and selling securities or, if it is in such business, it did not acquire the Notes from Deutsche Telekom or Finance or an affiliate thereof in the initial distribution of the Notes;

(ii) the purchaser acknowledges that the Notes have not been and will not be registered under the Securities Act or with any securities regulatory authority of any state of the United States and are subject to significant restrictions on transfer;

(iii) the purchaser (i) is a QIB, (ii) is aware that the sale to it is being made in reliance on Rule 144A or another exemption from, or in a transaction not subject to, the registration requirements of the Securities Act, and (iii) is acquiring such Notes for its own account or for the account of a QIB, in each case for investment and not with a view to, or for offer or sale in connection with, any resale or distribution of the Notes in violation of the Securities Act or any state securities laws;

(iv) the purchaser is aware that the Notes are being offered in the United States in a transaction not involving any public offering in the United States within the meaning of the Securities Act;

(v) if, prior to the date that is one year after the later of the date (the "Resale Restriction Termination Date") of the commencement of sales of the Notes and the last date on which the Notes were acquired from the Issuer or any of the Issuer's affiliates in the offering the purchaser decides to offer, resell, pledge or otherwise transfer such Notes, such Notes may be offered, sold, pledged or otherwise transferred only (i) to a person whom the beneficial owner and/or any person acting on its behalf reasonably believes is a QIB in a transaction meeting the requirements of Rule 144A, (ii) in accordance with Regulation S, (iii) in accordance with Rule 144 (if available), (iv) in accordance with an effective registration statement under the Securities Act, or (v) pursuant to any other available exemption from the registration requirements of the Securities Act in each case in accordance with any applicable securities laws of any state of the United States or any other jurisdiction and agrees to give any subsequent purchaser of such Notes notice of any restrictions on the transfer thereof;

(vi) the Notes have not been offered to it by means of any general solicitation or general advertising;

(vii) the Notes are "restricted securities" within the meaning of Rule 144(a)(3) under the Securities Act and no representation is made as to the availability of the exemption provided by Rule 144 under the Securities Act for resales of any such Notes;

(viii) the Notes, unless otherwise determined by the Issuer in accordance with applicable law, will bear a legend to the following effect:

THIS SECURITY HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR ANY STATE SECURITIES LAW. THE HOLDER HEREOF, BY PURCHASING THIS SECURITY, (A) REPRESENTS THAT IT IS A "QUALIFIED INSTITUTIONAL BUYER" (AS DEFINED IN RULE 144A UNDER THE SECURITIES ACT) AND (B) AGREES THAT THIS SECURITY MAY BE REOFFERED, RESOLD, PLEDGED OR OTHERWISE TRANSFERRED ONLY IN COMPLIANCE WITH THE SECURITIES ACT AND OTHER APPLICABLE LAWS AND ONLY (1) TO DEUTSCHE TELEKOM INTERNATIONAL FINANCE B.V. (THE "ISSUER"), (2) PURSUANT TO RULE 144A UNDER THE SECURITIES ACT ("RULE 144A") TO A PERSON THAT THE HOLDER REASONABLY BELIEVES IS A QUALIFIED INSTITUTIONAL BUYER WITHIN THE MEANING OF RULE 144A PURCHASING FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A QUALIFIED INSTITUTIONAL BUYER WHOM THE HOLDER HAS INFORMED, IN EACH CASE, THAT THE REOFFER, RESALE, PLEDGE OR THE TRANSFER IS BEING MADE IN RELIANCE ON RULE 144A, (3) IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH RULE 903 OR RULE 904 OF REGULATION S UNDER THE SECURITIES ACT, (4) PURSUANT TO AN EXEMPTION FROM REGISTRATION IN ACCORDANCE WITH RULE 144 UNDER THE SECURITIES ACT (IF AVAILABLE), OR (5) PURSUANT TO ANOTHER EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT, PROVIDED THAT, AS A CONDITION TO THE REGISTRATION OF THE TRANSFER HEREOF, THE ISSUER OR THE FISCAL AGENT MAY REQUIRE THE DELIVERY OF ANY DOCUMENTS, INCLUDING AN OPINION OF COUNSEL, THAT IT, IN ITS SOLE DISCRETION, MAY DEEM NECESSARY OR APPROPRIATE TO EVIDENCE COMPLIANCE WITH SUCH EXEMPTION. THE HOLDER HEREOF, BY, PURCHASING OR ACCEPTING THIS SECURITY, REPRESENTS AND AGREES FOR THE BENEFIT OF THE ISSUER THAT IT WILL NOTIFY ANY PURCHASER OF THIS SECURITY FROM THE HOLDER OF THE RESALE RESTRICTIONS REFERRED TO ABOVE.

(ix) the purchaser agrees that it will give to each person to whom it transfers the Notes notice of any restrictions on transfer of such Notes; and

(x) the purchaser acknowledges that the Fiscal Agent will not be required to accept for registration of transfer any Notes except upon presentation of evidence satisfactory to the Issuer and the Fiscal Agent that the restrictions set forth herein have been complied with.

Terms defined in Rule 144A shall have the same meaning when used in the foregoing sections (i)-(ix). Each purchaser acknowledges that the Issuer, the Guarantor and the Initial Purchasers will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements, and agrees that if any of the acknowledgements, representations or warranties deemed to have been made by such purchaser by its purchase of Notes are no longer accurate, it shall promptly notify the Issuer, the Guarantor and the Initial Purchasers; if they are acquiring any Notes offered hereby as a fiduciary or agent for one or more investor accounts, each purchaser represents that they have sole investment discretion with respect to each such account and full power to make the foregoing acknowledgements, representations and agreements on behalf of each such account.

The Issuer and the Guarantor recognize that none of DTC, Euroclear nor Clearstream in any way undertakes to, and none of DTC, Euroclear nor Clearstream have any responsibility to, monitor or ascertain the compliance of any transactions in the Notes with any exemptions from registration under the Securities Act or any other state or federal securities law.

Regulation S Global Notes

Each purchaser of Notes outside the United States pursuant to Regulation S will be deemed by its acceptance of the Notes to have represented, warranted and agreed, on its behalf and on behalf of any investor accounts for which it is purchasing the Notes, that neither the Issuer nor the Guarantor nor the Initial Purchasers, nor any person acting on their behalf, has made any representation to it with respect to the offering or sale of any Notes, other than the information contained in this offering memorandum, which offering memorandum has been delivered to it and upon which it is solely relying in making its investment decision with respect to the Notes, has had access to such financial and other information concerning Deutsche Telekom and the Notes as it has deemed necessary in connection with its decision to purchase any of the Notes, and that:

(i) the purchaser understands and acknowledges that the Notes have not been and will not be registered under the Securities Act, or with any securities regulatory authority of any state of the United States, and may not be offered, sold or otherwise transferred except in compliance with the registration requirements of the Securities Act or any other applicable securities law, pursuant to an exemption therefrom or in any transaction not subject thereto;

(ii) the purchaser, and the person, if any, for whose account or benefit the purchaser is acquiring the Notes, is not a U.S. person and is acquiring the Notes in an "offshore transaction" meeting the requirements of Regulation S and was located outside the United States at the time the buy order for the Shares was originated and continues to be outside of the United States and has not purchased the Notes for the account or benefit of any U.S. person or entered into any arrangement for the transfer of the Notes to any U.S. person;

(iii) the purchaser is aware of the restrictions on the offer and sale of the Notes pursuant to Regulation S described in this offering memorandum and agrees to give any subsequent purchaser of such Notes notice of any restrictions on the transfer thereof;

(iv) the Notes have not been offered to it by means of any "directed selling efforts" as defined in Regulation S; and

(v) Deutsche Telekom shall not recognize any offer, sale, pledge or other transfer of the Notes made other than in compliance with the above-stated restrictions.

Terms defined in Regulation S shall have the same meaning when used in the foregoing sections (i)-(v).

Until the 41st day after the later of the commencement of the sale of the Notes and the date of the original issuance of the Notes, the Regulation S notes will bear a restrictive legend to the following effect and may not be transferred otherwise than in accordance with the transfer restrictions set forth in such legend:

THE SECURITIES EVIDENCED HEREBY HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY JURISDICTION AND, ACCORDINGLY, MAY NOT BE REOFFERED, RESOLD, PLEDGED OR OTHERWISE TRANSFERRED WITHIN THE UNITED STATES OR TO OR FOR THE ACCOUNT OR BENEFIT OF A U.S. PERSON (AS DEFINED IN REGULATION S UNDER THE SECURITIES ACT) EXCEPT PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT. DEUTSCHE TELEKOM INTERNATIONAL FINANCE B.V. (THE "ISSUER") HAS AGREED THAT THIS LEGEND SHALL BE DEEMED TO HAVE BEEN REMOVED ON THE 41ST DAY FOLLOWING THE LATER OF THE COMMENCEMENT OF THE OFFERING OF THE SECURITIES AND THE FINAL DELIVERY DATE WITH RESPECT THERETO.

LEGAL MATTERS

The validity of the Notes has been passed upon for us by our United States counsel, Cleary Gottlieb Steen & Hamilton LLP, and for the underwriters by their United States counsel, Sullivan & Cromwell LLP. The validity of the Notes under Dutch law has been passed upon by our Dutch counsel Clifford Chance LLP, Amsterdam.

INDEPENDENT ACCOUNTANTS

The consolidated financial statements of Deutsche Telekom AG as of and for the years ended December 31, 2015 and 2014, which are included elsewhere in this offering memorandum, have been prepared in accordance with IFRS as adopted by the European Union and have been audited by PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Friedrich-Ebert-Anlage 35-37, 60372 Frankfurt am Main, Germany ("PwC"), independent accountants, as stated in its independent auditor's reports appearing elsewhere in this offering memorandum. The condensed consolidated interim financial statements as of September 30, 2016 have been subject to an auditor review by PwC and provided with an auditor review report. PwC is a member of the German Chamber of Public Accountants (*Wirtschaftsprüferkammer*), Berlin.

The independent auditor's reports of PwC for the consolidated financial statements of Deutsche Telekom AG as of and for the years ended December 31, 2015 and 2014 each make reference to a group management report (*Konzernlagebericht*) that has not been included in the offering memorandum. The review report of PwC for the condensed consolidated interim financial statements of Deutsche Telekom AG as of and for the nine-month period ended September 30, 2016 makes reference to an interim group management report (*Konzernzwischenlagebericht*) that has not been included in the offering memorandum.

The examination of and the independent auditors' reports upon such group management report / review report upon such interim group management report are required under German generally accepted auditing standards and German standards for the review of financial statements. Those examinations and reports were not made in accordance with generally accepted auditing or attestation standards in the United States. Accordingly, PwC does not express any opinion in accordance with U.S. generally accepted auditing standards or U.S. attestation standards on this information or on the consolidated financial statements or the condensed consolidated interim financial statements prepared in accordance with IFRS as issued by the IASB and in accordance with IFRS as adopted by the European Union included in this offering memorandum.

GENERAL INFORMATION

Resolutions of the board of managing directors and the supervisory board of Finance, dated December 21, 2016 authorized the issuance of the Notes. The Notes are guaranteed by Deutsche Telekom (see "*Description of the Notes and Guarantees—Guarantees*"). Resolutions of the Board of Management and the Supervisory Board of Deutsche Telekom, dated November 15, 2016 and December 14, 2016, respectively, approved the annual financing plan (*Jahresfinanzplan*) for 2017 pursuant to which the Notes are being offered.

This document is an advertisement for the purposes of applicable measures implementing the Prospectus Directive. A prospectus prepared pursuant to the Prospectus Directive is intended to be published, which, when published, can be obtained from the offices of Deutsche Telekom.

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The financial statements included in this offering memorandum were extracted from Deutsche Telekom AG's January 1 to September 30, 2016 Interim Group Report, 2015 Annual Report and 2014 Annual Report. Accordingly, page numbers appearing in cross references in the financial statements do not correspond to the page numbers used in this offering memorandum.

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CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS OF DEUTSCHE TELEKOM AKTIENGESELLSCHAFT AS OF SEPTEMBER 30, 2016

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INTERIM CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

millions of €

	Sept. 30, 2016	Dec. 31, 2015	Change	Change %	Sept. 30, 2015
ASSETS					
CURRENT ASSETS	**23,891**	**32,184**	**(8,293)**	**(25.8) %**	**27,747**
Cash and cash equivalents	7,527	6,897	630	9.1 %	4,510
Trade and other receivables	8,607	9,238	(631)	(6.8) %	10,289
Current recoverable income taxes	105	129	(24)	(18.6) %	117
Other financial assets	4,194	5,805	(1,611)	(27.8) %	2,386
Inventories	1,599	1,847	(248)	(13.4) %	1,775
Other assets	1,609	1,346	263	19.5 %	1,461
Non-current assets and disposal groups held for sale	250	6,922	(6,672)	(96.4) %	7,209
NON-CURRENT ASSETS	**119,226**	**111,736**	**7,490**	**6.7 %**	**107,482**
Intangible assets	58,951	57,025	1,926	3.4 %	56,049
Property, plant and equipment	45,148	44,637	511	1.1 %	42,173
Investments accounted for using the equity method	782	822	(40)	(4.9) %	424
Other financial assets	8,583	3,530	5,053	n. a.	3,097
Deferred tax assets	5,136	5,248	(112)	(2.1) %	5,315
Other assets	626	474	152	32.1 %	424
TOTAL ASSETS	**143,117**	**143,920**	**(803)**	**(0.6) %**	**135,229**
LIABILITIES AND SHAREHOLDERS' EQUITY					
CURRENT LIABILITIES	**26,010**	**33,548**	**(7,538)**	**(22.5) %**	**31,734**
Financial liabilities	8,959	14,439	(5,480)	(38.0) %	13,685
Trade and other payables	8,893	11,090	(2,197)	(19.8) %	9,846
Income tax liabilities	247	197	50	25.4 %	230
Other provisions	2,850	3,367	(517)	(15.4) %	3,180
Other liabilities	4,962	4,451	511	11.5 %	4,751
Liabilities directly associated with non-current assets and disposal groups held for sale	99	4	95	n. a.	42
NON-CURRENT LIABILITIES	**79,486**	**72,222**	**7,264**	**10.1 %**	**66,987**
Financial liabilities	53,349	47,941	5,408	11.3 %	43,402
Provisions for pensions and other employee benefits	9,091	8,028	1,063	13.2 %	8,281
Other provisions	3,189	2,978	211	7.1 %	2,518
Deferred tax liabilities	9,514	9,205	309	3.4 %	8,787
Other liabilities	4,343	4,070	273	6.7 %	3,999
LIABILITIES	**105,496**	**105,770**	**(274)**	**(0.3) %**	**98,721**
SHAREHOLDERS' EQUITY	**37,621**	**38,150**	**(529)**	**(1.4) %**	**36,508**
Issued capital	11,973	11,793	180	1.5 %	11,793
Treasury shares	(50)	(51)	1	2.0 %	(53)
	11,923	**11,742**	**181**	**1.5 %**	**11,740**
Capital reserves	53,348	52,412	936	1.8 %	52,408
Retained earnings including carryforwards	(39,174)	(38,969)	(205)	(0.5) %	(38,986)
Total other comprehensive income	(2,459)	(178)	(2,281)	n. a.	(506)
Total other comprehensive income directly associated with non-current assets and disposal groups held for sale	–	1,139	(1,139)	n. a.	1,109
Net profit (loss)	4,799	3,254	1,545	47.5 %	2,308
ISSUED CAPITAL AND RESERVES ATTRIBUTABLE TO OWNERS OF THE PARENT	**28,437**	**29,400**	**(963)**	**(3.3) %**	**28,073**
Non-controlling interests	9,184	8,750	434	5.0 %	8,435
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**143,117**	**143,920**	**(803)**	**(0.6) %**	**135,229**

CONSOLIDATED INCOME STATEMENT

millions of €

	Q3 2016	Q3 2015	Change %	Q1–Q3 2016	Q1–Q3 2015	Change %	FY 2015
NET REVENUE	**18,105**	**17,099**	**5.9%**	**53,552**	**51,369**	**4.2%**	**69,228**
Other operating income	386	233	65.7%	3,823	967	n.a.	2,008
Changes in inventories	1	1	0.0%	7	9	(22.2)%	(11)
Own capitalized costs	532	515	3.3%	1,530	1,480	3.4%	2,041
Goods and services purchased	(8,975)	(8,624)	(4.1)%	(26,402)	(26,400)	0.0%	(35,706)
Personnel costs	(3,836)	(3,857)	0.5%	(12,263)	(11,791)	(4.0)%	(15,856)
Other operating expenses	(879)	(786)	(11.8)%	(2,549)	(2,359)	(8.1)%	(3,316)
Depreciation, amortization and impairment losses	(3,178)	(2,796)	(13.7)%	(9,471)	(8,218)	(15.2)%	(11,360)
PROFIT FROM OPERATIONS	**2,156**	**1,785**	**20.8%**	**8,227**	**5,057**	**62.7%**	**7,028**
Finance costs	(646)	(579)	(11.6)%	(1,931)	(1,756)	(10.0)%	(2,363)
Interest income	53	43	23.3%	163	164	(0.6)%	246
Interest expense	(699)	(622)	(12.4)%	(2,094)	(1,920)	(9.1)%	(2,609)
Share of profit (loss) of associates and joint ventures accounted for using the equity method	(1)	(18)	94.4%	0	(7)	n.a.	24
Other financial income (expense)	107	(60)	n.a.	431	(101)	n.a.	89
PROFIT (LOSS) FROM FINANCIAL ACTIVITIES	**(540)**	**(657)**	**17.8%**	**(1,500)**	**(1,864)**	**19.5%**	**(2,250)**
PROFIT BEFORE INCOME TAXES	**1,616**	**1,128**	**43.3%**	**6,727**	**3,193**	**n.a.**	**4,778**
Income taxes	(394)	(260)	(51.5)%	(1,442)	(777)	(85.6)%	(1,276)
PROFIT (LOSS)	**1,222**	**868**	**40.8%**	**5,285**	**2,416**	**n.a.**	**3,502**
PROFIT (LOSS) ATTRIBUTABLE TO							
Owners of the parent (net profit (loss))	1,053	809	30.2%	4,799	2,308	n.a.	3,254
Non-controlling interests	169	59	n.a.	486	108	n.a.	248

EARNINGS PER SHARE

		Q3 2016	Q3 2015	Change %	Q1–Q3 2016	Q1–Q3 2015	Change %	FY 2015
Profit (loss) attributable to the owners of the parent (net profit (loss))	millions of €	1,053	809	30.2%	4,799	2,308	n.a.	3,254
Weighted average number of ordinary shares (basic/diluted)	millions	4,615	4,543	1.6%	4,615	4,543	1.6%	4,553
EARNINGS PER SHARE BASIC/DILUTED	€	**0.23**	**0.18**	**27.8%**	**1.04**	**0.51**	**n.a.**	**0.71**

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

millions of €

	Q3 2016	Q3 2015	Change	Q1–Q3 2016	Q1–Q3 2015	Change	FY 2015
PROFIT (LOSS)	**1,222**	**868**	**354**	**5,285**	**2,416**	**2,869**	**3,502**
Items not reclassified to the income statement retrospectively							
Gain (loss) from the remeasurement of defined benefit plans	(244)	(228)	(16)	(1,322)	197	(1,519)	230
Share of profit (loss) of investments accounted for using the equity method	0	0	0	0	0	0	0
Income taxes relating to components of other comprehensive income	75	68	7	407	(63)	470	(60)
	(169)	**(160)**	**(9)**	**(915)**	**134**	**(1,049)**	**170**
Items reclassified to the income statement retrospectively, if certain reasons are given							
Exchange differences on translating foreign operations							
Recognition of other comprehensive income in income statement	0	0	0	(948)	4	(952)	4
Change in other comprehensive income (not recognized in income statement)	43	(312)	355	(590)	1,541	(2,131)	2,000
Available-for-sale financial assets							
Recognition of other comprehensive income in income statement	2	(1)	3	7	(1)	8	0
Change in other comprehensive income (not recognized in income statement)	(525)	13	(538)	(1,970)	17	(1,987)	31
Gains (losses) from hedging instruments							
Recognition of other comprehensive income in income statement	117	127	(10)	415	(212)	627	(255)
Change in other comprehensive income (not recognized in income statement)	(167)	(52)	(115)	(507)	600	(1,107)	653
Share of profit (loss) of investments accounted for using the equity method							
Recognition of other comprehensive income in income statement	(2)	0	(2)	5	0	5	0
Change in other comprehensive income (not recognized in income statement)	(1)	(3)	2	0	0	0	25
Income taxes relating to components of other comprehensive income	15	(22)	37	29	(119)	148	(127)
	(518)	**(250)**	**(268)**	**(3,559)**	**1,830**	**(5,389)**	**2,331**
OTHER COMPREHENSIVE INCOME	**(687)**	**(410)**	**(277)**	**(4,474)**	**1,964**	**(6,438)**	**2,501**
TOTAL COMPREHENSIVE INCOME	**535**	**458**	**77**	**811**	**4,380**	**(3,569)**	**6,003**
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO							
Owners of the parent	385	409	(24)	443	3,887	(3,444)	5,221
Non-controlling interests	150	49	101	368	493	(125)	782

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

millions of €

	Issued capital and reserves attributable to owners of the parent				
	Equity contributed			Consolidated shareholders' equity generated	
	Issued capital	Treasury shares	Capital reserves	Retained earnings incl. carryforwards	Net profit (loss)
BALANCE AT JANUARY 1, 2015	**11,611**	**(53)**	**51,778**	**(39,783)**	**2,924**
Changes in the composition of the Group					
Transactions with owners			(396)		
Unappropriated profit (loss) carried forward				2,924	(2,924)
Dividends				(2,257)	
Capital increase at Deutsche Telekom AG	182		906		
Capital increase from share-based payment			120		
Share buy-back/shares held in a trust deposit					
Profit (loss)					2,308
Other comprehensive income				132	
TOTAL COMPREHENSIVE INCOME					
Transfer to retained earnings				(2)	
BALANCE AT SEPTEMBER 30, 2015	**11,793**	**(53)**	**52,408**	**(38,986)**	**2,308**
BALANCE AT JANUARY 1, 2016	**11,793**	**(51)**	**52,412**	**(38,969)**	**3,254**
Changes in the composition of the Group					
Transactions with owners			(58)		
Unappropriated profit (loss) carried forward				3,254	(3,254)
Dividends				(2,523)	
Capital increase at Deutsche Telekom AG	180		839		
Capital increase from share-based payment			155		
Share buy-back/shares held in a trust deposit		1		2	
Profit (loss)					4,799
Other comprehensive income				(900)	
TOTAL COMPREHENSIVE INCOME					
Transfer to retained earnings				(38)	
BALANCE AT SEPTEMBER 30, 2016	**11,973**	**(50)**	**53,348**	**(39,174)**	**4,799**

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			
(1,247)	**(62)**	**79**	**340**	**(42)**	**(108)**	**25,437**	**8,629**	**34,066**
						–	–	–
196	(2)					(202)	(650)	(852)
						0	–	0
						(2,257)	(98)	(2,355)
						1,088	–	1,088
						120	61	181
						–	–	–
						2,308	108	2,416
1,162		16	388		(119)	1,579	385	1,964
						3,887	**493**	**4,380**
	2					0	–	0
111	**(62)**	**95**	**728**	**(42)**	**(227)**	**28,073**	**8,435**	**36,508**
427	**(62)**	**110**	**738**	**(17)**	**(235)**	**29,400**	**8,750**	**38,150**
						–	(1)	(1)
(2)						(60)	81	21
						0	–	0
						(2,523)	(97)	(2,620)
						1,019	–	1,019
						155	83	238
						3	–	3
						4,799	486	5,285
(1,434)	2	(1,966)	(92)	5	29	(4,356)	(118)	(4,474)
						443	**368**	**811**
				38		0	–	0
(1,009)	**(60)**	**(1,856)**	**646**	**26**	**(206)**	**28,437**	**9,184**	**37,621**

CONSOLIDATED STATEMENT OF CASH FLOWS

millions of €

	Q3 2016	Q3 2015	Q1–Q3 2016	Q1–Q3 2015	FY 2015
PROFIT BEFORE INCOME TAXES	1,616	1,128	6,727	3,193	4,778
Depreciation, amortization and impairment losses	3,178	2,796	9,471	8,218	11,360
(Profit) loss from financial activities	540	657	1,500	1,864	2,250
(Profit) loss on the disposal of fully consolidated subsidiaries	0	0	(7)	1	(583)
(Income) loss from the sale of stakes accounted for using the equity method	12	–	(2,550)	–	–
Other non-cash transactions	94	41	258	157	243
(Gain) loss from the disposal of intangible assets and property, plant and equipment	(108)	48	(507)	23	(87)
Change in assets carried as working capital	410	(787)	244	(705)	(1,438)
Change in provisions	(14)	252	(408)	(124)	112
Change in other liabilities carried as working capital	(580)	445	(772)	471	878
Income taxes received (paid)	(113)	(187)	(380)	(487)	(695)
Dividends received	150	86	330	576	578
Net payments from entering into, canceling or changing the terms and conditions of interest rate derivatives	0	0	289	101	100
CASH GENERATED FROM OPERATIONS	5,185	4,479	14,195	13,288	17,496
Interest paid	(774)	(676)	(2,835)	(2,828)	(3,464)
Interest received	146	143	624	665	965
NET CASH FROM OPERATING ACTIVITIES	4,557	3,946	11,984	11,125	14,997
Cash outflows for investments in					
Intangible assets	(1,862)	(759)	(4,393)	(5,593)	(6,446)
Property, plant and equipment	(2,023)	(2,054)	(6,091)	(5,979)	(8,167)
Non-current financial assets	(51)	(73)	(404)	(186)	(493)
Payments to acquire control of subsidiaries and associates	0	(18)	0	(27)	(28)
Proceeds from disposal of					
Intangible assets	0	1	0	2	4
Property, plant and equipment	86	59	296	224	363
Non-current financial assets	19	9	172	45	446
Proceeds from the loss of control of subsidiaries and associates	(6)	0	5	(8)	(58)
Net change in short-term investments and marketable securities and receivables	(526)	119	89	2,047	(638)
Other	(1)	2	(5)	0	2
NET CASH USED IN INVESTING ACTIVITIES	(4,364)	(2,714)	(10,331)	(9,475)	(15,015)
Proceeds from issue of current financial liabilities	8,900	13,115	24,248	27,961	33,490
Repayment of current financial liabilities	(11,982)	(15,060)	(32,525)	(31,599)	(36,944)
Proceeds from issue of non-current financial liabilities	3,346	599	9,182	1,199	5,247
Repayment of non-current financial liabilities	0	0	0	(157)	(207)
Dividends (including to non-controlling interests)	(40)	(24)	(1,596)	(1,255)	(1,256)
Repayment of lease liabilities	(94)	(53)	(257)	(149)	(224)
Deutsche Telekom AG share buy-back	–	–	–	–	(15)
Sale of Deutsche Telekom AG treasury shares	–	–	–	–	31
Cash inflows from transactions with non-controlling entities	10	6	22	41	43
Cash outflows from transactions with non-controlling entities	(4)	(88)	(50)	(988)	(1,041)
Other	0	88	0	0	–
NET CASH FROM (USED IN) FINANCING ACTIVITIES	136	(1,417)	(976)	(4,947)	(876)
Effect of exchange rate changes on cash and cash equivalents	(9)	23	(47)	305	267
Changes in cash and cash equivalents associated with non-current assets and disposal groups held for sale	–	(22)	–	(21)	1
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	320	(184)	630	(3,013)	(626)
CASH AND CASH EQUIVALENTS, AT THE BEGINNING OF THE PERIOD	7,207	4,694	6,897	7,523	7,523
CASH AND CASH EQUIVALENTS, AT THE END OF THE PERIOD	7,527	4,510	7,527	4,510	6,897

SIGNIFICANT EVENTS AND TRANSACTIONS

ACCOUNTING POLICIES

The entry into force of the German Act Implementing the European Directive amending the Transparency Directive (Gesetz zur Umsetzung der europäischen Transparenzrichtlinie-Änderungsrichtlinie) on November 26, 2015 resulted in the deletion of the legal requirements governing the preparation and publication of quarterly statements and quarterly financial reports that were previously set out in § 37x of the old version of the German Securities Trading Act (WpHG). However, the Frankfurter Wertpapierbörse (Frankfurt stock exchange) still mandates quarterly financial reporting for the companies listed in the Prime Standard, though following the amendment of its exchange rules with effect from November 26, 2015 only in the form of a quarterly statement (§ 51a (1) of the Exchange Rules for the Frankfurter Wertpapierbörse (FWB) as amended). Yet, the obligation to publish a quarterly statement does not apply if the company voluntarily prepares a quarterly financial report in accordance with § 37w WpHG (§ 51a (6) of the FWB Exchange Rules as amended). In accordance with the amended § 51a (6) of the FWB Exchange Rules, Deutsche Telekom AG continues to voluntarily prepare a quarterly financial report that still comprises interim consolidated financial statements and an interim Group management report. The interim consolidated financial statements were prepared in accordance with the International Financial Reporting Standards (IFRSs) applicable to interim financial reporting as adopted by the EU. The interim management report for the Group was prepared in accordance with the WpHG.

STATEMENT OF COMPLIANCE

The interim consolidated financial statements for the period ended September 30, 2016 have been prepared voluntarily in compliance with International Accounting Standard (IAS) 34. As permitted by IAS 34, it has been decided to publish a condensed version compared to the consolidated financial statements at December 31, 2015. All IFRSs applied by Deutsche Telekom have been adopted by the European Commission for use within the EU.

In the opinion of the Board of Management, the reviewed quarterly financial report includes all standard adjustments to be applied on an ongoing basis that are required to give a true and fair view of the results of operations and financial position of the Group. Please refer to the notes to the consolidated financial statements as of December 31, 2015 for the accounting policies applied for the Group's financial reporting (2015 Annual Report, page 161 et seq.).

INITIAL APPLICATION OF NEW STANDARDS AND INTERPRETATIONS AS WELL AS AMENDMENTS TO STANDARDS AND INTERPRETATIONS IN THE REPORTING PERIOD RELEVANT FOR THE 2016 FINANCIAL YEAR

Pronouncement	Title	To be applied by Deutsche Telekom from	Changes	Impact on the presentation of Deutsche Telekom's results of operations, financial position, or cash flows
Amendments to IAS 1	Disclosure Initiative	Jan. 1, 2016	The amendments will allow disclosures in the financial statements to be simplified, with a focus on materiality.	No material impact.
Amendments to IAS 16 and IAS 38	Clarification of Acceptable Methods of Depreciation and Amortization	Jan. 1, 2016	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.	No material impact.
Amendments to IAS 16 and IAS 41	Bearer Plants	Jan. 1, 2016		No relevance for Deutsche Telekom.
Amendments to IAS 19	Defined Benefit Plans – Employee Contributions	Jan. 1, 2016	By revising IAS 19, the IASB aims to simplify the accounting for contributions from employees or third parties to a defined benefit plan. The simplified accounting permits such contributions to be recognized as a reduction in the current service cost in the period in which the related service is rendered if the amounts of the contributions is independent of the number of years of service.	No material impact.
Amendments to IAS 27	Equity Method in Separate Financial Statements	Jan. 1, 2016		No relevance for Deutsche Telekom.
Amendments to IFRS 10, IFRS 12, and IAS 28	Investment Entities: Applying the Consolidation Exception	Jan. 1, 2016	Investment entities are not covered by IFRS 10 and are therefore exempt from the provisions on consolidation in this standard. The consolidation exception was substantiated in four points.	No material impact.
Amendments to IFRS 11	Accounting for Acquisitions of Interests in Joint Operations	Jan. 1, 2016	When an interest in a joint operation in which the activity constitutes a business as defined in IFRS 3, is acquired, all of the principles on business combinations accounting in IFRS 3 and other IFRSs are to be applied, except for those principles that conflict with the guidance in IFRS 11.	Since the amendments concern only future transactions, it is not possible to make a general statement on their impact on the presentation of Deutsche Telekom's results of operations or financial position.
Annual Improvements Project	Annual Improvements to IFRSs 2010-2012 Cycle	Jan. 1, 2016	Clarification of many published standards.	No material impact.
Annual Improvements Project	Annual Improvements to IFRSs 2012–2014 Cycle	Jan. 1, 2016	Clarification of many published standards.	No material impact.

For more information on standards, interpretations, and amendments that have been issued but not yet applied, as well as disclosures on the recognition and measurement of items in the statement of financial position and discretionary decisions and estimation uncertainties, please refer to the section "Summary of accounting policies" in the notes to the consolidated financial statements on page 161 et seq. of the 2015 Annual Report.

CHANGES IN ACCOUNTING POLICIES AND CHANGES IN THE REPORTING STRUCTURE

To harmonize Deutsche Telekom's internal management structure, the presentation of the consolidated income statement was changed from the cost-of-sales method to the performance-related total cost method as of January 1, 2016. The change to the total cost method is a voluntary change in accounting policy within the meaning of IAS 8.14b. To ensure comparability with prior-year periods, the corresponding figures were adjusted retrospectively.

Business customer operations at Magyar Telekom in Hungary, which had previously been organizationally assigned to the Systems Solutions operating segment, have been bundled and reported under the Europe operating segment since January 1, 2016. Magyar Telekom's business customer operations consist of a unit in Hungary that mainly provides ICT services for business and corporate customers. Comparative figures have been adjusted retrospectively.

CHANGES IN THE COMPOSITION OF THE GROUP, TRANSACTIONS WITH OWNERS, AND OTHER TRANSACTIONS

Sale of the EE joint venture

After the British Competition and Markets Authority (CMA) had approved the sale of the EE joint venture to the UK company BT unconditionally and without remedies in January 2016, Deutsche Telekom AG and the French telecommunications provider Orange consummated the transaction on January 29, 2016 at a purchase price of GBP 13.2 billion. In return for its stake in the EE joint venture, Deutsche Telekom AG received a financial stake of 12.0 percent in BT and a cash payment of ultimately GBP 15.7 million. The sale generated income of approximately EUR 2.5 billion. Around EUR 0.9 billion of this amount resulted from effects recognized directly in equity in prior years. In addition, on January 25, 2016, the shareholders received a final dividend totaling GBP 0.3 billion from the former EE joint venture, in which Deutsche Telekom AG participated with its capital share at that date of 50 percent. The financial stake in BT received in connection with this transaction is disclosed as available-for-sale financial assets under other financial assets. The financial stake is measured at fair value directly in equity. For more information, please refer to "Other financial assets" in the section "Selected notes to the consolidated statement of financial position," page 44, and to "Disclosures on financial instruments" in the section "Other disclosures," page 50 et seq.

Other transactions

During the quarter ended and subsequent to September 30, 2016, a handset original equipment manufacturer (OEM) announced recalls on certain of its smartphone devices in the United States. As a result of this, no revenues were generated by T-Mobile US in connection with sales of these devices to customers. Furthermore, the devices in inventories were measured at net realizable value. In response to this issue, the OEM has agreed to reimburse T-Mobile US. T-Mobile US offset the amount to be reimbursed by the OEM in this connection against the loss incurred in goods and services purchased, which in turn reduced trade payables.

PRESENTATION OF THE QUANTITATIVE EFFECTS ON THE COMPOSITION OF THE GROUP IN THE FIRST THREE QUARTERS OF 2016

Deutsche Telekom acquired and disposed of entities in the previous financial year. This imposes certain limits on the comparability of the interim consolidated financial statements and the disclosures under segment reporting.

The presented effects in the Europe operating segment resulted from the spin-off of the energy resale business in Hungary as of January 1, 2016.

The presented effects in the Group Headquarters & Group Services segment resulted from the sale of the online platform t-online.de and the digital marketing company InteractiveMedia in the fourth quarter of 2015.

The following table shows the effect of changes in the composition of the Group on the consolidated income statement and segment reporting of the comparative period.

millions of €

	Total Q1–Q3 2016	Q1–Q3 2015								Organic change Q1–Q3 2016
		Total	Germany	United States	Europe	Systems Solutions	Group Headquarters & Group Services	Reconcili-ation	Pro-forma[a]	
Net revenue	53,552	51,369			(119)		(73)		51,177	2,375
Other operating income	3,823	967			0		3		970	2,853
Changes in inventories	7	9			0		0		9	(2)
Own capitalized costs	1,530	1,480			0		(2)		1,478	52
Goods and services purchased	(26,402)	(26,400)			115		5		(26,280)	(122)
Personnel costs	(12,263)	(11,791)			1		33		(11,757)	(506)
Other operating expenses	(2,549)	(2,359)			1		22		(2,336)	(213)
Depreciation, amortization and impairment losses	(9,471)	(8,218)			0		3		(8,215)	(1,256)
PROFIT (LOSS) FROM OPERATIONS	**8,227**	**5,057**	**0**	**0**	**(2)**	**0**	**(9)**	**0**	**5,046**	**3,181**
Finance costs	(1,931)	(1,756)			0		0		(1,756)	(175)
Share of profit (loss) of associates and joint ventures accounted for using the equity method	0	(7)			0		0		(7)	7
Other financial income (expense)	431	(101)			0		0		(101)	532
PROFIT (LOSS) FROM FINANCIAL ACTIVITIES	**(1,500)**	**(1,864)**	**0**	**0**	**0**	**0**	**0**	**0**	**(1,864)**	**364**
PROFIT (LOSS) BEFORE INCOME TAXES	**6,727**	**3,193**	**0**	**0**	**(2)**	**0**	**(9)**	**0**	**3,182**	**3,545**
Income taxes	(1,442)	(777)			0		0		(777)	(665)
PROFIT (LOSS)	**5,285**	**2,416**	**0**	**0**	**(2)**	**0**	**(9)**	**0**	**2,405**	**2,880**

[a] Based on the composition of the Group in the current reporting period.

SELECTED NOTES TO THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

TRADE AND OTHER RECEIVABLES

Trade and other receivables decreased by EUR 0.6 billion to EUR 8.6 billion. Factoring agreements concluded in the reporting period concerning monthly revolving sales of trade receivables due resulted in a reduction in receivables. Exchange rate effects, mainly from the translation of U.S. dollars into euros, likewise had a reducing effect. Receivables recognized in connection with the set-up phase of the electronic toll collection system in Belgium completed in the first quarter of 2016 and its transition to the operating phase had an offsetting effect. For further information on the toll collection system in Belgium, please refer to “Service concession arrangements” in the section “Other disclosures,” page 55.

INVENTORIES

Inventories decreased by EUR 0.2 billion compared to December 31, 2015 to EUR 1.6 billion. This was due in particular to lower stock levels of terminal equipment (above all higher-priced smartphones) at T-Mobile US at the reporting date and exchange rate effects from the translation of U.S. dollars into euros.

NON-CURRENT ASSETS AND DISPOSAL GROUPS HELD FOR SALE

The decrease in the carrying amount of the non-current assets and disposal groups held for sale of EUR 6.7 billion to EUR 0.3 billion is largely due to the following effects. Firstly, the sale consummated on January 29, 2016 of the stake in the EE joint venture, which has been reclassified since December 2014, reduced the net carrying amount by EUR 5.8 billion. In this context, exchange rate effects totaling EUR 0.2 billion from the translation of pounds sterling to euros also lowered the net carrying amount compared with December 31, 2015. Secondly, the transaction agreed in the third quarter of 2015 for the exchange of spectrum licenses between T-Mobile US and a competitor with the aim of improving the mobile network coverage of T-Mobile US was completed in March 2016. This transaction reduced the net carrying amount by EUR 0.7 billion. A transaction agreed between T-Mobile US and a competitor in the third quarter of 2016 for the exchange of spectrum licenses, also aimed at improving the mobile network coverage of T-Mobile US, had an increasing effect of EUR 0.1 billion on the carrying amount.

INTANGIBLE ASSETS AND PROPERTY, PLANT AND EQUIPMENT

Intangible assets increased by EUR 1.9 billion to EUR 59.0 billion, mainly due to additions totaling EUR 6.0 billion. This includes additions at T-Mobile US, largely in connection with transactions with competitors completed in March and September 2016 for the exchange of spectrum licenses totaling EUR 1.4 billion. Furthermore, there were additions from the acquisition of spectrum licenses by T-Mobile US in 2016 for around EUR 1.2 billion in total and by T-Mobile Polska for around EUR 1.0 billion. Negative exchange rate effects, primarily from the translation of U.S. dollars into euros, reduced the carrying amount by EUR 0.7 billion. Amortization of EUR 3.0 billion as well as the reclassification of assets worth EUR 0.4 billion to non-current assets and disposal groups held for sale also lowered the carrying amount.

Property, plant and equipment increased by EUR 0.5 billion compared to December 31, 2015 to EUR 45.1 billion. Additions of EUR 7.9 billion primarily in the United States and Germany operating segments increased the carrying amount. This also included EUR 1.1 billion of capitalized higher-priced mobile devices. These relate to the business model JUMP! On Demand introduced at T-Mobile US in June 2015 under which customers no longer purchase the device but lease it. By contrast, exchange rate effects, primarily from the translation of U.S. dollars into euros, reduced the carrying amount by EUR 0.3 billion. Depreciation charges of EUR 6.4 billion had a decreasing effect on the carrying amount, as did disposals of EUR 0.6 billion.

OTHER FINANCIAL ASSETS

Other financial assets increased by EUR 3.4 billion compared with December 31, 2015 to EUR 12.8 billion. The increase is mainly attributable to the addition of EUR 7.4 billion in connection with the 12.0 percent financial stake in the form of shares in BT resulting from the sale of the stake in the EE joint venture that was consummated on January 29, 2016. The carrying amount of EUR 5.4 billion as of September 30, 2016 resulted from the subsequent measurement of this exchange-traded financial stake that is measured at fair value directly in equity and classified as an available-for-sale financial asset. For more information, please refer to "Disclosures on financial instruments" in the section "Other disclosures," page 50 et seq. A refundable cash deposit of around EUR 2.0 billion recorded in the second quarter of 2016 in connection with a potential asset purchase in the United States and positive remeasurement effects of EUR 0.5 billion from embedded options in bonds issued by T-Mobile US also increased this item. U.S. government bonds with a volume of EUR 2.8 billion that fell due and were repaid in the first half of 2016 reduced the carrying amount of other financial assets. The premature cancellation in June 2016 of interest rate derivatives with a fair value of EUR 0.6 billion also lowered the carrying amount. In the consolidated statement of cash flows, payments from derivatives are reported in the same item as the associated hedged items. Accordingly, the settlement payment was presented under net cash from operating activities in the amount of EUR 0.3 billion and under net cash used in financing activities in the amount of EUR 0.3 billion.

TRADE AND OTHER PAYABLES

Trade and other payables decreased by EUR 2.2 billion compared with the end of 2015 to EUR 8.9 billion. Apart from the reduction in the portfolio of liabilities at the national companies of the Europe operating segment and at T-Mobile US, this decrease was also attributable to exchange rate effects from the translation of U.S. dollars into euros.

FINANCIAL LIABILITIES

Financial liabilities decreased slightly by EUR 0.1 billion compared with the end of 2015 to a total of EUR 62.3 billion.

On March 23, 2016, Deutsche Telekom International Finance B.V. with the guarantee of Deutsche Telekom AG issued a Eurobond of EUR 4.5 billion in three tranches under a debt issuance program: a 4-year variable-interest tranche with a volume of EUR 1.25 billion and a mark-up of 35 basis points above the 3-month Euribor, a 7-year fixed-interest tranche with a volume of EUR 1.75 billion and a coupon of 0.625 percent, and a 12-year tranche with a volume of EUR 1.5 billion and a fixed coupon of 1.5 percent. On April 1, 2016, T-Mobile US issued Senior Notes with a total volume of USD 1.0 billion. T-Mobile US expects to use the net proceeds from this offering for the purchase of 700 MHz A-block spectrum and other spectrum purchases. Also in April 2016, Deutsche Telekom International Finance B.V. with the guarantee of Deutsche Telekom AG issued a Eurobond of EUR 0.5 billion under a debt issuance program. Furthermore, in July 2016, Deutsche Telekom AG took out a loan of EUR 0.5 billion from the European Investment Bank with a term of six years and a fixed interest rate of 0.318 percent.

In addition, in September 2016, Deutsche Telekom International Finance B.V. with the guarantee of Deutsche Telekom AG issued a U.S. dollar bond of USD 2.75 billion (around EUR 2.5 billion) in four tranches: a 3-year variable-interest tranche with a volume of USD 250 million and a mark-up of 45 basis points above the 3-month USD Libor; a 3-year fixed-interest tranche with a volume of USD 750 million and a coupon of 1.5 percent; a 5-year tranche with a volume of USD 1.0 billion and a coupon of 1.95 percent; and a 7-year tranche with a volume of USD 750 million and a coupon of 2.485 percent.

In the first nine months of 2016, two U.S. dollar bonds were repaid in a total amount of USD 2.25 billion (around EUR 2.0 billion), as were Eurobonds totaling EUR 0.9 billion, a bond in Swiss francs for CHF 0.4 billion (around EUR 0.4 billion), commercial paper in the amount of EUR 3.3 billion (net), and promissory notes in the amount of EUR 0.4 billion (net). The decrease in liabilities to banks of EUR 0.1 billion also reduced the carrying amount of the financial liabilities.

The following table shows the composition and maturity structure of financial liabilities as of September 30, 2016:

millions of €

	Sept. 30, 2016	Due within 1 year	Due >1 ≤ 5 years	Due > 5 years
Bonds and other securitized liabilities	49,014	4,178	18,990	25,846
Liabilities to banks	4,065	1,218	2,104	743
Finance lease liabilities	2,378	451	1,242	685
Liabilities to non-banks from promissory notes	556	34	204	318
Liabilities with the right of creditors to priority repayment in the event of default	1,766	18	72	1,676
Other interest-bearing liabilities	1,922	1,365	375	182
Other non-interest-bearing liabilities	1,567	1,411	155	1
Derivative financial liabilities	1,040	284	193	563
FINANCIAL LIABILITIES	**62,308**	**8,959**	**23,335**	**30,014**

PROVISIONS FOR PENSIONS AND OTHER EMPLOYEE BENEFITS

Provisions for pensions and other employee benefits increased by EUR 1.1 billion to EUR 9.1 billion, mainly due to interest rate adjustments which resulted in an actuarial loss of EUR 1.3 billion to be recognized directly in equity. An increase in the plan assets by EUR 0.3 billion in Germany in the first quarter of 2016 (allocation under contractual trust agreement) reduced the provisions for pensions and other employee benefits.

Deutsche Telekom reduced the yield on the capital accounts in its company pension plan in Germany from an annual 3.75 percent to 3.50 percent by changing the plan in March 2016. The objective of the change is to achieve a standard Group-wide market return on the contributions to the capital account using a capital market-based interest rate. As interest rates had fallen sharply, the return was no longer in line with the market. The change in the interest rate will be applied prospectively and will result in an insignificant positive one-time effect in the 2016 consolidated income statement.

SHAREHOLDERS' EQUITY

The resolution on the dividend payout of EUR 0.55 per share for the 2015 financial year gave shareholders the choice between payment in cash or having their dividend entitlement converted into Deutsche Telekom AG shares. In June 2016, dividend entitlements of Deutsche Telekom AG shareholders amounting to EUR 1.0 billion were contributed in the form of shares from authorized capital 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 2016. This increased capital reserves by EUR 0.8 billion, the number of shares by 70.3 million.

As a result of the consummation of the sale of the EE joint venture on January 29, 2016, the gain of EUR 0.9 billion from the translation of pounds sterling into euros that had until this date been disclosed in shareholders' equity under other comprehensive income were reclassified through profit or loss to the consolidated income statement and disclosed under other operating income. The losses recognized directly in equity of EUR 2.0 billion from the remeasurement of available-for-sale financial assets resulted from the subsequent measurement of the financial stake in BT.

SELECTED NOTES TO THE CONSOLIDATED INCOME STATEMENT

OTHER OPERATING INCOME

millions of €

	Q1– Q3 2016	Q1– Q3 2015
Income from the disposal of non-current assets	620	106
Income from insurance compensation	68	41
Income from reimbursements	156	202
Income from ancillary services	28	36
Miscellaneous other operating income	2,951	582
Of which: income from divestitures and from the sale of stakes accounted for using the equity method	2,557	–
	3,823	**967**

Income from the disposal of non-current assets increased by EUR 0.5 billion compared with the prior-year period. This was attributable to income of EUR 0.4 billion from a transaction completed in March 2016 between T-Mobile US and a competitor for the exchange of spectrum licenses and income of EUR 0.1 billion from another transaction completed in September 2016 between T-Mobile US and another competitor for the exchange of spectrum licenses. Miscellaneous other operating income increased year-on-year by EUR 2.4 billion to a total of EUR 3.0 billion. One of the main items driving this increase was income from divestitures and from the sale of stakes accounted for using the equity method of EUR 2.5 billion resulting from the sale of the stake in the EE joint venture. Around EUR 0.9 billion of this amount resulted from effects recognized directly in equity in previous years. Income of around EUR 0.1 billion from the sale of approximately 2.6 million shares of Scout24 AG that was consummated on April 18, 2016 also increased this item. In the prior-year period, miscellaneous other operating income had included income of EUR 175 million from an agreement to settle a complaints procedure under anti-trust law.

OTHER OPERATING EXPENSES

millions of €

	Q1– Q3 2016	Q1– Q3 2015
Legal and audit fees	(158)	(146)
Losses from asset disposals	(114)	(129)
Expenses from measurement of receivables	(635)	(656)
Other taxes	(329)	(294)
Miscellaneous other operating expenses	(1,313)	(1,134)
	(2,549)	**(2,359)**

Miscellaneous other operating expenses include a large number of individual items accounting for marginal amounts.

DEPRECIATION, AMORTIZATION AND IMPAIRMENT LOSSES

Depreciation, amortization and impairment losses increased by EUR 1.3 billion year-on-year to EUR 9.5 billion. This increase was attributable to the the build-out of the 4G/LTE network and the launch of the JUMP! On Demand program in the United States operating segment in June 2015. Together these led to a higher depreciation and amortization base.

PROFIT/LOSS FROM FINANCIAL ACTIVITIES

Other financial income improved year-on-year, mainly as a result of remeasurement effects resulting from the subsequent measurement of the options (termination rights) embedded in bonds issued by T-Mobile US. In addition, effects resulting from the subsequent measurement of embedded derivatives contained in the Mandatory Convertible Preferred Stocks of T-Mobile US had a less pronounced negative effect. Other financial income includes a final dividend payment of EUR 0.2 billion received from the former EE joint venture. In the prior-year period, a dividend payment of EUR 0.4 billion had been recognized as income under this item. The financial stake in BT resulted in a dividend payment for the first time in 2016 of EUR 0.1 billion.

INCOME TAXES

In the first nine months of 2016, a tax expense of EUR 1.4 billion was recorded. The comparatively low tax ratio is in particular due to the fact that the sale of the stake in the EE joint venture is tax-free. The tax expense increased year-on-year by EUR 0.7 billion, primarily as a result of a higher profit before income taxes.

OTHER DISCLOSURES

NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

Net cash from operating activities

Net cash from operating activities increased by EUR 0.9 billion year-on-year to EUR 12.0 billion, mainly as a result of the positive business development of the United States operating segment. During the reporting period, factoring agreements were concluded concerning monthly revolving sales of trade receivables. Factoring agreements resulted in positive effects of EUR 1.0 billion on net cash from operating activities in the reporting period. This mainly relates to factoring agreements in the United States and Germany operating segments. The effect from factoring agreements in the prior-year period totaled EUR 0.6 billion. Cash inflows of EUR 0.3 billion from the cancellation of or changes in the terms of interest rate derivatives had a positive effect in the reporting period (prior-year period: EUR 0.1 billion). A year-on-year decrease of EUR 0.1 billion in the payment for income taxes also had a positive impact. By contrast, the trend in net cash from operating activities was negatively affected by a EUR 0.2 billion decrease in the dividend payment from the former EE joint venture. The dividend payment received for the first time from BT of EUR 0.1 billion was matched in the prior-year period by the dividend of a corresponding amount received from the Scout24 group.

Net cash used in investing activities

millions of €

	Q1–Q3 2016	Q1–Q3 2015
Cash capex		
Germany operating segment	(2,900)	(4,644)
United States operating segment	(4,678)	(5,062)
Europe operating segment	(2,307)	(1,204)
Systems Solutions operating segment	(738)	(806)
Group Headquarters & Group Services	(175)	(230)
Reconciliation	314	374
	(10,484)	**(11,572)**
Net cash flows for collateral deposited for hedging transactions	(2,768)	1,558
Proceeds from the disposal of property, plant and equipment	296	224
Allocation under contractual trust agreement (CTA) on pension commitments	(250)	–
Acquisition/sale of government bonds, net	2,788	164
Other	87	151
	(10,331)	**(9,475)**

Cash capex decreased by EUR 1.1 billion to EUR 10.5 billion. In the reporting period, mobile spectrum licenses were acquired for a total of EUR 2.2 billion, primarily in the United States and Europe operating segments. In the prior-year period, the United States and Germany operating segments in particular had acquired mobile spectrum licenses for EUR 3.8 billion. In addition, cash capex, excluding spectrum investment, increased primarily in the United States operating segment in connection with the network modernization, including the roll-out of the 4G/LTE network.

Net cash used in financing activities

millions of €

	Q1–Q3 2016	Q1–Q3 2015
Repayment of bonds	(3,235)	(3,764)
Dividends (including to non-controlling interests)	(1,596)	(1,255)
Repayment of financial liabilities from financed capex and opex	(213)	(814)
Repayment of EIB loans	(650)	(412)
Net cash flows for collateral deposited for hedging transactions	529	(289)
Repayment of lease liabilities	(257)	(149)
Repayment of financial liabilities for media broadcasting rights	(162)	(159)
Cash deposits from the EE joint venture, net	(220)	(226)
Money market loans, net	(150)	(160)
Cash flows from continuing involvement factoring, net	5	39
Loans taken out with the EIB	889	1,199
Promissory notes, net	(582)	(179)
Issuance of bonds	8,293	–
Commercial paper, net	(3,276)	2,576
Cash inflows from transactions with non-controlling entities		
T-Mobile US capital increase	–	–
T-Mobile US stock options	22	41
	22	**41**
Cash outflows from transactions with non-controlling entities		
Acquisition of the remaining shares in Slovak Telekom	–	(900)
T-Mobile US share buy-back	(47)	(88)
Other	(3)	–
	(50)	**(988)**
Other	(323)	(407)
	(976)	**(4,947)**

Non-cash transactions in the consolidated statement of cash flows

In June 2016, 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 financing activities when fulfilled; rather, they were substituted by shares from authorized capital (please refer to the section "Shareholders' equity" in the selected notes to the consolidated statement of financial position, page 45). The dividend entitlements of Deutsche Telekom AG shareholders having an effect on cash flows totaled EUR 1.5 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 1.2 billion did have an effect on cash flows.

In the first three quarters of 2016, Deutsche Telekom chose financing options totaling EUR 0.2 billion under which the payments for trade payables from operating and investing activities become due at a later point in time mainly by involving banks in the process (Q1– Q3 2015: EUR 0.7 billion). 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 financing activities.

In the first three quarters of 2016, Deutsche Telekom leased network equipment in particular in the United States operating segment for a total of EUR 0.7 billion (Q1– Q3 2015: EUR 0.4 billion), which is classified as a finance lease. The finance lease is shown under financial liabilities in the statement of financial position. Future repayments of the liabilities will be recognized in net cash used in financing activities.

Consideration for the acquisition of broadcasting rights will be paid by Deutsche Telekom in accordance with the terms of the contract on the date of its conclusion or spread over the term of the contract. Financial liabilities of EUR 0.2 billion were recognized in the first three quarters of 2016 for future consideration for acquired broadcasting rights (Q1– Q3 2015: EUR 0.1 billion). As soon as the payments have been made, they are disclosed under net cash used in financing activities.

In the United States operating segment, mobile devices amounting to EUR 1.1 billion were recognized under property, plant and equipment in the reporting period. These relate to the business model JUMP! On Demand introduced at T-Mobile US in the previous year under which customers no longer purchase the device but lease it. The payments are presented under net cash from operating activities.

In the United States operating segment, the exchange of spectrum licenses agreed between T-Mobile US and a competitor was completed in March 2016 and spectrum licenses with a value of EUR 1.1 billion were acquired in a non-cash transaction. Also in the United States operating segment, another exchange of spectrum licenses was completed in September 2016 and spectrum licenses with a value of EUR 0.4 billion were acquired in a non-cash transaction.

From the sale of the EE joint venture to the UK company BT, which was consummated on January 29, 2016, Deutsche Telekom received the purchase price of GBP 13.2 billion for its stake in the form of a financial stake of 12.0 percent in BT and a cash payment of ultimately GBP 15.7 million.

SEGMENT REPORTING

The following table gives an overall summary of Deutsche Telekom's operating segments and the Group Headquarters & Group Services segment for the first three quarters of 2016 and 2015.

Business customer operations at Magyar Telekom in Hungary, which had previously been organizationally assigned to the Systems Solutions operating segment, have been bundled and reported under the Europe operating segment since January 1, 2016. Magyar Telekom's business customer operations consist of a unit in Hungary that mainly provides ICT services for business and corporate customers. 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 settled on the basis of market prices. As a rule, services provided by Telekom IT are charged at cost. Development services commissioned after January 1, 2016 are not charged but capitalized at segment level in accordance with the internal control logic.

For details on the development of operations in the operating segments and the Group Headquarters & Group Services segment, please refer to the section "Development of business in the operating segments" in the interim Group management report, page 19 et seq.

Segment information in the first three quarters
millions of €

		Net revenue	Intersegment revenue	Total revenue	Profit (loss) from operations (EBIT)	Depreciation and amortization	Impairment losses	Segment assets[a]	Segment liabilities[a]	Investments accounted for using the equity method[a]
Germany	Q1 – Q3 2016	15,420	989	16,409	3,146	(2,836)	(13)	32,861	26,304	20
	Q1 – Q3 2015	15,748	1,014	16,762	3,573	(2,793)	(7)	33,552	26,270	20
United States	Q1 – Q3 2016	24,293	0	24,293	2,703	(3,929)	0	63,225	45,833	205
	Q1 – Q3 2015	21,406	1	21,407	1,538	(2,623)	1	62,534	46,087	215
Europe	Q1 – Q3 2016	9,178	231	9,409	1,129	(1,915)	(11)	31,021	12,511	62
	Q1 – Q3 2015	9,448	179	9,627	1,183	(1,901)	(2)	30,437	12,543	61
Systems Solutions	Q1 – Q3 2016	4,296	1,633	5,929	(144)	(426)	0	9,032	6,204	21
	Q1 – Q3 2015	4,307	1,724	6,031	(406)	(469)	(26)	8,701	5,870	21
Group Headquarters & Group Services	Q1 – Q3 2016	365	1,249	1,614	1,392	(369)	(20)	43,417	51,006	474
	Q1 – Q3 2015	460	1,244	1,704	(824)	(390)	(66)	44,532	50,830	504
TOTAL	**Q1 – Q3 2016**	**53,552**	**4,102**	**57,654**	**8,226**	**(9,475)**	**(44)**	**179,556**	**141,858**	**782**
	Q1 – Q3 2015	**51,369**	**4,162**	**55,531**	**5,064**	**(8,176)**	**(100)**	**179,756**	**141,600**	**821**
Reconciliation	Q1 – Q3 2016	–	(4,102)	(4,102)	1	48	–	(36,439)	(36,362)	–
	Q1 – Q3 2015	–	(4,162)	(4,162)	(7)	58	–	(35,836)	(35,830)	1
GROUP	**Q1 – Q3 2016**	**53,552**	**–**	**53,552**	**8,227**	**(9,427)**	**(44)**	**143,117**	**105,496**	**782**
	Q1 – Q3 2015	**51,369**	**–**	**51,369**	**5,057**	**(8,118)**	**(100)**	**143,920**	**105,770**	**822**

[a] Figures relate to the reporting dates of September 30, 2016 and December 31, 2015, respectively.

CONTINGENT LIABILITIES

This section provides additional information and explains recent changes in the contingent liabilities as described in the consolidated financial statements for the 2015 financial year.

Claims by partnering publishers of telephone directories. Five partnering publishers of telephone directories, whose civil actions are still pending, are now pursuing their claims in parallel through administrative court actions against the Federal Network Agency.

Claims relating to charges for the shared use of cable ducts. The claim of Unitymedia Hessen GmbH & Co. KG and other plaintiffs against Telekom Deutschland GmbH was dismissed in the first instance by the Cologne Regional Court on October 11, 2016. The ruling is not yet legally binding.

Claim for damages in Malaysia despite earlier, contrary, legally binding arbitration ruling. Celcom Malaysia Berhad (Celcom) and Technology Resources Industries Berhad are pursuing actions with the state courts in Kuala Lumpur, Malaysia, against eleven defendants in total, including DeTeAsia Holding GmbH, a subsidiary of Deutsche Telekom AG. The plaintiffs are demanding damages and compensation of USD 232 million plus interest. DeTeAsia Holding GmbH had enforced this amount against Celcom in 2005 on the basis of a final ruling in its favor. The main first-instance proceedings originally planned for October 2016 are now expected to take place in spring 2017. At present the financial impact of these proceedings cannot be assessed with sufficient certainty.

Claim for compensation against OTE. In the legal action that Lannet Communications S. A. took against OTE claiming compensation for damages amounting to around EUR 176 million plus interest, the relevant court in Athens ruled in favor of OTE on April 8, 2016, and requested that the plaintiff withdraw its claim. The decision has now become final and legally binding, the proceedings have thus been terminated.

Claims for damages against Slovak Telekom following the European Commission's decision to impose fines. Following the fining decision of the European Commission dated October 15, 2014, in addition to Orange Slovensko and SWAN, Slovanet has now also filed a damage action against Slovak Telekom with the civil court in Bratislava. Slovanet is claiming compensation for alleged damages of EUR 63 million plus interest. The action by Slovanet has not been formally served upon Slovak Telekom as of yet. In the proceedings against Orange Slovensko and SWAN, Slovak Telekom has in each case submitted a detailed statement of defense, rejecting the respective claims for damages in full. At present the financial impact of these proceedings cannot be assessed with sufficient certainty.

New consumer credit regulations in the Netherlands. The Supreme Court of the Netherlands (Hoge Raad der Nederlanden) found in the final instance that mobile contracts that are bundled with a free or discounted device such that the price of the device is not apparent for the customer, are to be treated as consumer credit or installment purchases. Accordingly, such contracts are subject to Dutch consumer credit law. As a consequence, contracts that do not comply with these specific consumer credit provisions can be rescinded. T-Mobile Netherlands is currently examining the consequences of this decision. At present the financial impact cannot be assessed with sufficient certainty.

FUTURE OBLIGATIONS FROM OPERATING LEASES AND OTHER FINANCIAL OBLIGATIONS

The following table provides an overview of Deutsche Telekom's obligations from operating leases and other financial obligations as of September 30, 2016:

millions of €

	Sept. 30, 2016
Future obligations from operating leases	20,678
Purchase commitments regarding property, plant and equipment	2,310
Purchase commitments regarding intangible assets	914
Firm purchase commitments for inventories	3,270
Other purchase commitments and similar obligations	10,956
Payment obligations to the Civil Service Pension Fund	4,072
Purchase commitments for interests in other companies	1
Miscellaneous other obligations	26
	42,227

DISCLOSURES ON FINANCIAL INSTRUMENTS

Carrying amounts, amounts recognized, and fair values by class and measurement category
millions of €

	Category in accordance with IAS 39	Carrying amounts Sept. 30, 2016	Amounts recognized in the statement of financial position in accordance with IAS 39			
			Amortized cost	Cost	Fair value recognized in equity	Fair value recognized in profit or loss
ASSETS						
Cash and cash equivalents	LaR	7,527	7,527			
Trade receivables	LaR	8,303	8,303			
Originated loans and receivables	LaR/n.a.	4,490	4,314			
Of which: collateral paid	LaR	117	117			
Other non-derivative financial assets						
Held-to-maturity investments	HtM	5	5			
Available-for-sale financial assets	AfS	6,001		168	5,833	
Derivative financial assets						
Derivatives without a hedging relationship	FAHfT	1,535				1,535
Of which: termination rights embedded in bonds issued	FAHfT	872				872
Derivatives with a hedging relationship	n.a.	745			262	483
LIABILITIES						
Trade payables	FLAC	8,840	8,840			
Bonds and other securitized liabilities	FLAC	49,014	49,014			
Liabilities to banks	FLAC	4,065	4,065			
Liabilities to non-banks from promissory notes	FLAC	556	556			
Liabilities with the right of creditors to priority repayment in the event of default	FLAC	1,766	1,766			
Other interest-bearing liabilities	FLAC	1,922	1,922			
Of which: collateral received	FLAC	935	935			
Other non-interest-bearing liabilities	FLAC	1,567	1,567			
Finance lease liabilities	n.a.	2,378				
Derivative financial liabilities						
Derivatives without a hedging relationship	FLHfT	988				988
Of which: conversion rights embedded in Mandatory Convertible Preferred Stock	FLHfT	477				477
Of which: options granted to third parties for the purchase of shares in subsidiaries	FLHfT	–				
Derivatives with a hedging relationship	n.a.	52			31	21
Derivative financial liabilities directly associated with non-current assets and disposal groups held for sale	FLHfT	46				46
Of which: aggregated by category in accordance with IAS 39						
Loans and receivables	LaR	20,144	20,144			
Held-to-maturity investments	HtM	5	5			
Available-for-sale financial assets	AfS	6,001		168	5,833	
Financial assets held for trading	FAHfT	1,535				1,535
Financial liabilities measured at amortized cost	FLAC	67,730	67,730			
Financial liabilities held for trading	FLHfT	1,034				1,034

[a] The exemption provisions under IFRS 7.29a were applied for information on specific fair values.

Trade receivables include receivables amounting to EUR 1.3 billion (December 31, 2015: EUR 1.0 billion) due in more than one year. The fair value generally equates to the carrying amount. The available-for-sale financial assets measured at cost relate to equity instruments for which there is no quoted market price in an active market and the fair value of which cannot be reliably measured.

Amounts recognized in the statement of financial position in accordance with IAS 17	Fair value Sept. 30, 2016[a]	Category in accordance with IAS 39	Carrying amounts Dec. 31, 2015	Amounts recognized in the statement of financial position in accordance with IAS 39				Amounts recognized in the statement of financial position in accordance with IAS 17	Fair value Dec. 31, 2015[a]
				Amortized cost	Cost	Fair value recognized in equity	Fair value recognized in profit or loss		
	–	LaR	6,897	6,897					–
	–	LaR	8,752	8,752					–
176	4,534	LaR/n.a.	3,283	3,076				207	3,318
	–	LaR	98	98					–
	–	HtM	10	10					–
	5,833	AfS	3,354		156	3,198			3,198
	1,535	FAHfT	1,526				1,526		1,526
	872	FAHfT	390				390		390
	745	n.a.	1,160			870	290		1,160
	–	FLAC	11,037	11,037					–
	55,595	FLAC	47,766	47,766					52,194
	4,168	FLAC	4,190	4,190					4,247
	710	FLAC	934	934					1,069
	1,822	FLAC	1,822	1,822					1,830
	1,954	FLAC	3,009	3,009					3,059
	–	FLAC	1,740	1,740					–
	–	FLAC	1,798	1,798					–
2,378	2,742	n.a.	1,927					1,927	2,166
	988	FLHfT	817				817		817
	477	FLHfT	298				298		298
	–	FLHfT	39				39		39
	52	n.a.	117			107	10		117
	46		–						–
	4,358	LaR	18,725	18,725					3,111
	–	HtM	10	10					–
	5,833	AfS	3,354		156	3,198			3,198
	1,535	FAHfT	1,526				1,526		1,526
	64,249	FLAC	70,556	70,556					62,399
	1,034	FLHfT	817				817		817

Financial instruments measured at fair value
millions of €

	Sept. 30, 2016				Dec. 31, 2015			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
ASSETS								
Available-for-sale financial assets (AfS)	5,564		269	**5,833**	2,931		267	**3,198**
Financial assets held for trading (FAHfT)		663	872	**1,535**		1,136	390	**1,526**
Derivative financial assets with a hedging relationship		745		**745**		1,160		**1,160**
LIABILITIES								
Financial liabilities held for trading (FLHfT)		511	477	**988**		480	337	**817**
Derivative financial liabilities with a hedging relationship		52		**52**		117		**117**
Derivative financial liabilities directly associated with non-current assets and disposal groups held for sale			46	**46**				**–**

Of the available-for-sale financial assets (AfS) presented under other non-derivative financial assets, the instruments presented in the different levels constitute separate classes of financial instruments. The total volume of instruments recognized as Level 1 amounting to EUR 5,564 million (December 31, 2015: EUR 2,931 million) comprises two separate classes of financial instruments. The first comprises listed debt securities with a carrying amount equivalent to around EUR 0.1 billion. The second is a strategic financial stake of 12 percent in BT, received in the reporting period, with a carrying amount equivalent to around EUR 5.4 billion. The vote of the British people at the end of June 2016 in favor of the United Kingdom leaving the European Union and the political implementation of this vote gave rise to uncertainty and a marked increase in volatility on the international financial markets, which is also impacting on the fair value of the financial stake in BT. Whether these reactions will be sustained is nevertheless impossible to foresee at the present time. BT's share price remained within the limits of its normal volatility overall and there are no apparent negative company-specific reasons for the existence of impairment. Since the negative share price trend has not yet persisted for long enough, there is still no objective indication as at the reporting date of a permanent impairment of the carrying amount of this stake to be recognized in profit or loss. In each case, the fair values of the total volume of instruments recognized as Level 1 are the price quotations at the reporting date.

Development of the carrying amounts of the financial assets and financial liabilities assigned to Level 3
millions of €

	Available-for-sale financial assets (AfS)	Financial assets held for trading (FAHfT): Early redemption options embedded in bonds	Financial liabilities held for trading (FLHfT): Conversion rights embedded in Mandatory Convertible Preferred Stock
Carrying amount as of January 1, 2016	**267**	**390**	**(298)**
Additions (including first-time categorization as Level 3)	28	34	–
Value decreases recognized in profit/loss	(7)	(219)	(219)
Value increases recognized in profit/loss	–	677	35
Value decreases recognized directly in equity	(3)	–	–
Value increases recognized directly in equity	6	–	–
Disposals	(22)	–	–
Currency translation effects recognized directly in equity	–	(10)	5
CARRYING AMOUNT AS OF SEPTEMBER 30, 2016	**269**	**872**	**(477)**

The available-for-sale financial assets assigned to Level 3 that are carried under other non-derivative financial assets are equity investments with a carrying amount of EUR 269 million measured using the best information available at the reporting date. As a rule, Deutsche Telekom considers executed transactions involving shares in those companies to have the greatest relevance. Executed transactions involving shares in comparable companies are also considered. The closeness of the transaction in question to the reporting date and the question of whether the transaction was at arm's length are relevant for the decision on which information will ultimately be used for the measurement. Furthermore, the degree of similarity between the object being measured and comparable companies must be taken into consideration. Based on Deutsche Telekom's own assessment, the fair values of the equity investments at the reporting date could be determined with sufficient reliability. In the case of investments with a carrying amount of EUR 133 million, transactions involving shares in these companies took place at arm's length sufficiently close to the reporting date, which is why the share prices agreed in the transactions were to be used without adjustment for the measurement as of September 30, 2016. In the case of investments with a carrying amount of EUR 114 million, although the last arm's length transactions relating to shares in these companies took place some time ago, based on the analysis of operational development (in particular revenue, EBIT and liquidity), the previous carrying amount nevertheless corresponds to the fair value and, due to limited comparability, is preferable to measurement on the basis of transactions executed more recently relating to shares in comparable companies. In the case of investments with a carrying amount of EUR 22 million, for which the last arm's length transactions relating to shares in these companies took place some time ago, measurement on the basis of transactions executed more recently relating to shares in comparable companies provides the most reliable representation of the fair values. Here, multiples to the reference variable of net revenue (ranging between 1.40 and 5.56) were taken, using the respective median. In certain cases, due to specific circumstances, valuation discounts need to be applied to the respective multiples. If the value of the respective 2/3-quantile (1/3-quantile) had been used as a multiple with no change in the reference variables, the fair value of the investments at the reporting date would have been EUR 2 million higher (EUR 7 million lower). If the reference variables had been 10 percent higher (lower) with no change in the multiples, the fair value of the investments at the reporting date would have been EUR 2 million higher (EUR 2 million lower). In the reporting period, net expense of EUR 7 million was recognized in other financial income/expense for unrealized losses for the investments in the portfolio at the reporting date. Please refer to the table on page 52 for the development of the carrying amounts in the reporting period. No plans existed as of the reporting date to sell these investments.

The listed bonds and other securitized liabilities are assigned to Level 1 or Level 2 on the basis of the amount of the trading volume for the relevant instrument. As a rule, issues denominated in euros or U.S. dollars with relatively large nominal amounts are to be classified as Level 1, the rest as Level 2. The fair values of the instruments assigned to Level 1 equal the nominal amounts multiplied by the price quotations at the reporting date. The fair values of the instruments assigned to Level 2 are calculated as the present values of the payments associated with the debts, based on the applicable yield curve and Deutsche Telekom's credit spread curve for specific currencies.

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

Since there are no market prices available for the derivative financial instruments in the portfolio assigned to Level 2 due to the fact that they are not listed on the market, the fair values are calculated using standard financial valuation models, based entirely on observable inputs. The fair value of derivatives is the value that Deutsche Telekom would receive or have to pay if the financial instrument were transferred at the reporting date. Interest rates of contractual partners relevant as of the reporting date are used in this respect. The middle rates applicable as of the reporting date are used as exchange rates. In the case of interest-bearing derivatives, a distinction is made between the clean price and the dirty price. In contrast to the clean price, the dirty price also includes the interest accrued. The fair values carried correspond to the full fair value or the dirty price.

The financial assets held for trading assigned to Level 3 that are carried under other derivative financial assets relate to options embedded in bonds issued by T-Mobile US with a carrying amount of EUR 872 million when translated into euros. The options, which can be exercised by T-Mobile US at any time, allow early redemption of the bonds at fixed exercise prices. Observable market prices are available routinely and also at the reporting date for the bonds as entire instruments, but not for the options embedded therein. The termination rights were measured using an option pricing model. Historical interest rate volatilities of bonds issued by T-Mobile US and comparable issuers are used for the measurement because these provide a more reliable estimate for these unobservable inputs at the reporting date than current market interest rate volatilities. The absolute figure used for the interest rate volatility at the current reporting date was between 2.0 and 2.7 percent. The spread curve, which is also unobservable, was derived on the basis of current market prices of bonds issued by T-Mobile US and debt instruments of comparable issuers. The spreads used at the current reporting date were between 2.2 and 3.7 percent for the maturities of the bonds and between 1.1 and 1.8 percent for shorter terms. In our opinion, 10 percent constituted the best estimate for the mean reversion, another unobservable input. If 10 percent higher (lower) interest rate volatilities in absolute terms had been used for the measurement at the reporting date, with otherwise unchanged parameters, the fair value of the options from T-Mobile US' perspective would have been EUR 81 million higher (EUR 59 million lower) when translated into euros. If spreads of 100 basis points higher (lower) had been used for the measurement at the reporting date, with otherwise unchanged parameters, the fair value of the options from T-Mobile US' perspective would have been EUR 244 million lower (EUR 328 million higher) when translated into euros. If a mean reversion of 100 basis points higher (lower) had been used for the measurement at the

reporting date, with otherwise unchanged parameters, the fair value of the options from T-Mobile US' perspective would have been EUR 23 million lower (EUR 15 million higher) when translated into euros. In the reporting period, net income of EUR 458 million when translated into euros was recognized under the Level 3 measurement in other financial income/expense for unrealized gains for the options in the portfolio at the reporting date. Please refer to the table on page 52 for the development of the carrying amounts in the reporting period. The changes in value recognized in profit or loss in the reporting period are mainly attributable to fluctuations in the interest rates and historical interest rate volatilities in absolute terms that are relevant for measurement. Due to its distinctiveness, this instrument constitutes a separate class of financial instruments.

The financial liabilities held for trading assigned to Level 3 that are presented under financial liabilities with a carrying amount of EUR 477 million when translated into euros relate to stock options embedded in the Mandatory Convertible Preferred Stock issued by T-Mobile US. The Mandatory Convertible Preferred Stock will be converted into a variable number of shares of T-Mobile US on the maturity date in 2017 and, in accordance with IFRS, is disclosed as debt rather than equity. The entire instrument is split into a debt instrument (bond) measured at amortized cost and an embedded derivative measured at fair value through profit or loss. In addition to conversion on the maturity date, this derivative also includes the early conversion rights granted to investors. An observable market price is available regularly and at the reporting date for the Mandatory Convertible Preferred Stock as an entire instrument, but not for the options embedded therein. The conversion rights are measured using an option pricing model. The market price of the entire instrument and its individual components is largely dependent on T-Mobile US' share price performance and the market interest rates. If the share price of T-Mobile US had been 10 percent higher (lower) at the reporting date, with otherwise unchanged parameters, the fair value of the options from T-Mobile US' perspective would have been EUR 132 million lower (EUR 129 million higher) when translated into euros. If a market interest rate of 100 basis points higher (lower) had been used for the measurement at the reporting date, with otherwise unchanged parameters, the fair value of the options from T-Mobile US' perspective would have been EUR 10 million lower (EUR 10 million higher) when translated into euros. In the reporting period, a net expense of EUR 184 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 the table on page 52 for the development of the carrying amount in the reporting period. The changes in value recognized in profit or loss in the reporting period are mainly due to fluctuations in the share price of T-Mobile US. Due to its distinctiveness, this instrument constitutes a separate class of financial instruments.

The financial liabilities assigned to Level 3 include derivative financial liabilities with a carrying amount of EUR 46 million resulting from an option granted to third parties in the 2015 financial year for the purchase of shares in a subsidiary of Deutsche Telekom. The term ends in 2017 and no notable fluctuations in value are expected in future. Due to its distinctiveness, this instrument constitutes a separate class of financial instruments. In the reporting period, the derivative financial liabilities were reclassified as derivative financial liabilities directly associated with non-current assets and disposal groups held for sale.

Disclosures on credit risk. In line with the contractual provisions, in the event of insolvency all derivatives with a positive or negative fair value that exist with the respective counterparty are offset against each other, leaving a net receivable or liability. 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, Deutsche Telekom received unrestricted cash collateral from counterparties pursuant to collateral contracts in the amount of EUR 935 million (December 31, 2015: EUR 1,740 million). The credit risk was thus reduced by EUR 929 million because on the reporting date the collateral received is offset by corresponding net derivative positions in this amount. On the basis of these contracts, derivatives with a positive fair value and a total carrying amount of EUR 1,408 million as of the reporting date (December 31, 2015: EUR 2,296 million) had a maximum credit risk of EUR 37 million (December 31, 2015: EUR 79 million) as of September 30, 2016. There is no danger of default on embedded derivatives held. 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 in the amount of EUR 117 million (December 31, 2015: EUR 98 million) 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 is offset by corresponding net derivative positions of EUR 124 million at the reporting date, which is why it was not exposed to any credit risks in any amount. 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 under financial liabilities, constitutes a separate class of financial liabilities on account of its connection to the corresponding derivatives. 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.

SERVICE CONCESSION ARRANGEMENTS

Satellic NV, Machelen, Belgium, signed a contractual arrangement with Viapass on July 25, 2014, the public agency responsible for toll collection in Belgium, for the set-up, operation, and financing of an electronic toll collection system. Following Viapass' acceptance of the system on March 30, 2016, the set-up phase was completed on March 31, 2016. As a result, income of EUR 0.1 billion from the construction contract was recognized as of March 31, 2016. Trade receivables amounted to EUR 0.5 billion. Total expenses of EUR 0.4 billion were associated with the construction contract for the system. With the operation phase having started on April 1, 2016, the separate fees for operation and maintenance services will in the future be recognized as revenue in the respective periods in accordance with the provisions of IAS 18. Net revenue of EUR 0.2 billion was recorded in the first nine months of 2016.

RELATED-PARTY DISCLOSURES

There were no significant changes at September 30, 2016 to the related-party disclosures reported in the consolidated financial statements as of December 31, 2015, with the exception of the matters described in the following.

Since the consummation of the sale on January 29, 2016, the EE joint venture is no longer a related party of Deutsche Telekom AG. At the December 31, 2015 reporting date, there were loan commitments of EUR 0.3 billion. The arrangement concerning the loan commitments allowed for unilateral termination by Deutsche Telekom with immediate effect upon consummation of the sale. At the closing date of the transaction, Deutsche Telekom AG exercised this termination right. As a result, obligations from the loan commitment no longer exist. The loan guarantees and guarantee statements of EUR 0.9 billion given to external contracting parties of the former EE joint venture that were disclosed as of December 31, 2015 are fully covered as of September 30, 2016 with contractual recourse claims vis-à-vis BT.

Net funds of EUR 0.2 billion that had been invested by the former EE joint venture were repaid to the company by Deutsche Telekom upon consummation of the sale on January 29, 2016.

The Federal Republic of Germany (Federal Republic) and KfW Bankengruppe requested their dividend entitlements for the 2015 financial year relating to shares held in Deutsche Telekom AG be paid out partly in cash and partly in shares from authorized capital. In this connection, 16,491 thousand shares were transferred to the Federal Republic and 15,055 thousand shares to KfW Bankengruppe in June 2016. As of September 30, 2016, the Federal Republic held a share of 14.5 percent and KfW Bankengruppe a share of 17.5 percent in Deutsche Telekom AG.

EXECUTIVE BODIES

Changes in the composition of the Board of Management

At its meeting on June 30, 2016, the Supervisory Board of Deutsche Telekom AG resolved to extend the Group Board of Management by setting up a new Board department Technology and Innovation. The new department will be headed by Claudia Nemat effective January 1, 2017, who is currently responsible for the Europe and Technology department.

At its meeting on June 30, 2016, the Supervisory Board of Deutsche Telekom AG also appointed Srini Gopalan as Board member responsible for Europe effective January 1, 2017.

Changes in the composition of the Supervisory Board

Waltraud Litzenberger resigned her position as member of the Supervisory Board of Deutsche Telekom AG effective midnight December 31, 2015. Nicole Koch was court-appointed to the Supervisory Board of Deutsche Telekom AG effective January 1, 2016. Dr. Hubertus von Grünberg's term of office on the Supervisory Board expired at the end of the 2016 shareholders' meeting. Dr. Helga Jung was elected to the Supervisory Board by the 2016 shareholders' meeting.

EVENTS AFTER THE REPORTING PERIOD (SEPTEMBER 30, 2016)

For information on developments in the legal proceedings for the claims relating to charges for the shared use of cable ducts, please refer to the section "Contingent liabilities," pages 48 and 49.

RESPONSIBILITY STATEMENT

To the best of our knowledge, and in accordance with the applicable reporting principles for interim financial reporting, the interim consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group, and the interim Group management report includes a fair review of the development and performance of the business and the position of the Group, together with a description of the material opportunities and risks associated with the expected development of the Group for the remaining months of the financial year.

Bonn, November 10, 2016

Deutsche Telekom AG
Board of Management

Timotheus Höttges

Reinhard Clemens

Niek Jan van Damme

Thomas Dannenfeldt

Dr. Christian P. Illek

Dr. Thomas Kremer

Claudia Nemat

The following review report (*Bescheinigung nach prüferischer Durchsicht*) has been issued in accordance with applicable rules of the German Securities Trading Act (*Wertpapierhandelsgesetz - WpHG*) on the condensed consolidated interim financial statements (*verkürzter Konzernzwischenabschluss*) and the interim group management report (*Konzernzwischenlagebericht*) of Deutsche Telekom Aktiengesellschaft as of and for the nine_month period ended September 30, 2016. The interim group management report is neither included nor incorporated by reference in this offering memorandum.

REVIEW REPORT

To Deutsche Telekom AG, Bonn

We have reviewed the condensed consolidated interim financial statements – comprising the statement of financial position, the income statement and statement of comprehensive income, the statement of changes in equity, the statement of cash flows, and selected explanatory notes – and the interim Group management report of Deutsche Telekom AG, Bonn, for the period from January 1 to September 30, 2016, which are part of the quarterly financial report pursuant to § 37w of the German Securities Trading Act (Wertpapierhandelsgesetz – WpHG). The preparation of the condensed consolidated interim financial statements in accordance with the IFRSs applicable to the interim financial reporting as adopted by the EU and to the interim Group management report in accordance with the provisions of the German Securities Trading Act applicable to interim group management reports is the responsibility of the parent company's board of management. Our responsibility is to issue a review report on the condensed consolidated interim financial statements and on the interim Group management report based on our review.

We conducted our review of the condensed consolidated interim financial statements and the interim Group management report in accordance with German generally accepted standards for the review of financial statements promulgated by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany) (IDW) and additionally observed the International Standards on Review Engagements, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" (ISRE 2410). Those standards require that we plan and perform the review so that we can preclude through critical evaluation, with moderate assurance, that the condensed consolidated interim financial statements have not been prepared, in all material respects, in accordance with the IFRSs applicable to interim financial reporting as adopted by the EU and that the interim Group management report has not been prepared, in all material respects, in accordance with the provisions of the German Securities Trading Act applicable to interim group management reports. A review is limited primarily to inquiries of company personnel and analytical procedures and therefore does not provide the assurance attainable in a financial statement audit. Since, in accordance with our engagement, we have not performed a financial statement audit, we cannot express an audit opinion.

Based on our review, no matters have come to our attention that cause us to presume that the condensed consolidated interim financial statements have not been prepared, in all material respects, in accordance with the IFRSs applicable to interim financial reporting as adopted by the EU nor that the interim Group management report has not been prepared, in all material respects, in accordance with the provisions of the German Securities Trading Act applicable to interim group management reports.

Frankfurt/Main, November 10, 2016

PricewaterhouseCoopers
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Harald Kayser
Wirtschaftsprüfer

Thomas Tandetzki
Wirtschaftsprüfer

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CONSOLIDATED FINANCIAL STATEMENTS OF DEUTSCHE TELEKOM AKTIENGESELLSCHAFT AS OF DECEMBER 31, 2015

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

T 056

millions of €

	Note	Dec. 31, 2015	Dec. 31, 2014
ASSETS			
CURRENT ASSETS		**32,184**	**29,798**
Cash and cash equivalents	1	6,897	7,523
Trade and other receivables	2	9,238	10,454
Current recoverable income taxes	25	129	84
Other financial assets	8	5,805	2,976
Inventories	3	1,847	1,503
Other assets	9	1,346	1,380
Non-current assets and disposal groups held for sale	4	6,922	5,878
NON-CURRENT ASSETS		**111,736**	**99,562**
Intangible assets	5	57,025	51,565
Property, plant and equipment	6	44,637	39,616
Investments accounted for using the equity method	7	822	617
Other financial assets	8	3,530	2,284
Deferred tax assets	25	5,248	5,169
Other assets	9	474	311
TOTAL ASSETS		**143,920**	**129,360**

millions of €

	Note	Dec. 31, 2015	Dec. 31, 2014
LIABILITIES AND SHAREHOLDERS' EQUITY			
CURRENT LIABILITIES		**33,548**	**28,198**
Financial liabilities	10	14,439	10,558
Trade and other payables	11	11,090	9,681
Income tax liabilities	25	197	276
Other provisions	13	3,367	3,517
Other liabilities	14	4,451	4,160
Liabilities directly associated with non-current assets and disposal groups held for sale		4	6
NON-CURRENT LIABILITIES		**72,222**	**67,096**
Financial liabilities	10	47,941	44,669
Provisions for pensions and other employee benefits	12	8,028	8,465
Other provisions	13	2,978	2,373
Deferred tax liabilities	25	9,205	7,712
Other liabilities	14	4,070	3,877
LIABILITIES		**105,770**	**95,294**
SHAREHOLDERS' EQUITY	15	**38,150**	**34,066**
Issued capital		11,793	11,611
Treasury shares		(51)	(53)
		11,742	**11,558**
Capital reserves		52,412	51,778
Retained earnings including carryforwards		(38,969)	(39,783)
Total other comprehensive income		(178)	(1,838)
Total other comprehensive income directly associated with non-current assets and disposal groups held for sale		1,139	798
Net profit (loss)		3,254	2,924
ISSUED CAPITAL AND RESERVES ATTRIBUTABLE TO OWNERS OF THE PARENT		**29,400**	**25,437**
Non-controlling interests		8,750	8,629
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**143,920**	**129,360**

CONSOLIDATED INCOME STATEMENT

T 057

millions of €

		Note	2015	2014	2013
NET REVENUE		16	**69,228**	**62,658**	**60,132**
Cost of sales		17	(41,975)	(38,539)	(36,255)
GROSS PROFIT			**27,253**	**24,119**	**23,877**
Selling expenses		18	(16,048)	(13,898)	(13,797)
General and administrative expenses		19	(5,384)	(4,721)	(4,518)
Other operating income		20	2,008	3,231	1,326
Other operating expenses		21	(801)	(1,484)	(1,958)
PROFIT FROM OPERATIONS			**7,028**	**7,247**	**4,930**
Finance costs		22	(2,363)	(2,340)	(2,162)
Interest income			246	325	228
Interest expense			(2,609)	(2,665)	(2,390)
Share of profit (loss) of associates and joint ventures accounted for using the equity method		23	24	(198)	(71)
Other financial income (expense)		24	89	(359)	(569)
PROFIT (LOSS) FROM FINANCIAL ACTIVITIES			**(2,250)**	**(2,897)**	**(2,802)**
PROFIT BEFORE INCOME TAXES			**4,778**	**4,350**	**2,128**
Income taxes		25	(1,276)	(1,106)	(924)
PROFIT (LOSS)			**3,502**	**3,244**	**1,204**
PROFIT (LOSS) ATTRIBUTABLE TO					
Owners of the parent (net profit (loss))			3,254	2,924	930
Non-controlling interests		26	248	320	274
EARNINGS PER SHARE		27			
Basic	€		0.71	0.65	0.21
Diluted	€		0.71	0.65	0.21

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

T 058

millions of €

	2015	2014	2013
PROFIT (LOSS)	3,502	3,244	1,204
Items not reclassified to the income statement retrospectively			
Gain (loss) from the remeasurement of defined benefit plans	230	(1,581)	48
Share of profit (loss) of investments accounted for using the equity method	0	(29)	(17)
Income taxes relating to components of other comprehensive income	(60)	477	(16)
	170	**(1,133)**	**15**
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	(4)	0
Change in other comprehensive income (not recognized in income statement)	2,000	1,849	(901)
Available-for-sale financial assets			
Recognition of other comprehensive income in income statement	0	(1)	0
Change in other comprehensive income (not recognized in income statement)	31	41	(4)
Gains (losses) from hedging instruments			
Recognition of other comprehensive income in income statement	(255)	(267)	178
Change in other comprehensive income (not recognized in income statement)	653	265	(162)
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)	25	0	(37)
Income taxes relating to components of other comprehensive income	(127)	3	(5)
	2,331	**1,886**	**(931)**
OTHER COMPREHENSIVE INCOME	**2,501**	**753**	**(916)**
TOTAL COMPREHENSIVE INCOME	**6,003**	**3,997**	**288**
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO			
Owners of the parent	5,221	3,184	197
Non-controlling interests	782	813	91

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

T 059

millions of €

	Issued capital and reserves attributable to owners of the parent					
	Number of shares	Equity contributed			Consolidated shareholders' equity generated	
	thousands	Issued capital	Treasury shares	Capital reserves	Retained earnings including carryforwards	Net profit (loss)
BALANCE AT JANUARY 1, 2013	**4,321,319**	**11,063**	**(6)**	**51,506**	**(29,106)**	**(5,353)**
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	
TOTAL COMPREHENSIVE INCOME						
Transfer to retained earnings					3	
BALANCE AT DECEMBER 31, 2013	**4,451,175**	**11,395**	**(54)**	**51,428**	**(37,437)**	**930**
BALANCE AT JANUARY 1, 2014	**4,451,175**	**11,395**	**(54)**	**51,428**	**(37,437)**	**930**
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)	
TOTAL COMPREHENSIVE INCOME						
Transfer to retained earnings					23	
BALANCE AT DECEMBER 31, 2014	**4,535,571**	**11,611**	**(53)**	**51,778**	**(39,783)**	**2,924**
BALANCE AT JANUARY 1, 2015	**4,535,571**	**11,611**	**(53)**	**51,778**	**(39,783)**	**2,924**
Changes in the composition of the Group						
Transactions with owners				(425)		
Unappropriated profit (loss) carried forward					2,924	(2,924)
Dividends					(2,257)	
Capital increase at Deutsche Telekom AG	71,081	182		906		
Capital increase from share-based payment				127		
Share buy-back/sale of shares/shares held in a trust deposit			2	26	(11)	
Profit (loss)						3,254
Other comprehensive income					160	
TOTAL COMPREHENSIVE INCOME						
Transfer to retained earnings					(2)	
BALANCE AT DECEMBER 31, 2015	**4,606,652**	**11,793**	**(51)**	**52,412**	**(38,969)**	**3,254**

Issued capital and reserves attributable to owners of the parent						Total	Non-controlling interests	Total shareholders' equity
Total other comprehensive income								
Translation of foreign operations	Revaluation surplus	Available-for-sale financial assets	Hedging instruments	Investments accounted for using the equity method	Taxes			
(2,448)	**(36)**	**43**	**327**	**42**	**(104)**	**25,928**	**4,603**	**30,531**
						12	287	299
553		(1)				(502)	3,527	3,025
						0		0
						(3,010)	(369)	(3,379)
						1,143		1,143
						113	45	158
						(2)		(2)
						930	274	1,204
(708)		(4)	16	(54)	(6)	(733)	(183)	(916)
						197	**91**	**288**
	(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
						3,184	**813**	**3,997**
	(23)					0		0
(1,247)	**(62)**	**79**	**340**	**(42)**	**(108)**	**25,437**	**8,629**	**34,066**
(1,247)	**(62)**	**79**	**340**	**(42)**	**(108)**	**25,437**	**8,629**	**34,066**
						0		0
194	(2)					(233)	(619)	(852)
						0		0
						(2,257)	(106)	(2,363)
						1,088		1,088
						127	64	191
						17		17
						3,254	248	3,502
1,480		31	398	25	(127)	1,967	534	2,501
						5,221	**782**	**6,003**
	2					0	0	0
427	**(62)**	**110**	**738**	**(17)**	**(235)**	**29,400**	**8,750**	**38,150**

CONSOLIDATED STATEMENT OF CASH FLOWS

T 060

millions of €

	Note	2015	2014	2013
	31			
PROFIT BEFORE INCOME TAXES		**4,778**	**4,350**	**2,128**
Depreciation, amortization and impairment losses		11,360	10,574	10,904
(Profit) loss from financial activities		2,250	2,897	2,802
(Profit) loss on the disposal of fully consolidated subsidiaries		(583)	(1,674)	(131)
Other non-cash transactions		243	166	101
(Gain) loss from the disposal of intangible assets and property, plant and equipment		(87)	(436)	138
Change in assets carried as working capital		(1,438)	(2,275)	(1,266)
Change in provisions		112	382	(195)
Change in other liabilities carried as working capital		878	2,207	696
Income taxes received (paid)		(695)	(679)	(648)
Dividends received		578	344	273
Net payments from entering into, canceling or changing the terms and conditions of interest rate derivatives		100	55	290
CASH GENERATED FROM OPERATIONS		**17,496**	**15,911**	**15,092**
Interest paid		(3,464)	(3,390)	(2,961)
Interest received		965	872	886
NET CASH FROM OPERATING ACTIVITIES		**14,997**	**13,393**	**13,017**
Cash outflows for investments in				
Intangible assets		(6,446)	(4,658)	(4,498)
Property, plant and equipment		(8,167)	(7,186)	(6,570)
Non-current financial assets		(493)	(806)	(667)
Payments to acquire control of subsidiaries and associates		(28)	(606)	(48)
Proceeds from disposal of				
Intangible assets		4	16	8
Property, plant and equipment		363	265	245
Non-current financial assets		446	74	54
Proceeds from the loss of control of subsidiaries and associates		(58)	1,540	650
Net change in cash and cash equivalents due to the first-time full consolidation of MetroPCS		–	–	1,641
Net change in short-term investments and marketable securities and receivables		(638)	591	(701)
Other		2	9	(10)
NET CASH USED IN INVESTING ACTIVITIES		**(15,015)**	**(10,761)**	**(9,896)**
Proceeds from issue of current financial liabilities		33,490	12,785	10,874
Repayment of current financial liabilities		(36,944)	(17,089)	(18,033)
Proceeds from issue of non-current financial liabilities		5,247	4,275	9,334
Repayment of non-current financial liabilities		(207)	(1,042)	(129)
Dividends (including to non-controlling interests)		(1,256)	(1,290)	(2,243)
Repayment of lease liabilities		(224)	(164)	(172)
Deutsche Telekom AG share buy-back		(15)	–	(2)
Sale of Deutsche Telekom AG treasury shares		31	–	–
Cash inflows from transactions with non-controlling entities		43	43	1,415
Cash outflows from transactions with non-controlling entities		(1,041)	(950)	–
Other		–	(2)	(22)
NET CASH (USED IN) FROM FINANCING ACTIVITIES		**(876)**	**(3,434)**	**1,022**
Effect of exchange rate changes on cash and cash equivalents		267	323	(167)
Changes in cash and cash equivalents associated with non-current assets and disposal groups held for sale		1	32	(32)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		**(626)**	**(447)**	**3,944**
CASH AND CASH EQUIVALENTS, AT THE BEGINNING OF THE YEAR		**7,523**	**7,970**	**4,026**
CASH AND CASH EQUIVALENTS, AT THE END OF THE YEAR		**6,897**	**7,523**	**7,970**

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) via the following path: Investor Relations/Corporate Governance/Report, Statement & Conformity/Declaration of Conformity.

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

The annual financial statements of Deutsche Telekom AG as well as the consolidated financial statements of Deutsche Telekom AG, which have an unqualified audit opinion from PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Frankfurt/Main, are published in the Federal Gazette (Bundesanzeiger). The Annual Report is available upon request from Deutsche Telekom AG, Bonn, Investor Relations, and on Deutsche Telekom's website (www.telekom.com) via the following path: Investor Relations/Annual Report 2015.

The consolidated financial statements of Deutsche Telekom for the 2015 financial year were released for publication by the Board of Management on February 9, 2016.

BASIS OF PREPARATION

The consolidated financial statements of Deutsche Telekom have been prepared in accordance with the International Financial Reporting Standards (IFRS) as adopted by the European Union (EU), as well as with the regulations under commercial law as set forth in § 315a (1) of the German Commercial Code (Handelsgesetzbuch – HGB). The term IFRS is consistently used in the following.

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

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

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

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

In the 2015 financial year, Deutsche Telekom applied the following IASB pronouncements and/or amendments to such pronouncements for the first time:

T 061

Pronouncement	Title
IFRIC 21	Levies
Annual Improvements Project	Annual Improvements to IFRSs 2011–2013 Cycle

In May 2013, the IASB issued **IFRIC Interpretation 21 "Levies."** The core issue in the Interpretation is the question of when to recognize a liability to pay a levy imposed by public authorities. The IFRIC clarifies that the obligating event that gives rise to a liability to pay a levy is the activity that triggers the obligation to pay the levy in accordance with the relevant legislation. However, an "economic compulsion" to continue to operate in a future period under the going concern assumption expressly does not constitute an obligating event. The new requirements were endorsed by the European Union in June 2014. The amendments do not have a material impact on the presentation of Deutsche Telekom's results of operations, financial position, or cash flows.

In December 2013, the IASB issued **"Annual Improvements to IFRSs 2011–2013 Cycle,"** which amended four standards. The improvements primarily aim to provide clarifications. The amendments were endorsed by the European Union in December 2014. The amendments do not have a material impact on the presentation of Deutsche Telekom's results of operations, financial position, or cash flows.

STANDARDS, INTERPRETATIONS, AND AMENDMENTS ISSUED, BUT NOT YET TO BE APPLIED

T 062

Pronouncement	Title	To be applied by Deutsche Telekom	Expected amendments	Expected impact on the presentation of Deutsche Telekom's results of operations, financial position, or cash flows
STANDARDS ENDORSED BY THE EU				
Amendments to IAS 1	Disclosure Initiative	January 1, 2016	The amendments will allow disclosures in the financial statements to be simplified, with a focus on materiality.	No material impact.
Amendments to IAS 16 and IAS 38	Clarification of Acceptable Methods of Depreciation and Amortization	January 1, 2016	Pursuant to these amendments, a revenue-based depreciation method for property, plant and equipment is not permissible, whereas for intangible assets there is only a refutable assumption that such a method is not appropriate.	No material impact.
Amendments to IAS 16 and IAS 41	Bearer Plants	January 1, 2016		No relevance for Deutsche Telekom.
Amendments to IAS 19	Defined Benefit Plans – Employee Contributions	January 1, 2016	The objective of the amendments is to simplify the accounting for contributions from employees or third parties to a defined benefit plan. The simplified accounting permits such contributions to be recognized as a reduction in the current service cost in the period in which the related service is rendered if the amounts of the contributions are independent of the number of years of service.	No material impact.
Amendments to IAS 27	Equity Method in Separate Financial Statements	January 1, 2016		No relevance for Deutsche Telekom.
Amendments to IFRS 11	Accounting for Acquisitions of Interests in Joint Operations	January 1, 2016	The amendments require the acquirer of an interest in a joint operation in which the activity constitutes a business, as defined in IFRS 3, to apply all of the principles on business combinations accounting in IFRS 3 and other IFRSs except for those principles that conflict with the guidance in IFRS 11.	Since the amendments concern only future transactions, it is not possible to forecast their impact on the presentation of Deutsche Telekom's results of operations or financial position.
Annual Improvements Project	Annual Improvements to IFRSs 2010–2012 Cycle	January 1, 2016	Clarification of many published standards.	No material impact.
Annual Improvements Project	Annual Improvements to IFRSs 2012–2014 Cycle	January 1, 2016	Clarification of many published standards.	No material impact.
STANDARDS NOT YET ENDORSED BY THE EU [a]				
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	Postponed indefinitely	The amendments affect transactions between an investor and its associate or joint venture and provide for full gain or loss recognition on the loss of control of a business and partial recognition of the gain or loss resulting from the sale or contribution of assets that do not constitute a business, regardless of whether that business is housed in a subsidiary or not.	As the effective date has been postponed indefinitely, the amendments to IFRS 10 and IAS 28 are not relevant at present.
Amendments to IFRS 10, IFRS 12, and IAS 28	Investment Entities: Applying the Consolidation Exception	January 1, 2016	Investment entities are not covered by IFRS 10 and are therefore exempt from the provisions on consolidation in this standard. The consolidation exception is substantiated in four points.	No material impact expected.
IFRS 14	Regulatory Deferral Accounts	January 1, 2016	This standard is applicable to first-time adopters of IFRSs only.	No relevance for Deutsche Telekom.
Amendments to IAS 7	Disclosure Initiative	January 1, 2017	This pronouncement requires that entities provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities.	Deutsche Telekom is currently analyzing the effects of the pronouncement, but does not expect it to have a material impact on the presentation of Deutsche Telekom's results of operations, financial position, or cash flows.
Amendments to IAS 12	Recognition of Deferred Tax Assets for Unrealized Losses	January 1, 2017	Clarification of the accounting for deferred tax assets for unrealized losses on debt instruments that are classified as available-for-sale financial assets.	No material impact.
IFRS 9	Financial Instruments	January 1, 2018	The final version of IFRS 9 as a full standard combines all previously published provisions with the new provisions on accounting for impairment losses as well as limited amendments to the classification and measurement requirements for financial assets.	Although Deutsche Telekom has not yet finalized the detailed analysis of IFRS 9, the first-time adoption of this standard is not expected to have a material impact on the financial statements. In some cases, the new provisions on the classification of financial assets depending on the business model existing for these assets will give rise to changes in measurement and presentation. The new provisions on accounting for impairment losses will lead to expected losses having to be expensed earlier in certain cases. In hedge accounting, it will be possible to include more components in the hedged risk in some cases, which will slightly increase the effectiveness of the hedge.

Pronouncement	Title	To be applied by Deutsche Telekom	Expected amendments	Expected impact on the presentation of Deutsche Telekom's results of operations, financial position, or cash flows
IFRS 15	Revenue from Contracts with Customers	January 1, 2018	This standard provides a single, principles-based five-step model for the determination and recognition of revenue to be applied to all contracts with customers. It replaces in particular the existing standards IAS 18 "Revenue" and IAS 11 "Construction Contracts." When applying IFRS 15 for the first time, an entity shall apply the standard in full for the current period. In respect of prior periods, the transition guidance grants entities an option to either apply IFRS 15 in full to prior periods (with certain limited practical expedients being available) or to retain prior-period figures as reported under the previous standards, recognizing the cumulative effect of applying IFRS 15 to all contracts that had not yet been completed at the beginning of the reporting period as an adjustment to the opening balance of equity at the date of first-time adoption (beginning of current reporting period).	The standard has a material effect on the presentation of Deutsche Telekom's results of operations and financial position. The details of the effects are explained below.
IFRS 16	Leases	January 1, 2019	IFRS 16 principally requires lessees to recognize assets and liabilities for all leases and to present the rights and obligations associated with these leases in the statement of financial position. Going forward, lessees will therefore no longer be required to make the distinction between finance and operating leases that was required in the past in accordance with IAS 17. For all leases, the lessee will recognize a lease liability in its statement of financial position for the obligation to make future lease payments. At the same time, the lessee will capitalize a right of use to the underlying asset which is generally equivalent to the present value of the future lease payments plus directly attributable expenditure. Similar to the guidance on finance leases in IAS 17, the lease liability will be adjusted over the lease term for any remeasurement, while the right-of-use asset will be depreciated, which normally leads to higher expenses at the inception date of a lease. For the lessor, on the other hand, the provisions of the new standard are similar to the existing guidance in IAS 17. The criteria for lease classification have been taken over from IAS 17. IFRS 16 also includes new provisions on the definition of a lease and its presentation, on disclosures in the notes, and on sale and leaseback transactions.	The standard has a material effect on the presentation of Deutsche Telekom's results of operations and financial position. The details of the effects are explained below.

[a] For standards not yet endorsed by the EU, the date of first-time adoption scheduled by the IASB is assumed for the time being as the likely date of first-time adoption.

In May 2014, the IASB issued **IFRS 15 "Revenue from Contracts with Customers."** The standard has a material effect on the presentation of Deutsche Telekom's results of operations and financial position. Depending on the business model applied, the new provisions address the following issues in particular:

- In the case of multiple-element arrangements (e.g., mobile contract plus handset) with subsidized products delivered in advance, a larger portion of the total remuneration is attributable to the component delivered in advance (mobile handset), requiring earlier recognition of revenue. This leads to the recognition of what is known as a contract asset – a receivable arising from the customer contract that has not yet legally come into existence – in the statement of financial position.
- At the same time, this leads to higher revenue from the sale of goods and merchandise and to lower revenue from the provision of services.
- Future capitalization and allocation of the expenses for sales commissions (customer acquisition costs) over the estimated customer retention period.
- Increase in total assets on first-time adoption due to the capitalization of contract assets and customer acquisition costs.
- Deferral, i.e., later recognition of revenue in cases where "material rights" are granted, such as offering additional discounts for future purchases of further products.
- For the purposes of determining whether Deutsche Telekom sells products for its own account (principal = gross revenue) or for the account of others (agent = net revenue), it is possible that going forward more business models will lead to a net revenue presentation.

The effects will be analyzed as part of a Group-wide project for implementing the new standard, though a reliable estimate of the quantitative effects is not possible until the project has been completed.

In January 2016, the IASB issued **IFRS 16 "Leases,"** which also has a material effect on the presentation of Deutsche Telekom's results of operations and financial position. Depending on the business model applied, the new provisions address the following issues in particular:

- Whereas previously there was a requirement to disclose payment obligations for operating leases in the notes to the financial statements, from now on, the resulting rights and obligations must be recognized as rights of use and lease liabilities in the statement of financial position.

- Deutsche Telekom anticipates a significant increase in total assets on first-time adoption on account of the increase in lease liabilities as well as a similarly high increase in non-current assets due to the right-of-use assets to be capitalized. The increase in lease liabilities leads to a corresponding increase in net debt.

- Going forward, depreciation charges and interest expense will be reported in the income statement instead of lease expense. This will give rise to a significant improvement in EBITDA and to a similar increase in the net cash from operating activities reported in the statement of cash flows.

- For Deutsche Telekom as a lessor, the new definition of a lease may affect the number of items to be accounted for as leases.

The overall effects will be analyzed as part of a Group-wide project for implementing IFRS 16, though a reliable estimate of the quantitative effects is not possible until the project has been completed.

CHANGES IN ACCOUNTING POLICIES AND CHANGES IN THE REPORTING STRUCTURE

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

Deutsche Telekom changed the reporting structure in its consolidated statement of cash flows in the reporting year, reducing the level of detail in the presentation of the individual cash flows and providing additional explanations in the notes to the consolidated financial statements in Note 31 "Notes to the consolidated statement of cash flows," PAGE 216 ET SEQ. This will make the presentation even clearer and more transparent for users without any loss of information.

To present the compensation of the Board of Management and the Supervisory Board in a more structured way, making it easier for readers to understand, Deutsche Telekom aggregated its disclosures on the compensation of the Board of Management and the Supervisory Board in a "Compensation report" in the combined management report, PAGE 143 ET SEQ., to which some information that is still required to be shown in the notes to the consolidated financial statements was added (Note 41 "Compensation of the Board of Management and the Supervisory Board," PAGE 240). In the previous year, the disclosures in the "Compensation report" had been components of the combined management report and the notes to the consolidated financial statements.

ACCOUNTING POLICIES

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

T 063

Items in the statement of financial position	Measurement principle
ASSETS	
CURRENT ASSETS	
Cash and cash equivalents	Amortized cost
Trade and other receivables	Amortized cost
Current recoverable income taxes	Amount expected to be recovered from the taxation authorities, using the tax rates that have been enacted or substantively enacted by the end of the reporting period
Other financial assets	
Other non-derivative financial assets	
Held-to-maturity investments	Amortized cost
Available-for-sale financial assets	Fair value or at cost
Originated loans and receivables	Amortized cost
Derivative financial assets	Fair value
Inventories	Lower of net realizable value and cost
Non-current assets and disposal groups held for sale	Lower of carrying amount or fair value less costs of disposal (including allocable liabilities)
NON-CURRENT ASSETS	
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 in the statement of financial position	Measurement principle
LIABILITIES AND SHAREHOLDERS' EQUITY	
CURRENT LIABILITIES	
Financial liabilities	
Non-derivative interest-bearing and non-interest-bearing liabilities	Amortized cost
Derivative financial liabilities	Fair value
Trade payables	Amortized cost
Income tax liabilities	Amount expected to be paid to the taxation authorities, using the tax rates that have been enacted or substantively enacted by the end of the reporting period
Other provisions	Present value of the settlement amount
NON-CURRENT LIABILITIES	
Financial liabilities	
Non-derivative interest-bearing and non-interest-bearing liabilities	Amortized cost
Derivative financial liabilities	Fair value
Provisions for pensions and other employee benefits	Actuarial projected unit credit method
Other provisions	Present value of the settlement amount
Deferred tax liabilities	Non-discounted amount measured at the tax rates that are expected to apply to the period when the asset is realized or the liability settled

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

INTANGIBLE ASSETS (EXCLUDING GOODWILL)

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

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

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

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

T 064

Mobile communications licenses	Years
FCC licenses	Indefinite
LTE licenses	6 to 19
UMTS licenses	5 to 16
GSM licenses	1 to 18

Development expenditures are capitalized if they meet the criteria for recognition as assets and are amortized over their useful lives. **Research expenditures** are expensed as incurred. Development is the application of research findings or other knowledge to a plan or design for the production of new or substantially improved materials, devices, products, processes, systems, or services prior to the commencement of commercial production or use. Examples of activities typically included in development are the design, construction, and testing of pre-production or pre-use prototypes and models involving new technology. The development phase is deemed complete when the IT department has formally documented that the capitalized asset is ready for its intended use. Expenditure on research and development recognized as an expense by Deutsche Telekom amounted to EUR 108.1 million (2014: EUR 95.6 million).

GOODWILL

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

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment is carried at cost less straight-line depreciation, and impairment losses, if applicable. The depreciation period is based on the expected useful life. Items of property, plant and equipment are depreciated pro rata temporis in the year of acquisition. The residual values, useful lives, and the depreciation methods of the assets are reviewed at least at each financial year-end and, if expectations differ from previous estimates, the changes are accounted for as changes in accounting estimates in accordance with IAS 8. In addition to directly attributable costs, the costs of internally developed assets include proportionate indirect material and labor costs, as well as administrative expenses relating to production or the provision of services. In addition to the purchase price and costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management, costs also include the estimated costs for dismantling and removing the asset, and restoring the site on which it is located. If an item of property, plant and equipment

consists of several components with different estimated useful lives, those components that are significant are depreciated over their individual useful lives. Maintenance and repair costs are expensed as incurred. Public investment grants reduce the cost of the assets for which the grants were made.

On disposal of an item of property, plant and equipment or when no future economic benefits are expected from its use or disposal, the carrying amount of the item is derecognized. The gain or loss arising from the disposal of an item of property, plant and equipment is the difference between the net disposal proceeds, if any, and the carrying amount of the item and is recognized as other operating income or other operating expenses when the item is derecognized. The useful lives of material asset categories are presented in TABLE 065:

T 065

	Years
Buildings	25 to 50
Telephone facilities and other telecommunications equipment	3 to 15
Switching, transmission, IP, and radio transmission equipment	2 to 12
Outside plant networks	8 to 35
Other equipment, operating and office equipment	2 to 23

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

BORROWING COSTS

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

IMPAIRMENTS OF INTANGIBLE ASSETS (INCLUDING GOODWILL) AND ITEMS OF PROPERTY, PLANT AND EQUIPMENT

Impairments are identified by comparing the carrying amount with the recoverable amount. If individual assets do not generate future cash flows independently of other assets, recoverability is assessed on the basis of the cash-generating unit to which the assets can be allocated. At each reporting date, Deutsche Telekom assesses whether there is any indication that an asset may be impaired. If any such indication exists, the recoverable amount of the asset or cash-generating unit must be determined. In addition, annual impairment tests are carried out for intangible assets with indefinite useful lives (goodwill and FCC licenses) at regular intervals. If the reasons for previously recognized impairments no longer exist, the impairment losses on the assets concerned (with the exception of goodwill) must be reversed.

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

INVENTORIES

Inventories are carried at the lower of net realizable value or cost. Cost comprises all costs of purchase, costs of conversion, and other costs incurred in bringing the inventories to their present location and condition. Cost is measured using the weighted average cost method. Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the necessary estimated selling expenses. Deutsche Telekom sells handsets in connection with service contracts, and separately. In the former case, Deutsche Telekom sometimes also sells such devices at a price below cost, as the handset subsidy is part of the Company's strategy for acquiring new customers. In these cases, the loss on the sale of handsets is recognized at the time of the sale as the difference between cost of sales and the lower revenue generated.

NON-CURRENT ASSETS AND DISPOSAL GROUPS HELD FOR SALE

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

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-servant Pension Fund (Gesetz zur Neuordnung der Postbeamtenversorgungskasse – PVKNeuG) transferred the functions of BPS-PT relating to civil-servant pensions (organized within the Civil Service Pension Fund) to the German Federal Posts and Telecommunications Agency effective January 1, 2013. The level of Deutsche Telekom AG's payment obligations to the Civil Service Pension Fund is defined under § 16 of the German Act on the Legal Provisions for the Former Deutsche Bundespost Staff (Postpersonalrechtsgesetz). As a rule, Deutsche Telekom AG has been legally obliged since 2000 to make an annual contribution to the special pension fund amounting to 33 percent of the pensionable gross emoluments of active civil servants and the notional pensionable gross emoluments of civil servants on leave of absence.

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

Obligations arising from the granting of termination benefits are recognized when Deutsche Telekom does not have a realistic possibility of withdrawal from the granting of the corresponding benefits. **Severance payments for employees and obligations arising in connection with early retirement arrangements** in Germany are mainly granted in the form of offers to the employees to leave the Company voluntarily. As a rule, such obligations are not recognized before the employees have accepted an offer from the Company, unless the Company is prevented by legal or other restrictions from withdrawing its offer at an earlier date. Obligations arising from the sole decision by the Company to shed jobs are recognized when the Company has announced a detailed formal plan to terminate employment relationships. If termination benefits are granted in connection with restructuring measures within the meaning of IAS 37, a liability under IAS 19 is recognized at the same time as a restructuring provision. Where termination benefits fall due more than twelve months after the reporting date, the expected amount to be paid is discounted to the reporting date. If the timing or the amount of the payment is still uncertain at the reporting date, the obligations are reported under other provisions.

OTHER PROVISIONS

Other provisions are recognized for current legal or constructive obligations to third parties that are uncertain with regard to their maturities or their amount. Provisions are recognized for these obligations provided they relate to past transactions or events, will probably require an outflow of resources to settle, and this outflow can be reliably measured. Provisions are carried at their expected settlement amount, taking into account all identifiable risks. The settlement amount

is calculated on the basis of a best estimate; suitable estimation methods and sources of information are used depending on the characteristics of the obligation. In case of a number of similar obligations, the group of obligations is treated as one single obligation. The expected value method is used as the estimation method. If there is a range of potential events with the same probability of occurrence, the average value is taken. Individual obligations (e. g., legal and litigation risks) are regularly evaluated based on the most probable outcome, provided an exceptional probability distribution does not mean that other estimates would lead to a more appropriate evaluation. The measurement of provisions is based on past experience, current costing and price information, as well as estimates and reports from experts. If experience or current costing or price information is used to determine the settlement amount, these values are extrapolated to the expected settlement date. Suitable price trend indicators (e. g., construction price indexes or inflation rates) are used for this purpose. Provisions are discounted when the effect of the time value of money is material. Provisions are discounted using pre-tax market interest rates that reflect the term of the obligation and the risk associated with it (insofar as not already taken into consideration in the calculation of the settlement amount). Reimbursement claims are not netted against provisions; they are recognized separately as soon as their realization is virtually certain.

Provisions for decommissioning, restoration, and similar obligations arising from the acquisition of property, plant and equipment are offset by a corresponding increase in the capitalized cost of the relevant asset. Changes at a later date in estimates of the amount or timing of payments or changes to the interest rate applied in measuring such obligations also result in retrospective increases or decreases in the carrying amount of the relevant item of property, plant and equipment. These in turn change the depreciation of the asset to be recognized in the future, which leads to the changes in estimates being recognized in profit or loss over the remaining useful life. Where the decrease in the amount of a provision exceeds the carrying amount of the related asset, the excess is recognized immediately in profit or loss.

FINANCIAL INSTRUMENTS

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. Financial assets include, in particular, cash and cash equivalents, trade receivables and other originated loans and receivables, held-to-maturity investments, and derivative and non-derivative financial assets held for trading. Financial liabilities generally substantiate claims for repayment in cash or another financial asset. In particular, this includes bonds and other securitized liabilities, trade payables, liabilities to banks, finance lease payables, liabilities to non-banks from promissory notes, and derivative financial liabilities. Financial instruments are recognized as soon as Deutsche Telekom becomes a party to the contractual regulations of the financial instrument. However, in the case of regular way purchase or sale (purchase or sale of a financial asset under a contract whose terms require delivery of the asset within the 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 are a variety of operating segments and regional circumstances, this decision is the responsibility of the respective portfolio managers.

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

In the consolidated statement of cash flows, Deutsche Telekom reports cash flows from interest and dividends received as cash inflows or outflows in net cash from operating activities.

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

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

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

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

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

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

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

If the agreed credit period for liabilities to suppliers is longer than the normal credit period in the relevant procurement market at this point in time, this liability is reported under other interest-bearing liabilities in financial liabilities instead of under trade payables. A financing agreement of this nature is shown as a non-cash transaction in the statement of cash flows and the relevant repayment of the financial liability reported under net cash from/used in financing activities. This applies regardless of whether the supplier sells its receivable or not. For the effects on the consolidated statement of cash flows, please refer to Note 31 "Notes to the consolidated statement of cash flows," PAGE 216 ET SEQ.

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

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

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

Deutsche Telekom uses **derivatives** to hedge the interest rate and currency risks resulting from its operating, financing, and investing activities. The Company does not hold or issue derivatives for speculative trading purposes. Derivatives are carried at their fair value upon initial recognition. The fair values are also relevant for subsequent measurement. The fair value of traded derivatives is equal to their market value, which can be positive or negative. If there is no market value available, the fair value is determined using standard financial valuation models.

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

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

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

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

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

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

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

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

CONTINGENCIES (CONTINGENT LIABILITIES AND ASSETS)

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

LEASES

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

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

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

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

SHARE-BASED PAYMENT PROGRAMS

Equity-settled share-based payment transactions are measured at fair value on the grant date. The fair value of the obligation is recognized as personnel costs over the vesting period and offset against capital reserves. For equity-settled share-based payment transactions, the fair value is determined using internationally accepted valuation techniques, such as the Black-Scholes model or the Monte Carlo model. For cash-settled share-based payment transactions, the goods and services acquired and the liability incurred have to be recognized at the fair value of the liability. The fair value of the liability has to be newly determined at each reporting date and at the settlement date, and the changes in the fair value have to be recognized in profit and loss, until the liability is settled.

NET REVENUE

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

For multiple-element arrangements, revenue recognition for each of the units of accounting (elements) identified must be determined separately. Arrangements involving the delivery or provision of multiple separable products or services must be separated into individual elements, each with its own separate revenue contribution. At Deutsche Telekom, this especially concerns the sale or lease of a mobile handset or other telecommunications equipment combined with the conclusion of a mobile or fixed-network contract. Total arrangement consideration relating to the bundled contract is allocated among the different elements based on their relative standalone selling prices, i. e., based on a ratio of the standalone selling price of each element to the aggregated standalone selling prices of the bundled deliverables. The relative standalone selling price of an individual element and thus the revenue recognized for this unit of accounting, however, is limited by that proportion of the total arrangement consideration to be provided by the customer, the payment of which does not depend on the delivery of additional elements (contingent revenue cap). As a result, the revenue to be recognized for products delivered in advance (e. g., mobile handsets) that are sold at a subsidized price in combination with a long-term service contract is ultimately limited by this subsidized price. The contingent revenue cap does not apply for lease assets, such as leased devices.

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

Revenue recognition at Deutsche Telekom is as follows:

Revenue generated by the mobile communications business of the operating segments Germany, United States, and Europe includes revenues from the provision of mobile services, customer activation fees, and sales or lease of mobile handsets and accessories. Mobile service revenue includes monthly service charges, charges for special features, call charges, and roaming charges billed to Deutsche Telekom customers, as well as other mobile operators. Mobile service revenue is recognized based upon minutes of use or other agreed rate plans (e. g., monthly flat rates) less credits and adjustments for discounts. The revenue and related expenses associated with the sale of mobile handsets and accessories are recognized when the products are delivered and accepted by the customer. Revenue from the non-sales-type lease of mobile handsets is recognized on a straight-line basis over the lease term.

The fixed-network business in the operating segments Germany and Europe provides narrow and broadband access to the fixed network as well as the Internet. Revenue generated from these types of access for the use of voice and data communications as well as television via Internet is recognized upon rendering of the service. The services rendered relate to use by customers (e. g., call minutes), availability over time (e. g., monthly service charges), or other agreed rate plans. Telecommunications equipment is also sold, leased, and serviced. Revenue and expenses associated with the sale of telecommunications equipment and accessories are recognized when the products are delivered, provided there are no unfulfilled company obligations that affect the customer's final acceptance of the arrangement. Revenue from the lease of telecommunications equipment is recognized monthly as the entitlement to the fees accrues. Revenues from customer activation fees are deferred over the average customer retention period. Revenues also result from charges for advertising and e-commerce. Advertising revenues are recognized in the period in which the advertisements are exhibited. Transaction revenues are recognized upon notification from the customer that qualifying transactions have occurred and collection of the resulting receivable is reasonably assured.

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

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

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

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

Revenue from construction contracts and construction-type service contracts (or elements of service contracts), e. g., IT developments, is recognized using the percentage of completion method. The measure of progress or stage of completion of a contract is generally determined as the percentage of cost incurred up until the reporting date relative to the total estimated cost at the reporting date (cost-to-cost method). In particular for complex outsourcing contracts with corporate customers, a reliable estimate of the total cost and therefore of the stage of completion is not possible in many cases, so revenue is only recognized in the amount of the contract costs already expensed. This means that a proportionate profit is not realized until the contract has been completed (zero-profit method).

Revenue from non-sales-type rentals and leases is recognized on a straight-line basis over the lease term.

INCOME TAXES

Income taxes include current income taxes as well as deferred taxes. Current and deferred tax shall be recognized as income or expense except to the extent that the tax arises from a transaction which is recognized outside profit and loss, either in other comprehensive income or directly in equity. Tax liabilities/tax receivables mainly comprise liabilities/receivables relating to domestic and foreign income taxes. They include liabilities/receivables for the current period as well as for prior periods. The liabilities/receivables are measured based on the applicable tax law in the countries in which the Group is subject to taxation through its operations.

Deferred taxes are recognized for temporary differences between the carrying amounts in the consolidated statement of financial position and the tax base, as well as for tax loss carryforwards and tax credits. By way of derogation from this principle, a deferred tax liability is not recognized for temporary differences if the deferred tax liability arises from the initial recognition of an asset or a liability in a transaction which is not a business combination and, at the time of the transaction, affects neither accounting profit nor taxable profit/tax loss. A deferred tax liability is not recognized either for temporary differences arising from the initial recognition of goodwill. A deferred tax asset is recognized only when it is probable that a taxable profit will be available against which the deductible temporary differences, loss carryforwards, and tax credits can be utilized. A deferred tax liability is generally recognized for temporary differences associated with investments in subsidiaries and associates unless Deutsche Telekom is able to control the timing of the reversal of the temporary difference and it is probable that the temporary differences will not reverse in the foreseeable future. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates and other tax laws that have been enacted or substantively enacted by the end of the reporting period. As a rule, deferred tax assets and deferred tax liabilities are offset in the statement of financial position if Deutsche Telekom has a legally enforceable right to set off current tax assets against current tax liabilities, and the deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same taxation authority.

JUDGMENTS AND ESTIMATES

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

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

The determination of **impairments of property, plant and equipment, and intangible assets** involves the use of estimates that include, but are not limited to, the cause, timing, and amount of the impairment. Impairment is based on a large number of factors, such as changes in current competitive conditions, expectations of growth in the telecommunications industry, increased cost of capital, changes in the future availability of financing, technological obsolescence, discontinuance of services, current replacement costs, prices paid in comparable transactions, and other changes in circumstances that indicate an impairment exists. The identification of impairment indicators, as well as the estimation of future cash flows and the determination of fair values for assets (or groups of assets) require management to make significant judgments concerning the identification and validation

of impairment indicators, expected cash flows, applicable discount rates, useful lives, and residual values. Specifically, the estimation of cash flows underlying the fair values from the mobile business considers the continued investment in network infrastructure required to generate future revenue growth through the offering of new data products and services, for which only limited historical information on customer demand is available. If the demand for these products and services does not materialize as expected, this would result in less revenue, less cash flow and potential impairment. When determining the fair values, additional planning uncertainties are factored in that reflect the risks of macroeconomic development, which could adversely affect future results of operations.

The determination of the recoverable amount of a cash-generating unit involves the use of estimates by management. Methods used to calculate the recoverable amount include discounted cash flow-based methods and methods that use market prices as a basis. The measurements on the basis of discounted cash flows are founded on projections that are based on financial plans that have been approved by management and are also used for internal purposes. The planning horizon selected reflects the assumptions for short- to medium-term market developments and is selected to achieve a steady state in the business outlook that is necessary for calculating the perpetual annuity. This steady state is only reached based on the planning horizon selected, in particular due to the sometimes long investment cycles in the telecommunications industry and the investments planned and expected in the long run to acquire and extend the rights of spectrum use. Cash flows beyond the internal mid-term planning are extrapolated using appropriate growth rates. The key assumptions on which management has based its calculation of the recoverable amount include the following assumptions that were primarily derived from internal sources and are based on past experience and extended to include internal expectations, and that are underscored by external market data and estimates: development of revenue, customer acquisition and retention costs, churn rates, capital expenditure, market share, and growth rates. Discount rates are determined on the basis of external figures derived from the market, taking account of the risks associated with the cash-generating unit. Any future changes in the aforementioned assumptions could have a significant impact on the fair values of the cash-generating units.

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

Income taxes must be estimated for each of the jurisdictions in which the Group operates, involving a specific calculation of the expected actual income tax exposure for each tax object and an assessment of temporary differences resulting from the different treatment of certain items for IFRS consolidated financial and tax reporting purposes. Any temporary differences will generally result in the recognition of deferred tax assets and liabilities in the consolidated financial statements. Management judgment is required for the calculation of current and deferred taxes. Current and deferred tax assets and liabilities are carried when it is probable that the asset will be realized or the liability settled. For deferred tax assets to be carried, amounts of income taxes must also be recoverable in future periods. The utilization of deferred tax assets will depend on whether it is possible to generate sufficient taxable income in the respective tax type and jurisdiction, taking into account any legal restrictions on the length of the loss carryforward period. Various factors are used to assess the probability of the future utilization of deferred tax assets, including past results of operations, operational plans, loss carryforward periods, and tax planning strategies. The period used for the assessment of the recoverability depends on the circumstances at the respective Group company and typically is in a range of 5 to 10 years. If actual results differ from these estimates or if these estimates must be adjusted in future periods, results of operations, the financial position, and cash flows may be negatively affected. In the event that the assessment of future utilization of deferred tax assets changes, the recognized deferred tax assets must be reduced in profit or loss or directly in equity, or the impairment loss of impaired deferred tax assets must be reversed and recognized in profit or loss, or directly in equity, depending on how the deferred tax assets were originally recognized.

Pension obligations for benefits to non-civil servants are generally satisfied by defined benefit plans. Pension benefit costs for non-civil servants are determined in accordance with actuarial valuations, which rely on assumptions regarding the discount rate, the expected salary increase rate, the expected pension trend, and life expectancy. In the event that changes in the assumptions regarding these parameters are required, the future amounts of the pension benefit costs may be affected materially.

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

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

REVENUE RECOGNITION

Customer activation fees that are not part of a multiple-element arrangement are deferred and recognized as revenue over the estimated average period of customer retention. The estimation of the expected average duration of the relationship is based on historical customer turnover. If management's estimates are revised, material differences may result in the amount and timing of revenue for any period.

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

CONSOLIDATION METHODS

SUBSIDIARIES

Subsidiaries are companies that are directly or indirectly controlled by Deutsche Telekom. Control only exists if an investor has the power over the investee, is exposed to variable returns, and is able to use power to affect its amount of variable returns. The existence and effect of substantive potential voting rights that are currently exercisable or convertible, including potential voting rights held by other Group companies, are considered when assessing whether an entity is controlled.

All subsidiaries are included in the consolidated financial statements, unless an operating segment or the Group considers them to be insignificant based on the following criterion: The sum of all unconsolidated subsidiaries must not account for more than 1 percent of the Group's total assets, revenue, profit/loss for the year, contingent assets/liabilities, and other financial obligations. If the 1-percent limit is exceeded, Deutsche Telekom determines which companies are to be included in the consolidated financial statements, taking the long-term development of the investment and consolidation effects into account. Aside from the quantitative criteria, qualitative criteria will also be used to assess the materiality of an entity for the consolidated group. Excluding a subsidiary must not significantly change the segment result or the Group's profit/loss for the year, nor may other significant trends be ignored.

Income and expenses of a subsidiary are included in the consolidated financial statements from the acquisition date. Income and expenses of a subsidiary remain included in the consolidated financial statements until the date on which the parent ceases to control the subsidiary. If necessary, the subsidiaries' accounting principles are aligned with the uniform accounting principles applied by the Deutsche Telekom Group. Intercompany income and expenses, receivables and liabilities, and profits or losses are eliminated.

Upon loss of control, a gain or loss from the disposal of the subsidiary is recognized in the consolidated income statement in the amount of the difference between the (i) proceeds from the disposal of the subsidiary, the fair value of the remaining shares, the carrying amount of the non-controlling interests, and the cumulative amounts of other comprehensive income attributable to the subsidiary, and (ii) the carrying amount of the subsidiary's net assets to be disposed of.

JOINT OPERATIONS, JOINT VENTURES, AND ASSOCIATES

Joint arrangements, in which two or more parties have joint control over an activity, must be classified as either joint operations or joint ventures.

A joint operation is characterized by the fact that the parties that have joint control of the arrangement (joint operators) have rights to the assets, and obligations for the liabilities, relating to the arrangement. A joint operator shall account for the assets, liabilities, revenues and expenses relating to its interest in the joint operation as well as its share of the joint assets, liabilities, revenues and expenses.

In a joint venture, on the other hand, the parties that have joint control of the arrangements (partners) have rights to the net assets of the entity. Associates are companies on which Deutsche Telekom has a significant influence, and that are neither subsidiaries nor joint ventures. As with joint ventures, associates are accounted for using the equity method.

Investments in joint ventures and associates that are included in the consolidated financial statements using the equity method are recognized at cost at the time of acquisition. The carrying amount of the investment may include goodwill as the positive difference between the cost of the investment and Deutsche Telekom's proportionate share in the fair values of the entity's identifiable net assets. If necessary, the accounting principles of joint ventures and associates are aligned with the uniform accounting principles applied by the Deutsche Telekom Group. The carrying amount of the investment accounted for using the equity method is tested for impairment provided there are indications of impairment. If the carrying amount of the investment exceeds its recoverable amount, an impairment loss must be recognized in the amount of the difference. The recoverable amount is measured at the higher of fair value less costs of disposal and value in use.

Upon loss of significant influence, a gain or loss from the disposal of the joint venture/associate is recognized in the amount of the difference between the (i) proceeds from the disposal of the shares, the fair value of the remaining shares, and the cumulative amounts of other comprehensive income attributable to the joint venture or associate, and (ii) the carrying amount of the investment to be disposed of.

The materiality assessment for jointly controlled entities and associates is generally performed using the same methods as for subsidiaries, but is limited to the criteria of profit/loss for the year, contingent assets and liabilities, and other financial obligations.

BUSINESS COMBINATIONS

A business combination exists when Deutsche Telekom obtains control of another entity. All business combinations must be accounted for using the acquisition method. The cost of an acquired subsidiary is measured at the fair value of the consideration transferred, i. e., the sum of the assets transferred, liabilities assumed, and equity instruments issued. Transaction costs are generally recognized as expense. The acquisition cost is allocated to the acquired assets, liabilities, and contingent liabilities. The identifiable assets acquired and the liabilities and contingent liabilities assumed are recognized in full at their fair values at the acquisition date, regardless of the level of the investment held by Deutsche Telekom.

Goodwill arising in a business combination is measured as the excess of the aggregate of the cost of acquisition, the amount of any non-controlling interest in the acquiree, and, in a business combination achieved in stages, the fair value of the equity interest held by Deutsche Telekom in the acquiree prior to the acquisition date over the fair value of the net assets acquired. Any difference arising on the revaluation of equity interests previously held by Deutsche Telekom is recognized in profit or loss.

For all business combinations there is an option in relation to the measurement of the non-controlling interests. These can be recognized either directly at their fair value (i. e., the non-controlling interest in the enterprise value of the acquiree) or at the non-controlling interest in the fair value of the net assets acquired. As a result, in the first case, the non-controlling interests also have a share in the goodwill arising from the business combination, while in the second case the non-controlling interest is limited to the revalued assets and liabilities and the goodwill is therefore recognized only as the amount attributable to Deutsche Telekom.

Transactions relating to the further acquisition or sale of equity interests with other shareholders that do not affect Deutsche Telekom's controlling interest do not lead to any change in goodwill. The difference between the fair value of the consideration transferred or received (i. e., the purchase price of the interests) and the carrying amount of the equity attributable to the non-controlling interests must be offset directly against consolidated shareholders' equity in capital reserves or increases the capital reserves.

CHANGES IN THE COMPOSITION OF THE GROUP, TRANSACTIONS WITH OWNERS, AND OTHER TRANSACTIONS

In the 2015 financial year, Deutsche Telekom conducted the following transactions, which had an impact on the composition of the Group. Other changes to the composition of the Group not shown here were of no material significance for Deutsche Telekom's consolidated financial statements.

Scout24 AG initial public offering (IPO)

In connection with the IPO of Scout24 AG on October 1, 2015, Deutsche Telekom sold a total of 13.3 million shares in the company at EUR 30.00 per share, for which it received around EUR 0.4 billion in cash. Income from the sale of this share, which had been included in the consolidated financial statements using the equity method, amounted to around EUR 0.3 billion and is disclosed in other operating income. Deutsche Telekom continues to hold around 13.4 percent of the shares in Scout24 AG and has two seats on the company's supervisory board. In addition, Deutsche Telekom provides one of the four members on both the general committee and the audit committee of Scout24 AG's supervisory board. Due to its membership in the supervisory board and its two central committees, Deutsche Telekom has a significant influence on the financial and operating policies of Scout24 AG. Consequently, Deutsche Telekom continues to include the investment in its consolidated financial statements as an associate using the equity method. Scout24 AG continues to be part of the Group Headquarters & Group Services segment.

Sale of t-online.de and InteractiveMedia

Effective November 2, 2015, Deutsche Telekom sold its 100-percent investment in Digital Media Products GmbH, which comprises the T-Online.de & Audience Products business area, including its subsidiary, the digital marketing company InteractiveMedia CCSP GmbH, to Ströer SE. The sale took the form of a capital increase in return for a non-cash contribution. In return, Deutsche Telekom received newly issued shares in Ströer SE worth some EUR 0.3 billion, corresponding to a stake of around 11.6 percent of the increased share capital after all closing conditions had entered into force. Deutsche Telekom has one seat on Ströer SE's supervisory board. At the reporting date, there was a total of three seats on Ströer SE's supervisory board. Since it holds more than 20 percent of the voting rights on Ströer SE's supervisory board, Deutsche Telekom has a significant influence on the company's financial and operating policies. Consequently, Deutsche Telekom includes the investment in its consolidated financial statements as an associate using the equity method. Total income from the divestitures amounted to EUR 0.3 billion; this was reported in other operating income. Ströer SE is part of the Group Headquarters & Group Services segment.

Presentation of the quantitative effects on the composition of the Group
Deutsche Telekom acquired and disposed of entities in the current and prior financial years. This imposes certain limits on the comparability of the consolidated financial statements and the disclosures under segment reporting.

The presented effects in the Europe operating segment resulted in part from the consummation on May 30, 2014 of Deutsche Telekom's acquisition of 100 percent of the shares in Consortium 1 S.à.r.l., Luxembourg, and hence in the GTS Central Europe group. In addition, on January 2, 2014, Deutsche Telekom sold Euronet Communications B.V., The Hague, Netherlands, which up to that date had been part of the Europe operating segment.

The presented effects in the Group Headquarters & Group Services segment result from the sale of shares in the Scout24 group in the first quarter of 2014 and from the sale of t-online.de and InteractiveMedia in the fourth quarter of 2015. The sale of t-online.de and InteractiveMedia resulted in the disposal of assets and liabilities, each in the amount of EUR 0.1 billion.

The following TABLE 066 shows the effects of the aforementioned changes in the composition of the Group on the consolidated income statement and segment reporting.

T 066

millions of €

	Total 2015	2014								Organic change 2015
		Total	Germany	United States	Europe	Systems Solutions	Group Headquarters & Group Services	Reconciliation	Pro forma[a]	
Net revenue	69,228	62,658			127		(46)		62,739	6,489
Cost of sales	(41,975)	(38,539)			(63)		6		(38,596)	(3,379)
GROSS PROFIT (LOSS)	**27,253**	**24,119**	**0**	**0**	**64**	**0**	**(40)**	**0**	**24,143**	**3,110**
Selling expenses	(16,048)	(13,898)			(2)		19		(13,881)	(2,167)
General and administrative expenses	(5,384)	(4,721)			(23)		8		(4,736)	(648)
Other operating income	2,008	3,231			1		(1,708)		1,524	484
Other operating expenses	(801)	(1,484)			(40)		1		(1,523)	722
PROFIT (LOSS) FROM OPERATIONS	**7,028**	**7,247**	**0**	**0**	**0**	**0**	**(1,720)**	**0**	**5,527**	**1,501**
Finance costs	(2,363)	(2,340)			(9)		(1)		(2,350)	(13)
Share of profit (loss) of associates and joint ventures accounted for using the equity method	24	(198)			0		0		(198)	222
Other financial income (expense)	89	(359)			0		0		(359)	448
PROFIT (LOSS) FROM FINANCIAL ACTIVITIES	**(2,250**	**(2,897)**	**0**	**0**	**(9)**	**0**	**(1)**	**0**	**(2,907)**	**657**
PROFIT (LOSS) BEFORE INCOME TAXES	**4,778**	**4,350**	**0**	**0**	**(9)**	**0**	**(1,721)**	**0**	**2,620**	**2,158**
Income taxes	(1,276	(1,106)			(1)		(40)		(1,147)	(129)
PROFIT (LOSS)	**3,502**	**3,244**	**0**	**0**	**(10)**	**0**	**(1,761)**	**0**	**1,473**	**2,029**

[a] Based on the composition of the Group in the current reporting period.

Changes in the composition of the Group

The composition of the Deutsche Telekom Group changed as follows in the 2015 financial year:

T 067

	Domestic	International	Total
CONSOLIDATED SUBSIDIARIES			
January 1, 2015	56	197	253
Additions	11	3	14
Disposals (including mergers)	3	10	13
DECEMBER 31, 2015	**64**	**190**	**254**
ASSOCIATES ACCOUNTED FOR USING THE EQUITY METHOD			
January 1, 2015	5	8	13
Additions	1	–	1
Disposals	–	–	–
DECEMBER 31, 2015	**6**	**8**	**14**
JOINT VENTURES ACCOUNTED FOR USING THE EQUITY METHOD			
January 1, 2015	3	3	6
Additions	–	2	2
Disposals	–	–	–
DECEMBER 31, 2015	**3**	**5**	**8**
TOTAL			
January 1, 2015	64	208	272
Additions	12	5	17
Disposals (including mergers)	3	10	13
DECEMBER 31, 2015	**73**	**203**	**276**

Other transactions that had no effect on the composition of the Group

Acquisition of the remaining shares in Slovak Telekom

On June 18, 2015, Deutsche Telekom acquired the 49-percent stake in Slovak Telekom that it did not previously hold for a purchase price of EUR 0.9 billion. The acquisition of these remaining shares makes it possible to simplify the financial and governance structure at Slovak Telekom. In addition, the transaction results in reduced dividend payments to non-controlling interests. For the effects on shareholders' equity, please refer to Note 15 "Shareholders' equity," PAGE 208.

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

On November 10, 2015, T-Mobile US signed a framework agreement with Phoenix Tower International (PTI), Boca Raton, Florida, United States, on the sale and use of cell sites. Under this agreement, 611 cell sites were transferred into operating companies and the companies sold. In return, T-Mobile US received a payment of approximatley EUR 0.1 billion (USD 0.14 billion). T-Mobile US rents the required capacity from PTI under operating leases. PTI may lease out any capacity not required by T-Mobile US to third parties. The transaction was closed in the fourth quarter of 2015. It does not have a material impact on Deutsche Telekom's statement of financial position, income statement, and statement of cash flows in the consolidated financial statements as of December 31, 2015.

PRINCIPAL SUBSIDIARIES

The Group's principal subsidiaries are presented in TABLE 068:

T 068

Name and registered office		Deutsche Telekom share %	Net revenue[c] millions of €	Profit (loss) from operations[c] millions of €	Shareholders' equity[c] millions of €	Average number of employees	Segment allocation
Telekom Deutschland GmbH, Bonn, Germany	**Dec. 31, 2015/2015**	100.00	21,891	4,633	4,345	12,568	Germany
	Dec. 31, 2014/2014	100.00	21,760	4,597	4,223	12,423	
T-Mobile US, Inc., Bellevue, Washington, United States[a, b]	**Dec. 31, 2015/2015**	65.41	28,925	2,454	16,447	41,669	United States
	Dec. 31, 2014/2014	66.29	22,408	1,405	14,060	37,858	
T-Systems International GmbH, Frankfurt/Main, Germany	**Dec. 31, 2015/2015**	100.00	6,367	(663)	1,133	20,091	Systems Solutions
	Dec. 31, 2014/2014	100.00	6,472	(517)	997	21,590	
Hellenic Telecommunications Organization S. A. (OTE), Athens, Greece[a]	**Dec. 31, 2015/2015**	40.00	3,903	226	3,497	21,216	Europe
	Dec. 31, 2014/2014	40.00	3,918	365	3,591	21,903	
Magyar Telekom Public Limited Company, Budapest, Hungary[a, b]	**Dec. 31, 2015/2015**	59.23	2,110	195	2,234	10,611	Europe
	Dec. 31, 2014/2014	59.23	2,013	262	2,137	11,061	
T-Mobile Netherlands Holding B.V., The Hague, Netherlands[a, b]	**Dec. 31, 2015/2015**	100.00	1,394	278	2,705	1,430	Europe
	Dec. 31, 2014/2014	100.00	1,551	360	2,508	1,439	
T-Mobile Polska S. A., Warsaw, Poland[b]	**Dec. 31, 2015/2015**	100.00	1,544	350	2,681	4,527	Europe
	Dec. 31, 2014/2014	100.00	1,492	328	2,395	4,641	
T-Mobile Czech Republic a.s., Prague, Czech Republic[a, b]	**Dec. 31, 2015/2015**	100.00	958	207	1,746	3,442	Europe
	Dec. 31, 2014/2014	100.00	874	228	1,588	3,419	
Hrvatski Telekom d. d., Zagreb, Croatia[a, b]	**Dec. 31, 2015/2015**	51.00	909	148	2,037	4,793	Europe
	Dec. 31, 2014/2014	51.00	905	148	1,964	5,359	
T-Mobile Austria Holding GmbH, Vienna, Austria[a, b]	**Dec. 31, 2015/2015**	100.00	829	96	1,062	1,064	Europe
	Dec. 31, 2014/2014	100.00	815	59	973	1,113	
Slovak Telekom a. s., Bratislava, Slovakia[a, b]	**Dec. 31, 2015/2015**	100.00	783	71	1,427	3,551	Europe
	Dec. 31, 2014/2014	51.00	768	98	1,956	3,752	

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

TABLE 069 shows the principal subsidiaries with non-controlling interests:

T 069

Name and registered office		Percentage of shareholding for non-controlling interests %	Percentage of voting rights for non-controlling interests %	Cumulative non-controlling interests[c] millions of €	Dividends paid out to non-controlling interests millions of €
T-Mobile US, Inc., Bellevue, Washington, United States[a, b]	**Dec. 31, 2015/2015**	34.59	34.59	5,435	–
	Dec. 31, 2014/2014	33.71	33.71	4,516	–
Hellenic Telecommunications Organization S. A. (OTE), Athens, Greece[a]	**Dec. 31, 2015/2015**	60.00	50.00	1,893	24
	Dec. 31, 2014/2014	60.00	50.00	1,966	–
Magyar Telekom Public Limited Company, Budapest, Hungary[a, b]	**Dec. 31, 2015/2015**	40.77	40.77	636	22
	Dec. 31, 2014/2014	40.77	40.77	618	22
Hrvatski Telekom d. d., Zagreb, Croatia[a, b]	**Dec. 31, 2015/2015**	49.00	49.00	784	37
	Dec. 31, 2014/2014	49.00	49.00	745	48
Slovak Telekom a. s., Bratislava, Slovakia[a, b]	**Dec. 31, 2015/2015**	0.00	0.00	–	17
	Dec. 31, 2014/2014	49.00	49.00	782	9

[a] Consolidated subgroup.
[b] Indirect shareholding of Deutsche Telekom AG.
[c] IFRS figures at the level of the consolidated financial statements of Deutsche Telekom.

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

Summarized financial information for subsidiaries with significant non-controlling interests:

T 070

millions of €

Name and registered office		Current assets [c]	Non-current assets [c]	Current liabilities [c]	Non-current liabilities [c]	Profit (loss) [c]	Total comprehensive income [c]
T-Mobile US, Inc., Bellevue, Washington, United States [a, b]	**Dec. 31, 2015/2015**	15,018	47,516	9,225	36,863	354	1,149
	Dec. 31, 2014/2014	12,387	37,398	7,499	28,226	344	1,994
Hellenic Telecommunications Organization S. A. (OTE), Athens, Greece [a]	**Dec. 31, 2015/2015**	2,414	6,118	2,484	2,552	(79)	(74)
	Dec. 31, 2014/2014	2,493	6,104	2,436	3,063	85	85
Magyar Telekom Public Limited Company, Budapest, Hungary [a, b]	**Dec. 31, 2015/2015**	716	3,612	1,118	1,005	51	48
	Dec. 31, 2014/2014	662	3,460	1,046	1,089	100	39
Hrvatski Telekom d. d., Zagreb, Croatia [a, b]	**Dec. 31, 2015/2015**	748	1,625	252	84	139	144
	Dec. 31, 2014/2014	723	1,140	251	107	133	126
Slovak Telekom a. s., Bratislava, Slovakia [a, b]	**Dec. 31, 2015/2015**	–	–	–	–	–	–
	Dec. 31, 2014/2014	789	1,254	249	154	73	64

[a] Consolidated subgroup.
[b] Indirect shareholding of Deutsche Telekom AG.
[c] IFRS figures of the respective subgroup.

T 071

millions of €

Name and registered office		Net cash from operating activities [c]	Net cash (used in) from investing activities [c]	Net cash (used in) from financing activities [c]
T-Mobile US, Inc., Bellevue, Washington, United States [a, b]	**2015**	5,583	(6,318)	2,935
	2014	3,246	(3,582)	1,952
Hellenic Telecommunications Organization S. A. (OTE), Athens, Greece [a]	**2015**	1,056	(419)	(674)
	2014	1,135	(442)	(438)
Magyar Telekom Public Limited Company, Budapest, Hungary [a, b]	**2015**	497	(303)	(235)
	2014	482	(219)	(50)
Hrvatski Telekom d. d., Zagreb, Croatia [a, b]	**2015**	330	(82)	(112)
	2014	320	(163)	(122)
Slovak Telekom a. s., Bratislava, Slovakia [a, b]	**2015**	273	365	(582)
	2014	275	(319)	(25)

[a] Consolidated subgroup.
[b] Indirect shareholding of Deutsche Telekom AG.
[c] IFRS figures of the respective subgroup.

STRUCTURED ENTITIES

Deutsche Telekom processes factoring transactions by means of structured entities (see Note 37 "Financial instruments and risk management," PAGE 226 ET SEQ.).

Since 2014, Deutsche Telekom has consolidated four structured leasing SPEs for real estate as well as operating and office equipment at two sites for the operation of data centers in Germany. The two data centers were built under the management of an external leasing company and are operated by T-Systems International GmbH. Apart from the contractual obligations to make lease payments to the leasing SPEs, Deutsche Telekom has no obligation to give them further financial support.

T-Mobile USA Tower LLC and T-Mobile West Tower LLC, which are included in the consolidated statement of financial position as investments accounted for using the equity method, are also structured entities (see Note 7 "Investments accounted for using the equity method," PAGE 189 ET SEQ.).

JOINT OPERATIONS
On the basis of a contractual arrangement concluded by T-Mobile Polska S. A., Poland, Deutsche Telekom combined the activities for the planning, building, and operation of the Polish mobile communications network with a partner in 2011 to generate savings. Deutsche Telekom recognizes its share (50 percent) of the corresponding assets in line with the economic substance in the consolidated statement of financial position.

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

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

The exchange rates of certain significant currencies changed as follows:

T 072

€

	Annual average rate			Rate at the reporting date	
	2015	2014	2013	Dec. 31, 2015	Dec. 31, 2014
100 Czech korunas (CZK)	3.66596	3.63124	3.85018	3.70066	3.60844
1 Pound sterling (GBP)	1.37760	1.24035	1.17714	1.36181	1.28428
100 Croatian kuna (HRK)	13.13380	13.09950	13.19720	13.08730	13.06000
1,000 Hungarian forints (HUF)	3.22570	3.23940	3.36771	3.17145	3.17153
100 Macedonian denars (MKD)	1.62569	1.62380	1.61831	1.62408	1.62669
100 Polish zlotys (PLN)	23.89210	23.89430	23.82270	23.44620	23.35810
1 U.S. dollar (USD)	0.90117	0.75241	0.75289	0.91819	0.82300

NOTES TO THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

1 CASH AND CASH EQUIVALENTS
Cash and cash equivalents have an original maturity of less than three months and mainly comprise fixed-term bank deposits. They also include small amounts of cash-in-hand and checks. Deutsche Telekom obtained cash collateral of EUR 1,740 million (December 31, 2014: EUR 486 million) on the basis of collateral contracts as surety for potential credit risks arising from derivative transactions.

In the reporting period, cash and cash equivalents decreased by EUR 0.6 billion to EUR 6.9 billion. For further details, please refer to the consolidated statement of cash flows in Note 31, PAGE 216 ET SEQ.

As of December 31, 2015, Deutsche Telekom reported cash and cash equivalents of EUR 36 million held by subsidiaries in the F.Y.R.O. Macedonia (December 31, 2014: EUR 32 million). These subsidiaries are subject to foreign exchange controls or other legal restrictions. As a result, the cash balances are not fully available for use by the parent or other Group companies.

2 TRADE AND OTHER RECEIVABLES

T 073

millions of €

	Dec. 31, 2015	Dec. 31, 2014
Trade receivables	8,756	10,262
Other receivables	482	192
	9,238	**10,454**

Of the total of trade and other receivables, EUR 8,085 million (December 31, 2014: EUR 8,897 million) is due within one year.

The decrease in receivables is largely attributable to factoring agreements concluded in the reporting period concerning monthly revolving sales of trade receivables due (please refer to Note 37 "Financial instruments and risk management," PAGE 226 ET SEQ.). The JUMP! On Demand business model introduced at T-Mobile US in June 2015 also had a reducing effect. Under this model, trade receivables no longer include the receivable from the sale of the device when a contract is concluded with a customer, but rather only the monthly lease installment for the device.

TABLE 074 shows the maturity structure of the trade receivables that are not impaired at the reporting date:

T 074

millions of €

Trade receivables	Of which: neither impaired nor past due on the reporting date	Of which: not impaired on the reporting date and past due in the following periods					
		Less than 30 days	Between 30 and 60 days	Between 61 and 90 days	Between 91 and 180 days	Between 181 and 360 days	More than 360 days
As of Dec. 31, 2015	**3,163**	**628**	**86**	**60**	**71**	**43**	**27**
As of Dec. 31, 2014	3,226	421	116	64	73	63	46

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

The allowances on trade receivables developed as follows:

T 075

millions of €

	2015	2014
ALLOWANCES AS OF JANUARY 1	**1,368**	**1,344**
Currency translation adjustments	1	15
Additions (allowances recognized as expense)	805	641
Use	(553)	(410)
Reversal	(119)	(222)
ALLOWANCES AS OF DECEMBER 31	**1,502**	**1,368**

TABLE 076 presents expenses for the full write-off of trade receivables as well as income from recoveries on trade receivables written off:

T 076

millions of €

	2015	2014	2013
Expenses for full write-off of receivables	375	352	129
Income from recoveries on receivables written off	329	254	46

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

3 INVENTORIES

T 077

millions of €

	Dec. 31, 2015	Dec. 31, 2014
Raw materials and supplies	62	65
Work in process	23	24
Finished goods and merchandise	1,762	1,414
	1,847	**1,503**

The carrying amount of inventories increased by EUR 0.3 billion compared to December 31, 2014 to EUR 1.8 billion. This was due in particular to increased stock levels of terminal equipment (in particular expensive smartphones) at T-Mobile US and exchange rate effects from the translation of U.S. dollars into euros.

Write-downs of EUR 121 million (2014: EUR 57 million, 2013: EUR 46 million) on the net realizable value were recognized in 2015 and are shown in profit or loss.

The carrying amount of the inventories recognized as expense in the reporting period amounted to EUR 12,367 million (2014: EUR 8,237 million, 2013: EUR 6,470 million).

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

4 NON-CURRENT ASSETS AND DISPOSAL GROUPS HELD FOR SALE

As of December 31, 2015, current assets recognized in the consolidated statement of financial position included EUR 6.9 billion in non-current assets and disposal groups held for sale. The increase of EUR 1.0 billion compared with December 31, 2014 results primarily from the following effects:

In the third quarter of 2015, T-Mobile US agreed a transaction for the exchange of mobile licenses with AT&T to improve T-Mobile US's mobile network coverage. As a result of the reclassification of the licenses to non-current assets held for sale, the carrying amount increased by EUR 0.6 billion. In addition, currency effects of EUR 0.3 billion from the translation of pounds sterling into euros related to the reclassification in December 2014 of the stake in the EE joint venture also had an increasing effect on the carrying amount. As of December 31, 2015, the EE joint venture was included in non-current assets and disposal groups held for sale at a total of EUR 6.1 billion. The transaction was approved by the United Kingdom's Competition and Markets Authority (CMA) in January 2016, unconditionally and without remedies. The transaction was then closed on January 29, 2016. The EE joint venture continued to be reported under non-current assets and disposal groups held for sale until the transaction was completed and was a component of the Group Headquarters & Group Services segment. In the prior-year period, non-current assets and disposal groups held for sale had included in particular the reclassified stake in the EE joint venture.

Reversals of impairments of the carrying amounts of the non-current assets and disposal groups held for sale were not material.

T 078

millions of €

	Dec. 31, 2015					Dec. 31, 2014			
	EE	T-Mobile US	Deutsche Telekom AG real estate	Other	Total	EE	Deutsche Telekom AG real estate	Other	Total
NON-CURRENT ASSETS AND DISPOSAL GROUPS HELD FOR SALE									
Other current assets	–	–	–	4	**4**	–	–	5	**5**
Intangible assets	–	629	–	4	**633**	–	–	39	**39**
Property, plant and equipment	–	–	180	32	**212**	–	95	12	**107**
Investments accounted for using the equity method	6,073	–	–	–	**6,073**	5,727	–	–	**5,727**
TOTAL	**6,073**	**629**	**180**	**40**	**6,922**	**5,727**	**95**	**56**	**5,878**

In accordance with IFRS 5, the following assets and disposal groups were no longer recognized at their carrying amounts, but at their fair value less costs of disposal as of December 31, 2015.

T 079

millions of €

	Dec. 31, 2015				Dec. 31, 2014			
	Level 1 Inputs as prices in active markets	Level 2 Other inputs that are directly or indirectly observable	Level 3 Inputs that are unobservable	Total	Level 1 Inputs as prices in active markets	Level 2 Other inputs that are directly or indirectly observable	Level 3 Inputs that are unobservable	Total
NON-CURRENT ASSETS AND DISPOSAL GROUPS HELD FOR SALE								
Deutsche Telekom AG real estate	–	–	105	**105**	–	–	75	**75**

Deutsche Telekom AG's real estate held for sale relates to sites no longer considered to be necessary for operations. The fair values are determined by means of external expert opinions. The fair value is measured on a regular basis using the earnings value method, taking into account local market estimates and specific characteristics of the property, including input parameters that cannot be observed in the market. The expected costs of disposal (currently usually around 10 percent of the fair value) are subtracted. Real estate held for sale is recognized in the statement of financial position at the lower of carrying amount and fair value less costs of disposal. The real estate was written down by EUR 0.1 billion to the fair value less costs of disposal. The expense was recognized under other operating expenses.

5 INTANGIBLE ASSETS

T 080

millions of €

	Internally generated intangible assets	Acquired intangible assets		
		Total	Acquired concessions, industrial and similar rights and assets	LTE licenses
COST				
AT DECEMBER 31, 2013	**4,118**	**50,471**	**1,006**	**2,450**
Currency translation	272	3,714	22	(19)
Changes in the composition of the Group	3	248	12	0
Additions	93	4,577	117	320
Disposals	551	1,249	43	1
Change from non-current assets and disposal groups held for sale	(1)	(856)	0	0
Reclassifications	851	1,919	24	918
AT DECEMBER 31, 2014	**4,785**	**58,824**	**1,138**	**3,668**
Currency translation	290	3,716	31	2
Changes in the composition of the Group	0	6	3	0
Additions	101	4,997	27	1,266
Disposals	504	1,710	42	0
Change from non-current assets and disposal groups held for sale	(12)	(1,012)	0	0
Reclassifications	756	1,318	20	165
AT DECEMBER 31, 2015	**5,416**	**66,139**	**1,177**	**5,101**
ACCUMULATED AMORTIZATION AND IMPAIRMENT LOSSES				
AT DECEMBER 31, 2013	**2,820**	**22,433**	**567**	**314**
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
AT DECEMBER 31, 2014	**3,093**	**25,316**	**619**	**542**
Currency translation	221	1,057	7	0
Changes in the composition of the Group	0	(7)	0	0
Additions (amortization)	938	3,110	113	251
Additions (impairment)	1	17	7	0
Disposals	494	1,698	39	0
Change from non-current assets and disposal groups held for sale	(4)	(211)	0	0
Reclassifications	(28)	29	10	(1)
Reversal of impairment losses	0	0	0	0
AT DECEMBER 31, 2015	**3,727**	**27,613**	**717**	**792**
NET CARRYING AMOUNTS				
At December 31, 2014	1,692	33,508	519	3,126
AT DECEMBER 31, 2015	**1,689**	**38,526**	**460**	**4,309**

Acquired intangible assets				Goodwill	Advance payments and intangible assets under development	
UMTS licenses	GSM licenses	FCC licenses (T-Mobile US)	Other acquired intangible assets			Total
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	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**
4	4	3,115	560	1,340	40	5,386
0	0	0	3	1	0	7
0	556	2,642	506	0	2,406	7,504
0	301	0	1,367	35	33	2,282
0	0	(997)	(15)	(2)	(7)	(1,033)
0	(2)	0	1,135	0	(2,057)	17
9,933	**1,548**	**32,013**	**16,367**	**30,290**	**2,037**	**103,882**
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**
2	3	674	371	1,196	0	2,474
0	0	0	(7)	0	0	(7)
581	66	0	2,099	0	0	4,048
0	0	0	10	43	0	61
0	301	0	1,358	31	0	2,223
0	0	(199)	(12)	0	0	(215)
0	0	0	20	0	0	1
0	0	0	0	0	0	0
6,925	**692**	**6,343**	**12,144**	**15,517**	**0**	**46,857**
3,587	367	21,385	4,524	14,677	1,688	51,565
3,008	**856**	**25,670**	**4,223**	**14,773**	**2,037**	**57,025**

The increase in the net carrying amount of the LTE licenses by EUR 1.2 billion to EUR 4.3 billion is mainly attributable to licenses acquired in the frequency auction in Germany that ended in June 2015. T-Mobile US acquired and exchanged mobile licenses in the 2015 financial year. These transactions primarily comprise licenses acquired in the FCC auction that ended in January 2015.

Deutsche Telekom had commitments for the acquisition of intangible assets in the amount of EUR 1.1 billion (December 31, 2014: EUR 1.0 billion) as of the reporting date. The increase is mainly attributable to an obligation for T-Mobile US to buy mobile licenses.

In the 2015 financial year, the main changes in the carrying amounts of goodwill at cash-generating units were as follows:

United States. The increase of EUR 0.1 billion in goodwill compared with December 31, 2014 was the result of exchange rate effects.

Europe. The changes in goodwill mainly result from exchange rate effects.

Disclosures on annual impairment tests. Deutsche Telekom performed its annual impairment tests for the goodwill assigned to the cash-generating units as of December 31, 2015. A need for impairment of EUR 43 million on a pro rata basis was identified at the Hungary cash-generating unit as of December 31, 2015 on the basis of information available at the reporting date and expectations with respect to the future development of the market and competitive environment. The impairment of goodwill at the Hungary cash-generating unit was attributable in particular to intensified competition and a difficult overall market situation. The impairment test as of December 31, 2014 indicated a need for impairment at the cash-generating unit Digital Business Unit in the Group Headquarters & Group Services segment (EUR 29 million) and at the cash-generating unit Romania – Mobile communications (EUR 22 million on a pro rata basis) in the Europe operating segment.

The recoverable amounts to be identified for the impairment test were largely determined on the basis of the fair values less costs of disposal. With the exception of the United States cash-generating unit, these figures were calculated using the net present value method. The main parameters are shown in TABLE 081.

The recoverable amount (prior to the deduction of net debt) for Hungary was EUR 3,004 million. The value was calculated according to IFRS 13 using Level 3 input parameters (i. e., unobservable input parameters). The recoverable amounts (prior to the deduction of net debt) for Romania – Mobile communications and the Digital Business Unit as of December 31, 2014 were EUR 782 million and EUR 164 million respectively. Both values were calculated according to IFRS 13 using Level 3 input parameters (i. e., unobservable input parameters).

The recoverable amount at the Netherlands, Croatia, Montenegro, and F.Y.R.O. Macedonia cash-generating units was determined on the basis of the value in use, since, in these cases, it is higher than the fair value. In the case of the Netherlands, Montenegro, and F.Y.R.O. Macedonia units the value in use was used for the first time because this was higher for the first time or for reasons of simplicity, so as to not adjust the fair value by assumptions that are unobservable to the public. The market price of an active and liquid market (share price) of T-Mobile US was used to determine the fair value less costs of disposal in the case of the United States cash-generating unit. The measurements of all other cash-generating units are founded on projections for a ten-year projection period that are based on financial plans that have been approved by management and are also used for internal purposes. The planning horizon selected reflects the assumptions for short- to medium-term market developments and is selected to achieve a steady state in the business outlook that is necessary for calculating the perpetual annuity. This steady state can only be established based on this planning horizon, in particular due to the sometimes long investment cycles in the telecommunications industry and the investments planned and expected in the long run to acquire and extend the rights of spectrum use. Cash flows beyond the internal mid-term planning are extrapolated using appropriate growth rates defined separately for each cash-generating unit. These growth rates are based on real growth and inflation expected in the long term for the countries in which the respective unit operates. The key assumptions on which management has based its determination of the recoverable amount include the following assumptions that were primarily derived from internal sources and are based on past experience and extended to include internal expectations, and that are underscored by external market data and estimates: development of revenue, customer acquisition and retention costs, churn rates, capital expenditure, market share, and growth rates. Discount rates are determined on the basis of external figures derived from the market, taking account of the market and country risks associated with the cash-generating unit. Any significant future changes in the aforementioned assumptions would have an impact on the fair values of the cash-generating units. Any changes in the assumptions may have a negative impact, as a result of future macroeconomic trends, continued intense competition, further possible legislation changes (e. g., as part of national austerity programs), and regulatory intervention.

The following TABLES 081 and 082 provide an overview of the main factors affecting the measurement, the classification of the input parameters (levels) used to determine the recoverable amounts in accordance with IFRS 13, as well as the sensitivity calculations for the need for impairment resulting from a change in the main parameters discount rate, net cash flow, and growth rate. They show the most significant cash-generating units to which goodwill has been allocated.

T 081

		Goodwill carrying amount millions of €	Impairment [a] millions of €	Detailed planning period years	Discount rates [b] %	Sustainable growth rate p. a. Ø in %	Level allocation of input parameters [c]
GERMANY	2015	3,978		10	5.34	0.0	Level 3
	2014	3,978		10	6.14	0.0	Level 3
UNITED STATES	2015	1,147		n. a.	n. a.	n. a.	Level 1
	2014	1,028		n. a.	n. a.	n. a.	Level 1
EUROPE							
Poland	2015	1,584		10	6.96	2.0	Level 3
	2014	1,578		10	7.54	2.0	Level 3
Netherlands	2015	1,312		10	5.51	0.25	Value in use
	2014	1,312		10	6.47	2.0	Level 3
Hungary	2015	949	43	10	7.88	2.0	Level 3
	2014	994		10	6.81	2.0	Level 3
Czech Republic	2015	739		10	5.58	2.0	Level 3
	2014	707		10	7.52	2.0	Level 3
Croatia	2015	494		10	7.13	2.0	Value in use
	2014	493		10	6.97	2.0	Value in use
Slovakia	2015	428		10	5.34	2.0	Level 3
	2014	428		10	6.88	2.0	Level 3
Greece – Mobile communications	2015	422		10	7.81	2.0	Level 3
	2014	422		10	9.50	2.0	Level 3
Austria	2015	324		10	5.66	2.0	Level 3
	2014	324		10	6.50	2.0	Level 3
Romania – Mobile communications	2015	121		10	8.47	2.0	Level 3
	2014	122	22	10	9.52	2.0	Level 3
International Carrier Sales & Solutions	2015	101		10	5.15	2.0	Level 3
	2014	102		10	5.68	2.0	Level 3
Other	2015	99		10	8.44–10.47	2.0	Levels 3 and value in use
	2014	98		10	8.85–9.71	2.0	Level 3
SYSTEMS SOLUTIONS	2015	3,075		10	6.49	1.5	Level 3
	2014	3,091		10	7.80	1.5	Level 3
	2015	**14,773**	**43**				
	2014	**14,677**	**51**				

[a] The total impairments in 2014 of EUR 51 million also included the need of impairment identified at the cash-generating unit Digital Business Unit.
[b] Discount rate consistently after taxes. The discount rate before taxes for the calculation of the value in use amounts to 7.35 percent for the Netherlands, 8.91 percent for Croatia, and 9.30 to 9.38 percent for Others.
[c] Level of input parameters in the case of fair value less costs of disposal.

T 082

Sensitivity analysis of the impairment losses
millions of € [a]

	Increase (decrease) in impairment losses in 2015					
	Decrease of discount rate by 50 basis points	Decrease of net cash flows by 5.0 %	Decrease of sustainable growth rate by 50 basis points	Increase of discount rate by 50 basis points	Increase of net cash flows by 5.0 %	Increase of sustainable growth rate by 50 basis points
EUROPE						
Netherlands		136 (11/100 %/ 99.61 %)	61 (11/0.25 %/ 0.18 %)	197 (11/5.51 %/ 5.54 %)		
Hungary	–43 (–73/7.88 %/ 7.73 %)	89 (–73/100 %/ 102.44 %)	69 (–73/2.00 %/ 2.30 %)	122 (–73/7.88 %/ 7.73 %)	–43 (–73/100 %/ 102.44 %)	–43 (–73/2.00 %/ 2.30 %)
Greece – Mobile communications				8 (169/7.81 %/ 8.25 %)		
Other [b]				1 (9/8.46 %/ 8.84 %)		
	(43)	**225**	**130**	**328**	**(43)**	**(43)**

[a] Where a change in the parameters results in an impairment loss, the following information is indicated in parenthesis: the current amount by which the unit's recoverable amount exceeds its carrying amount, the current value of the parameter, and the value of the parameter, which makes the recoverable amount of the cash-generating unit equal to the unit's carrying amount.
[b] The impairment indicated in the sensitivity analysis relates to the Montenegro cash-generating unit.

The sensitivity analysis of impairment charges lists all those cash-generating units where the sensitivity analysis resulted in an impairment loss or a change in the impairment loss. The sensitivity analysis was performed separately for each parameter, i. e., a change in the impairment charge on a cash-generating unit was only determined by reducing or increasing the parameter under consideration.

6 PROPERTY, PLANT AND EQUIPMENT

T 083

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
COST					
AT DECEMBER 31, 2013	**18,430**	**104,193**	**7,859**	**2,423**	**132,905**
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)
AT DECEMBER 31, 2014	**18,644**	**109,043**	**8,332**	**3,004**	**139,023**
Currency translation	220	2,247	176	151	2,794
Changes in the composition of the Group	(1)	(29)	(5)	(1)	(36)
Additions	164	5,945	503	5,251	11,863
Disposals	296	5,099	854	89	6,338
Change from non-current assets and disposal groups held for sale	(571)	(113)	(3)	(8)	(695)
Reclassifications	356	4,019	448	(4,840)	(17)
AT DECEMBER 31, 2015	**18,516**	**116,013**	**8,597**	**3,468**	**146,594**
ACCUMULATED DEPRECIATION AND IMPAIRMENT LOSSES					
AT DECEMBER 31, 2013	**10,180**	**79,561**	**5,710**	**27**	**95,478**
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)
AT DECEMBER 31, 2014	**10,694**	**82,675**	**6,011**	**27**	**99,407**
Currency translation	152	1,341	126	0	1,619
Changes in the composition of the Group	(1)	(30)	(4)	0	(35)
Additions (depreciation)	723	5,713	714	0	7,150
Additions (impairment)	70	23	2	3	98
Disposals	201	4,825	797	1	5,824
Change from non-current assets and disposal groups held for sale	(385)	(60)	(2)	(3)	(450)
Reclassifications	37	(52)	13	1	(1)
Reversal of impairment losses	(7)	0	0	0	(7)
AT DECEMBER 31, 2015	**11,082**	**84,785**	**6,063**	**27**	**101,957**
NET CARRYING AMOUNTS					
At December 31, 2014	7,950	26,368	2,321	2,977	39,616
AT DECEMBER 31, 2015	**7,434**	**31,228**	**2,534**	**3,441**	**44,637**

For further details on depreciation, amortization and impairment losses, please refer to Note 30 “Depreciation, amortization and impairment losses,” PAGE 216.

The additions include EUR 2.3 billion in capitalized higher-priced mobile devices. These relate to the business model JUMP! On Demand introduced at T-Mobile US in June 2015 under which customers no longer purchase the device but lease it.

Restoration obligations of EUR 0.3 billion were recognized as of December 31, 2015 (December 31, 2014: EUR 0.2 billion). Of this figure, EUR 0.2 billion is attributable to the remeasurement of existing restoration obligations of T-Mobile US. New knowledge relating to the decommissioning of MetroPCS's CDMA mobile network prompted T-Mobile US to review the assumptions for the existing restoration obligations.

Deutsche Telekom had commitments for the acquisition of property, plant and equipment in the amount of EUR 1.9 billion (December 31, 2014: EUR 2.1 billion) as of the reporting date.

7 INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

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

T 084

	Deutsche Telekom share		Percentage of voting rights		Assigned to segment	Fair value of the investment, if a listed market price is available	
Name and registered office	Dec. 31, 2015 %	Dec. 31, 2014 %	Dec. 31, 2015 %	Dec. 31, 2014 %		Dec. 31, 2015 millions of €	Dec. 31, 2014 millions of €
Hrvatske telekomunikacije d.d. Mostar, Mostar, Bosnia-Herzegovina [a]	39.10	39.10	39.10	39.10	Europe	44	38
Scout24 AG, Munich, Germany	13.37	28.24	13.37	28.24	Group Headquarters & Group Services	474	–
Ströer SE, Cologne, Germany	11.60	–	11.60	–	Group Headquarters & Group Services	361	–
T-Mobile USA Tower LLC, Wilmington, United States [b]	100.00	100.00	100.00	100.00	United States	–	–
T-Mobile West Tower LLC, Wilmington, United States [b]	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	–	–

[a] Indirect shareholding via Hrvatski Telekom d. d., Croatia (Deutsche Telekom AG's share: 51.00 percent).
[b] Indirect shareholding via T-Mobile US, Inc., United States (Deutsche Telekom AG's share: 65.41 percent).

All entities are accounted for in the consolidated financial statements using the equity method.

Description of the nature of the activities of the joint arrangement or associate

Hrvatske telekomunikacije d. d. provides mobile and fixed-network communications services in Bosnia-Herzegovina.

Scout24 AG operates leading digital advertising platforms in Germany and other selected European countries. The core business under the Scout24 umbrella brand consists of the digital marketplaces ImmobilienScout24 and AutoScout24.

Ströer SE is a leading digital multi-channel media house that offers advertisers customized, fully integrated premium communications solutions.

T-Mobile USA Tower LLC and T-Mobile West Tower LLC are structured entities founded by T-Mobile US in each of which it holds a 100-percent stake for the purpose of contributing cell sites in accordance with a framework agreement signed in 2012 between T-Mobile US and Crown Castle International Corp., Houston, United States, concerning the leasing and use of the cell sites. The sole right to continue to use and lease out these sites was transferred to Crown Castle. T-Mobile US will continue to operate its mobile equipment on these cell towers and, to this end, lease back the required capacity from Crown Castle. Previously unused infrastructure is thus available for Crown Castle to lease to third parties. In return, the owners of the land on which the cell towers are built will no longer receive lease payments from T-Mobile US for those cell towers which were contributed to the two associates and those that were disposed of. Both entities were deconsolidated as of the date of the closing of the transaction in 2012, because Crown Castle independently operates the cell sites, generates revenues from the lease out of the sites for an average of 28 years and determines the finance and business activities of both entities that are relevant for consolidation purposes. It is expected that the leasing tower space allows Crown Castle to generate sufficient ongoing profits and cash flows to be able to meet its contractual obligations. Thus Deutsche Telekom

has only a significant influence and includes these companies in the consolidated financial statements as associates. Under certain conditions, T-Mobile US will continue to be held liable for any default in the lease payment by Crown Castle to the owners of the underlying land of the cell sites. The agreement includes a considerably low maximum guarantee amount for Deutsche Telekom, since in the unlikely event that this case occurs, T-Mobile US could take over the further use of the relevant cell sites or alternatively terminate the contracts with the owners of the cell site land at short notice. At closing T-Mobile US established an immaterial cash reserve in the entities sufficient to fund the payment of ongoing administrative expenses not payable by Crown Castle. Aside from the guarantee and the payment of administrative expenses there is no other funding obligation by T-Mobile US.

Toll Collect GmbH operates the highway toll system in Germany.

The following TABLES 085 and 086 provide summarized financial information on the main companies included in the consolidated financial statements and accounted for using the equity method. The data is not based on the portions attributable to the Deutsche Telekom Group, but represents the shareholdings on a 100-percent basis.

Summarized financial information on significant joint ventures accounted for using the equity method

T 085

millions of €

	HT Mostar d.d.		Toll Collect GmbH	
	Dec. 31, 2015/2015	Dec. 31, 2014/2014	Dec. 31, 2015/2015	Dec. 31, 2014/2014
Current assets	40	41	528	557
Of which: cash and cash equivalents	3	1	63	76
Non-current assets	172	171	180	136
Current liabilities	34	34	745	805
Of which: financial liabilities	0	2	0	20
Non-current liabilities	5	6	91	2
Of which: financial liabilities	1	1	90	0
Net revenue	45	119	472	433
Interest income	0	0	5	5
Interest expense	0	0	(3)	(5)
Income taxes	0	0	(37)	(33)
Profit (loss)	1	5	(15)	(139)
Other comprehensive income	0	0	0	0
Total comprehensive income	1	5	(15)	(139)
Depreciation and amortization	(12)	(250)	(2)	(2)
Dividends paid to Deutsche Telekom	0	2	0	0

Summarized financial information on significant associates accounted for using the equity method

T 086

millions of €

	Scout24 AG[a, b]		Ströer SE[c]		T-Mobile USA Tower LLC		T-Mobile West Tower LLC	
	Dec. 31, 2015/2015	Dec. 31, 2014/2014	Dec. 31, 2015/2015	Dec. 31, 2014/2014	Dec. 31, 2015/2015	Dec. 31, 2014/2014	Dec. 31, 2015/2015	Dec. 31, 2014/2014
Current assets	123	63	178	–	0	0	0	0
Non-current assets	2,061	2,127	799	–	66	60	101	91
Current liabilities	108	94	276	–	0	0	0	0
Non-current liabilities	1,380	1,037	415	–	0	0	0	0
Net revenue	288	306	509	–	0	0	0	0
Profit (loss)	49	(39)	25	–	0	0	0	0
Other comprehensive income	1	2	(19)	–	0	0	0	0
Total comprehensive income	50	(37)	7	–	0	0	0	0
Dividends paid to Deutsche Telekom	124	0	–	–	0	38	0	79

[a] As financial data of Scout24 AG as of December 31, 2015 was not publicly available at the date of publication of Deutsche Telekom's Annual Report, the interim financial statements of Scout24 AG as of September 30, 2015 was used as a basis for the summarized financial information and for the reconciliation statement to the carrying amount reported in Deutsche Telekom's consolidated statement of financial position.

[b] In the 2015 financial year, the majority shareholders of Asa NewCo resolved to place the company on the capital market by means of an independent IPO. To this end, Asa NewCo was converted into a stock corporation (under German law). Since the entry in the commercial register on October 10, 2015, the company is now called Scout24 AG.

[c] As financial data of Ströer SE as of December 31, 2015 was not publicly available at the date of publication of Deutsche Telekom's Annual Report, the quarterly financial report of Ströer SE as of September 30, 2015 was used as a basis for the summarized financial information.

Reconciliation to the carrying amount included in the consolidated statement of financial position

T 087

millions of €

	HT Mostar d.d.		Toll Collect GmbH	
	2015	2014	2015	2014
NET ASSETS AS OF JANUARY 1	**172**	**172**	**(114)**	**25**
Profit (loss)	1	5	(14)	(139)
Other comprehensive income	0	0	0	0
Dividends paid	0	(5)	0	0
Exchange rate effects	0	0	0	0
NET ASSETS AS OF DECEMBER 31	**173**	**172**	**(128)**	**(114)**
SHARE OF NET ASSETS ATTRIBUTABLE TO DEUTSCHE TELEKOM AS OF DECEMBER 31	**68**	**66**	**(64)**	**(57)**
Adjustment of carrying amount	0	0	64	57
Other reconciliation effects	(15)	(15)	0	0
CARRYING AMOUNT AS OF DECEMBER 31	**53**	**51**	**0**	**0**

T 088

millions of €

	Scout24 AG		Ströer SE		T-Mobile USA Tower LLC		T-Mobile West Tower LLC	
	2015 [a]	2014	2015 [b]	2014	2015	2014	2015	2014
NET ASSETS AS OF JANUARY 1	**1,059**	**1,096**	**300**	**–**	**60**	**75**	**91**	**86**
Profit (loss)	49	(39)	25	–	0	0	0	0
Other comprehensive income	1	2	(19)	–	0	0	0	0
Dividends paid	(421)	0	(20)	–	0	(38)	0	(79)
Capital increase	8	0	–	–	0	13	0	73
Exchange rate effects	0	0	–	–	6	10	10	11
NET ASSETS AS OF DECEMBER 31 [c]	**696**	**1,059**	**286**	**–**	**66**	**60**	**101**	**91**
SHARE OF NET ASSETS ATTRIBUTABLE TO DEUTSCHE TELEKOM AS OF DECEMBER 31 [c]	**93**	**309**	**33**	**–**	**66**	**60**	**101**	**91**
Adjustment of carrying amount	0	0	0	–	0	0	0	0
Other reconciliation effects	31	0	298	–	0	0	0	0
CARRYING AMOUNT AS OF DECEMBER 31	**124**	**309**	**331**	**–**	**66**	**60**	**101**	**91**

[a] As financial data of Scout24 AG as of December 31, 2015 was not publicly available at the date of publication of Deutsche Telekom's Annual Report, the interim financial statements of Scout24 AG as of September 30, 2015 was used as a basis for the summarized financial information and for the reconciliation statement to the carrying amount reported in Deutsche Telekom's consolidated statement of financial position. The resulting effects for the extrapolation of the carrying amount as of December 31, 2015 were estimated and are included under other reconciliation effects.

[b] As financial data of Ströer SE as of December 31, 2015 was not publicly available at the date of publication of Deutsche Telekom's Annual Report, the quarterly financial report of Ströer SE as of September 30, 2015 was used as a basis for the summarized financial information and for the reconciliation statement to the carrying amount reported in Deutsche Telekom's consolidated statement of financial position. The resulting effects for the extrapolation of the carrying amount as of December 31, 2015 were estimated on the basis of the data available at the acquisition date on November 2, 2015 and are included under other reconciliation effects. Since the results of the purchase price allocation are not yet available, the goodwill included in the other reconciliation effects is provisional.

[c] The figures for net assets and the share of the net assets of Scout24 AG and Ströer SE relate to September 30, 2015.

Deutsche Telekom did not recognize losses in connection with investments accounted for using the equity method of EUR 64 million (2014: EUR 57 million) because it has no obligation to offset these losses.

Dividends paid by T-Mobile USA Tower LLC of EUR 38 million and by T-Mobile West Tower LLC of EUR 79 million to T-Mobile US in 2014 were based on contractual agreements from 2012. These dividend payments were directly related to the contribution of further T-Mobile US cell towers to both companies. The contribution was recorded as a capital increase.

Summarized aggregate financial information on non-significant investments accounted for using the equity method

The figures relate to the interests attributable to Deutsche Telekom.

T 089

millions of €

	Joint ventures		Associates	
	Dec. 31, 2015/ 2015	Dec. 31, 2014/ 2014	Dec. 31, 2015/ 2015	Dec. 31, 2014/ 2014
Total carrying amounts	5	14	142	92
Total interests				
Profit (loss)	(1)	(1)	(3)	(30)
Other comprehensive income	0	0	0	0
TOTAL COMPREHENSIVE INCOME	**(1)**	**(1)**	**(3)**	**(30)**

8 OTHER FINANCIAL ASSETS

T 090

millions of €

	Dec. 31, 2015		Dec. 31, 2014	
	Total	Of which: current	Total	Of which: current
Originated loans and receivables	3,283	2,694	3,224	2,632
Available-for-sale financial assets	3,354	2,801	683	224
Derivative financial assets	2,686	306	1,343	117
Held-to-maturity investments	12	4	10	3
	9,335	**5,805**	**5,260**	**2,976**

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

Receivables of EUR 98 million (December 31, 2014: EUR 527 million) were used in connection with collateral agreements as surety for potential credit risks arising from derivative transactions.

T 091

millions of €

Originated loans and receivables	Of which: neither impaired nor past due on the reporting date	Of which: not impaired on the reporting date and past due in the following periods					
		Less than 30 days	Between 30 and 60 days	Between 61and 90 days	Between 91 and 180 days	Between 181 and 360 days	More than 360 days
As of Dec. 31, 2015							
Due within one year	2,005	38	12	0	4	0	1
Due after more than one year	325	–	–	–	–	–	–
As of Dec. 31, 2014							
Due within one year	1,836	53	29	33	37	1	1
Due after more than one year	590	–	–	–	–	–	1

The available-for-sale financial assets include, among other assets, unquoted equity instruments whose fair values could not be reliably measured, and which were therefore recognized at cost in the amount of EUR 156 million as of December 31, 2015 (December 31, 2014: EUR 122 million). No plans existed as of the reporting date to sell these instruments.

9 OTHER ASSETS

Other assets mainly include deferred expenses of EUR 1.0 billion (December 31, 2014: EUR 1.1 billion).

10 FINANCIAL LIABILITIES

T 092

millions of €

	Dec. 31, 2015				Dec. 31, 2014			
	Total	**Due within 1 year**	**Due >1 year ≤ 5 years**	**Due > 5 years**	Total	Due within 1 year	Due >1 year ≤ 5 years	Due > 5 years
Bonds and other securitized liabilities	**47,766**	**7,583**	**14,410**	**25,773**	**44,219**	**5,425**	**13,890**	**24,904**
Liabilities to banks	**4,190**	**1,864**	**945**	**1,381**	**3,676**	**1,369**	**1,934**	**373**
Of which: promissory notes	383	193	–	190	520	140	193	187
Of which: loans from the European Investment Bank	2,688	829	809	1,050	2,110	493	1,617	–
Of which: other loans	1,119	842	136	141	1,046	736	124	186
	51,956	**9,447**	**15,355**	**27,154**	**47,895**	**6,794**	**15,824**	**25,277**
Finance lease liabilities	1,927	311	878	738	1,461	180	570	711
Liabilities to non-banks from promissory notes	934	413	239	282	946	40	647	259
Liabilities with the right of creditors to priority repayment in the event of default	1,822	18	73	1,731	–	–	–	–
Other interest-bearing liabilities	3,009	2,399	465	145	1,775	1,196	392	187
Other non-interest-bearing liabilities	1,798	1,667	129	2	2,055	1,942	110	3
Derivative financial liabilities	934	184	413	337	1,095	406	442	247
	10,424	**4,992**	**2,197**	**3,235**	**7,332**	**3,764**	**2,161**	**1,407**
FINANCIAL LIABILITIES	**62,380**	**14,439**	**17,552**	**30,389**	**55,227**	**10,558**	**17,985**	**26,684**

Financial liabilities increased year-on-year by EUR 7.2 billion to a total of EUR 62.4 billion.

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

In addition to the reported liabilities to banks, Deutsche Telekom had standardized bilateral credit agreements with 23 banks for a total of EUR 13.5 billion at December 31, 2015. As of December 31, 2015, EUR 0.2 billion of these credit lines had been utilized. Pursuant to the credit agreements, the terms and conditions depend on Deutsche Telekom's rating. The bilateral credit agreements have an original maturity of 36 months and can, after each period of twelve months, be extended by a further twelve months to renew the maturity of 36 months. From today's perspective, access to the international debt capital markets is not jeopardized. In November 2015, T-Mobile US issued bonds with a total volume of USD 2.0 billion. In addition, T-Mobile US took out a USD 2.0 billion syndicated loan (Term Loan B). These two transactions serve the purpose of prefinancing the spectrum auction expected to begin in spring 2016. In December 2015, OTE issued a bond with a total volume of EUR 0.4 billion, and partial repayment of two bonds was made in the amount of EUR 0.3 billion prematurely.

The liabilities with the right of creditors to priority repayment in the event of default relate to liabilities issued by T-Mobile US with a nominal volume of USD 2.0 billion, a term running to 2022, and bearing variable-rate interest based on USD Libor. In the event of default by or insolvency of T-Mobile US, the creditors of these liabilities have first priority lien on certain assets of T-Mobile US. As of December 31, 2015, the entire carrying amount of these assets amounted to USD 67.0 billion (translated into euros: EUR 61.5 billion), including financial assets amounting to USD 12.9 billion (translated into euros: EUR 11.8 billion). As long as T-Mobile US neither defaults nor becomes insolvent, it shall not be subject to any restraints on disposal with regard to the assets underlying the lien. Due to the priority collateralization, these liabilities constitute a separate class of financial instruments.

TABLES 093 and 094 show Deutsche Telekom's contractually agreed (undiscounted) interest payments and repayments of the non-derivative financial liabilities and the derivatives with positive and negative fair values:

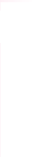
T 093

millions of €

	Carrying amounts Dec. 31, 2015	Cash flows in 2016			Cash flows in 2017		
		Fixed interest rate	Variable interest rate	Repayment	Fixed interest rate	Variable interest rate	Repayment
NON-DERIVATIVE FINANCIAL LIABILITIES							
Bonds, other securitized liabilities, liabilities to banks and liabilities to non-banks from promissory notes and similar liabilities	(52,890)	(2,509)	(13)	(9,238)	(2,244)	(9)	(3,541)
Finance lease liabilities	(1,927)	(113)		(308)	(100)		(305)
Liabilities with the right of creditors to priority repayment in the event of default	(1,822)		(64)	(18)		(63)	(18)
Other interest-bearing liabilities	(3,009)	(17)		(2,399)	(17)		(321)
Other non-interest-bearing liabilities	(1,798)			(1,667)			(101)
DERIVATIVE FINANCIAL LIABILITIES AND ASSETS							
Derivative financial liabilities:							
Currency derivatives without a hedging relationship	(147)			(158)			
Currency derivatives in connection with cash flow hedges	(33)			(34)			
Currency derivatives in connection with net investment hedges	0						
Other derivatives without a hedging relationship [a]	(58)			(9)			(7)
Interest rate derivatives without a hedging relationship	(314)	(105)	(3)		(105)	(4)	(35)
Interest rate derivatives in connection with fair value hedges	(10)	5			5		(17)
Interest rate derivatives in connection with cash flow hedges	(74)	(37)			(37)		
Derivative financial assets:							
Currency derivatives without a hedging relationship	29			28			
Currency derivatives in connection with cash flow hedges	7			8			
Other derivatives without a hedging relationship	1						
Interest rate derivatives without a hedging relationship	1,106	21	54	185	18	41	177
Interest rate derivatives in connection with fair value hedges	290	237	(132)		221	(118)	
Interest rate derivatives in connection with cash flow hedges	863	79		78	80		
FINANCIAL GUARANTEES AND LOAN COMMITMENTS [b]	(2)			(459)			(136)

[a] There will be no payment for a carrying amount of EUR 39 million, since this relates to a purchase option granted to a third party for shares in a subsidiary of Deutsche Telekom. Please also refer to Note 37 "Financial instruments and risk management," PAGE 226 ET SEQ.

[b] For more detailed information, please refer to Note 37 "Financial instruments and risk management," PAGE 226 ET SEQ. In each case, the maximum payment at the earliest possible date of utilization is shown.



	Cash flows in 2018–2020			Cash flows in 2021–2025			Cash flows in 2026 and thereafter		
	Fixed interest rate	Variable interest rate	Repayment	Fixed interest rate	Variable interest rate	Repayment	Fixed interest rate	Variable interest rate	Repayment
	(5,594)	(13)	(11,432)	(5,240)	(3)	(17,281)	(3,342)		(9,397)
	(220)		(575)	(220)		(418)	(94)		(319)
		(186)	(55)		(113)	(1,745)			
	(51)		(146)	(54)		(76)	(18)		(69)
			(28)			(2)			
			(6)						
	(26)	(17)	3	30	(32)	(48)	58	(40)	69
	9	77	297	12	81	48		127	426
	463	(203)		546	(191)		1,023	(443)	
	235		66	336		183	223		460

T 094

millions of €

	Carrying amounts Dec. 31, 2014	Cash flows in				
		2015	2016	2017–2019	2020–2024	2025 and thereafter
NON-DERIVATIVE FINANCIAL LIABILITIES						
Bonds, other securitized liabilities, liabilities to banks and liabilities to non-banks from promissory notes and similar liabilities	(48,841)	(8,418)	(6,971)	(15,114)	(22,495)	(12,492)
Finance lease liabilities	(1,461)	(285)	(272)	(602)	(638)	(389)
Other interest-bearing liabilities	(1,775)	(1,283)	(267)	(190)	(179)	(102)
Other non-interest-bearing liabilities	(2,055)	(1,942)	(107)	(3)	(2)	(1)
DERIVATIVE FINANCIAL LIABILITIES AND ASSETS						
Derivative financial liabilities:						
Currency derivatives without a hedging relationship	(229)	(233)				
Currency derivatives in connection with cash flow hedges	(9)	(10)				
Currency derivatives in connection with net investment hedges	–					
Other derivatives without a hedging relationship	(15)	(6)	(4)	(6)		
Interest rate derivatives without a hedging relationship	(420)	(207)	(50)	(82)	0	(1)
Interest rate derivatives in connection with fair value hedges	(8)	4	4	(11)		
Interest rate derivatives in connection with cash flow hedges	(414)	(33)	(52)	(23)	148	247
Derivative financial assets:						
Currency derivatives without a hedging relationship	67	63				
Currency derivatives in connection with cash flow hedges	4	4				
Interest rate derivatives without a hedging relationship	584	70	83	262	25	272
Interest rate derivatives in connection with fair value hedges	222	102	100	248	349	654
Interest rate derivatives in connection with cash flow hedges	282	22	64	119	209	119
FINANCIAL GUARANTEES AND LOAN COMMITMENTS [a]	(1)	(339)				

[a] For more detailed information, please refer to Note 37 "Financial instruments and risk management," PAGE 226 ET SEQ. In each case, the maximum payment at the earliest possible date of utilization is shown.

All instruments held at December 31, 2015 and for which payments were already contractually agreed were included. Planning data for future, new liabilities were not included. Amounts in foreign currency were each translated at the closing rate at the reporting date. The variable interest payments arising from the financial instruments were calculated using the last interest rates fixed before December 31, 2015. Financial liabilities that can be repaid at any time are always assigned to the earliest possible time period. In accordance with § 2 (4) of the German Act on the Transformation of the Deutsche Bundespost Enterprises into the Legal Structure of Stock Corporation (Stock Corporation Transformation Act – Postumwandlungsgesetz), the Federal Republic is guarantor of all Deutsche Telekom AG's liabilities that were already outstanding as at January 1, 1995. At December 31, 2015, this figure was a nominal EUR 2.1 billion (December 31, 2014: EUR 2.0 billion). The Mandatory Convertible Preferred Stock issued by T-Mobile US in December 2014 (nominal volume of USD 1.0 billion, interest rate of 5.5 percent, term until 2017) is not included in the table above since T-Mobile US has the contractually agreed right to pay all interest in the form of shares. The repayment in the form of shares is mandatory.

11 TRADE AND OTHER PAYABLES

T 095

millions of €

	Dec. 31, 2015	Dec. 31, 2014
Trade payables	11,037	9,631
Other liabilities	53	50
	11,090	**9,681**

Of the total of trade and other payables, EUR 11,089 million (December 31, 2014: EUR 9,679 million) is due within one year. The increase in trade payables is due in particular to exchange rate effects and the higher procurement volume in connection with the new business model JUMP! On Demand introduced in the United States operating segment.

12 PROVISIONS FOR PENSIONS AND OTHER EMPLOYEE BENEFITS

DEFINED BENEFIT PLANS

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

Deutsche Telekom's pension obligations are as follows:

T 096

millions of €

	Dec. 31, 2015	Dec. 31, 2014
DEFINED BENEFIT LIABILITY	**8,028**	**8,465**
Defined benefit asset	(14)	(18)
NET DEFINED BENEFIT LIABILITY (ASSET)	**8,014**	**8,447**
Of which: provisions for direct commitments	7,568	8,023
Of which: provisions for indirect commitments	445	423
Of which: provisions for obligations in accordance with Article 131 GG	1	1

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

Calculation of net defined benefit liabilities/assets:

T 097

millions of €

	Dec. 31, 2015	Dec. 31, 2014
Present value of the obligations fully or partially funded by plan assets	7,749	7,854
Plan assets at fair value	(2,744)	(2,498)
DEFINED BENEFIT OBLIGATIONS IN EXCESS OF PLAN ASSETS	**5,005**	**5,356**
Present value of the unfunded obligations	3,004	3,086
DEFINED BENEFIT LIABILITY (ASSET) ACCORDING TO IAS 19.63	**8,009**	**8,442**
Effect of asset ceiling (according to IAS 19.64)	5	5
NET DEFINED BENEFIT LIABILITY (ASSET)	**8,014**	**8,447**

T 098

millions of €

	2015	2014
NET DEFINED BENEFIT LIABILITY (ASSET) AS OF JANUARY 1	**8,447**	**6,992**
Service cost	285	220
Net interest expense (income) on the net defined benefit liability (asset)	157	225
Remeasurement effects	(230)	1,581
Pension benefits paid directly by the employer	(355)	(298)
Employer contributions to plan assets	(276)	(266)
Changes attributable to business combinations/ transfers of operation/acquisitions and disposals	(19)	(8)
Administration costs actually incurred (paid from plan assets)	0	0
Exchange rate fluctuations for plans in foreign currency	5	1
NET DEFINED BENEFIT LIABILITY (ASSET) AS OF DECEMBER 31	**8,014**	**8,447**

Key assumptions for the measurement of the defined benefit obligations are the discount rate, the salary increase rate, the pension increase rate, and longevity. TABLE 099 shows the assumptions on which the measurement of defined benefit obligations as of December 31 of the respective year are based. The assumptions made as of December 31 of the respective prior year are used to measure the expected pension expense (defined benefit cost) of a given financial year.

From 2014, the following figures for the plans in Switzerland relate to T-Systems Schweiz AG and T-Systems Data Migration Consulting AG (previously only T-Systems Schweiz AG).

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

T 099

%

		2015	2014	2013
Discount rate	Germany	2.11	1.89	3.29
	Switzerland	0.83	1.14	2.34
	Greece (OTE S. A.)	2.13[a]/1.39[b]	1.83[a]/1.09[b]	3.25[a]/2.53[b]
Salary increase rate	Germany	2.50	2.50	2.75
	Switzerland	1.25	1.25	1.50
	Greece (OTE S. A.)	1.00[c]	1.00[d]	1.00[e]
Pension increase rate	Germany (general)	1.50	1.50	1.50
	Germany (according to articles of association)	1.00	1.00	1.00
	Switzerland	0.10	0.30	0.30
	Greece (OTE S. A.)	n. a.	n. a.	n. a.

[a] The discount rate relates to the plans for staff retirement indemnities and for phone credits (see the plan description, PAGES 200 and 201).
[b] The discount rate relates to the plan for youth accounts (see the plan description, PAGES 200 and 201).
[c] The following assumptions were made in 2015 concerning the development of salaries in subsequent years: 2016: 0.00 percent, 2017: 0.00 percent, 2018: 5.50 percent. An increase of 1.00 percent is assumed for the years from 2019 onward.
[d] The following assumptions were made in 2014 concerning the development of salaries in subsequent years: 2015: –1.00 percent, 2016: 0.00 percent, 2017: 0.00 percent, 2018: 11.00 percent. An increase of 1.00 percent was assumed for the years from 2019 onward.
[e] The following assumptions were made in 2013 concerning the development of salaries in subsequent years: 2014: 0.97 percent, 2015: 9.69 percent, 2016: 0.00 percent. An increase of 1.00 percent was assumed for the years from 2017 onward.

T 100

Years

		Dec. 31, 2015	Dec. 31, 2014
Duration	Germany	13.9	14.5
	Switzerland	17.1[a]	18.6
	Greece (OTE S. A.)	14.1[b]/6.4[c]	13.8[b]/6.3[c]

[a] Although the discount rate has declined since 2014, the duration of the Swiss obligations has decreased by approximately 1.5 years; this is attributable, among other things, to the assumption on capital drawdowns updated in 2015. The assumption for the measurement of the pension obligations thus follows the observed increase in the drawdown of capital instead of a pension (see the plan description, PAGES 200 and 201).
[b] The duration relates to the plans for staff retirement indemnities and for phone credits (see the plan description, PAGES 200 and 201).
[c] The duration relates to the plan for youth accounts (see the plan description, PAGES 200 and 201).

The following biometric assumptions were essential for the measurement of pension obligations: Germany: Heubeck 2005G, Switzerland: BVG 2010 Generational, Greece (OTE S. A.): EVK2000.

The aforementioned discount rates were used as of December 31, 2015 when calculating the present value of defined benefit obligations, taking into account future salary increases. These discount rates were set in line with the average weighted duration of the respective obligation.

In the eurozone, the discount rate is determined based on the yields of high-quality European corporate bonds with AA rating, mapped in a yield curve showing the corresponding spot rates. To also approximately align the determination of the discount rate in Switzerland to this system, the existing method was adjusted with effect from August 31, 2015. Instead of the swap yields used in the past (for bonds with AAA rating), Swiss government bonds (treasury bonds) now form the basis for deriving a yield curve. Since the yield curve derived from the treasury bonds comprises a credit risk that is too low for accounting purposes, a further adjustment is made in the form of a risk premium (credit spread) based on high-quality Swiss corporate bonds. This risk premium, which in the past had been fixed for all durations, was calculated separately for three time intervals and used as the basis for the final determination of the yield curve.

Development of defined benefit obligations in the reporting year:

T 101

millions of €

	2015	2014
DEFINED BENEFIT OBLIGATIONS AS OF JANUARY 1	**10,940**	**8,965**
Current service cost	287	228
Interest cost	207	290
Remeasurement effects	(312)	1,783
Of which: experience-based adjustments	3	(6)
Of which: adjusted financial assumptions	(310)	1,789
Of which: adjusted demographic assumptions	(5)	–
Total benefits actually paid	(386)	(328)
Contributions by plan participants	5	5
Changes attributable to business combinations/ transfers of operation/acquisitions and disposals	(19)	(8)
Past service cost (due to plan amendments)	(3)	(3)
Past service cost (due to curtailments)	(3)	(8)
Settlements	4	3
Taxes to be paid as part of pensions	–	–
Exchange rate fluctuations for plans in foreign currency	33	13
DEFINED BENEFIT OBLIGATIONS AS OF DECEMBER 31	**10,753**	**10,940**
Of which: active plan participant	4,969	5,070
Of which: plan participants with vested pension rights who left the Group	1,939	1,980
Of which: benefit recipients	3,845	3,890

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

Distribution of obligations relating to Deutsche Telekom's most significant plans as of December 31, 2015 and December 31, 2014:

T 102

millions of €

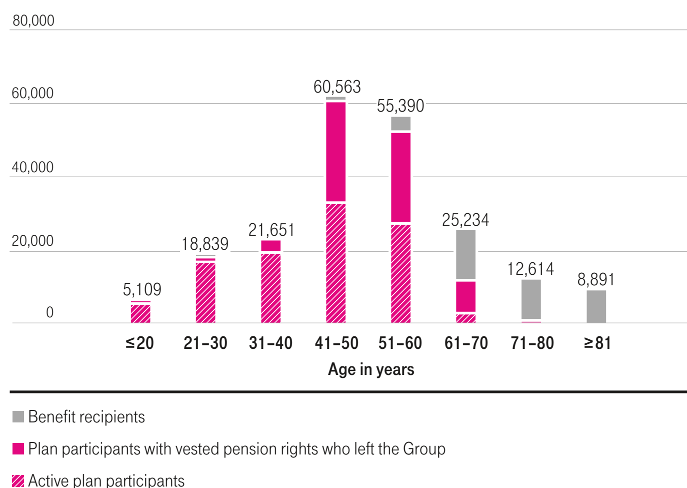
	Dec. 31, 2015				Dec. 31, 2014			
	Germany	Switzerland	Greece (OTE S. A.)	Other plans	Germany	Switzerland	Greece (OTE S. A.)	Other plans
Defined benefit obligations	9,901	256	254	342	10,082	227	292	339
Plan assets at fair value	(2,287)	(194)	–	(263)	(2,078)	(171)	–	(249)
Effect of asset ceiling	–	–	–	5	–	–	–	5
NET DEFINED BENEFIT LIABILITY (ASSET)	**7,614**	**62**	**254**	**84**	**8,004**	**56**	**292**	**95**

The following analyses in terms of age structure and sensitivity analysis, as well as descriptions of plans and the risks associated with them relate to the relevant pension obligations (Germany, Switzerland, and Greece (OTE S. A.)).

Age structure:
Deutsche Telekom's most significant plans are subject to the following status-related age structure.

G 47

Age structure of plan participants in the most significant pension plans at Deutsche Telekom[a]



Benefit recipients

Plan participants with vested pension rights who left the Group

Active plan participants

[a] Figures relating to Greece (OTE S. A.) include the staff retirement indemnities plan only.

Sensitivity analysis for the defined benefit obligations:
The following sensitivity analysis describes the effects of possible adjustments in the material actuarial assumptions for measurement on the defined benefit obligations determined as of December 31, 2015. A change in the measurement assumptions to the extent described below, with otherwise unchanged assumptions, would have impacted the defined benefit obligations as of December 31, 2015 as follows:

T 103

millions of €

	Increase (decrease) of the defined benefit obligations as of Dec. 31, 2015		
	Germany	Switzerland	Greece (OTE S. A.)
Increase of discount rate by 100 basis points	(1,163)	(30)	(27)
Decrease of discount rate by 100 basis points	1,427	36[a]	32
Increase of salary increase rate by 50 basis points	7	4	16
Decrease of salary increase rate by 50 basis points	(6)	(4)	(14)
Increase of pension increase rate by 25 basis points	6	6	0
Decrease of pension increase rate by 25 basis points	(5)	(2)[b]	0
Life expectancy increase by 1 year	246	7	0
Life expectancy decrease by 1 year	(251)	(7)	(1)

[a] Determined on the basis of a negative discount rate for the pension plans in Switzerland.
[b] Downward limitation of the pension increase rate to zero for the pension plans in Switzerland.

T 104

millions of €

	Increase (decrease) of the defined benefit obligations as of Dec. 31, 2014		
	Germany	Switzerland	Greece (OTE S. A.)
Increase of discount rate by 100 basis points	(1,239)	(29)	(30)
Decrease of discount rate by 100 basis points	1,530	37	36
Increase of salary increase rate by 50 basis points	7	4	18
Decrease of salary increase rate by 50 basis points	(6)	(4)	(15)
Increase of pension increase rate by 25 basis points	7	6	0
Decrease of pension increase rate by 25 basis points	(6)	(6)	0
Life expectancy increase by 1 year	262	6	1
Life expectancy decrease by 1 year	(271)	(7)	(1)

Separate sensitivity analyses were carried out for the discount rate, the salary increase rate, and the pension increase rate. For this purpose, further actuarial evaluations were made for both the increase and the decrease of the assumptions. The variations used in the assumptions were selected in such a way that the probability that the respective assumption will not move beyond the analysis range within one year is 60 to 90 percent. It can be assumed that the life expectancy of the plan members will not change significantly within a year. Nevertheless, the effect of a change in life expectancy on the obligations was additionally determined from a risk perspective. Evaluations were carried out based on the assumption that the life expectancy of the plan member aged 65 would increase or decrease by one year (age shift method). The age shift was applied to the remaining plan members accordingly. Variations in the assumed retirement age or turnover rates would only have an immaterial effect, especially in Germany.

Global pension policy and description of the plans:
Deutsche Telekom manages its pension commitments based on the Group-wide Global Pension Policy. It ensures on a worldwide basis that Group minimum standards regarding the granting and management of company pension benefits are complied with, plans are harmonized, and other risks to the core business are avoided or reduced. In addition, the policy provides guidelines for the implementation and management of pension commitments and defines requirements for the launch, adjustment, and closure of corresponding plans. The regulations and provisions laid down in this Group policy take into account the national differences in state pension and other commitments under labor, tax, and social law and the common business practices in the area of pension commitments.

Defined benefit plans based on final salaries in the Group have largely been replaced by plans with contribution-based promises to minimize the risks involved. In addition, a corporate CTA (Deutsche Telekom Trust e. V.) was established in Germany in 2011 to allow for additional funding of pension obligations. A CTA is a legally structured trust agreement to cover unfunded pension commitments with plan assets, and to provide greater protection against insolvency for these obligations.

The worldwide obligations and the existing plan assets at fair value are regularly tested for risk-reducing measures, for example by executing asset liability studies and regular benefit audits.

In Germany there are commitments for pension and disability benefits for a majority of employees as well as pension benefits for their surviving dependents. As part of a reorganization of the company pension plan, a capital account plan was introduced across Germany in 1997 for active employees. Furthermore, in subsequent years, commitments acquired through company acquisitions were also transferred to the capital account plan scheme. The capital account plan is an employer-financed, contribution-based benefit promise. The salary-linked contributions granted annually are charged interest in advance for each year of provision up to age 60, calculated using age-based factors, converting the contribution into a guaranteed insured amount. The advance interest rate currently stands at 3.75 percent p. a. (target interest rate for the capital account plan).

Deutsche Telekom reduced the granted interest on the future contributions in its capital account plan from 5 percent p. a. to the current level of 3.75 percent p. a. by changing the plan in the 2013 financial year. This change was not related to the application of IAS 19 (amended) in the 2013 financial year. The option of changing the target interest rate makes it possible to achieve a yield on the contributions to the capital account that is in line with the capital market. As market interest rates had fallen sharply, the return was no longer in line with the market.

The period for providing contributions is initially limited to ten future contribution years. The contribution period will be extended automatically every year by a further year, unless terminated. The insured amounts accumulated over the period of active service are paid out if an insured event arises, primarily in the form of a lump sum. Hence there is only a limited longevity risk for these commitments. Based on the payment guidelines and the structure of the capital account plan, the employer can plan for this, and there is only a small risk inherent in the plan with regard to the volatility of remuneration dynamics.

In addition, in Germany there are various closed legacy commitments, which generally provide for old-age and disability benefits as well as benefits for surviving dependents in the form of life-long pensions. The commitments predominantly comprise the overall pension of the supplementary retirement pensions institution (Versorgungsanstalt der Deutschen Bundespost – VAP) that takes into account the statutory pension. Most of the plan members of these commitments are former employees with vested rights and retirees for whom the amount of benefits has already been determined. So the VAP overall pension scheme continues to apply to former employees who were already retired or who had left with vested claims in 1997.

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

As a change in life expectancy mainly impacts on the obligations from legacy pension commitments and, since 1997, commitments have been granted in the form of capital, the significance of the risk resulting from the change in life expectancy is expected to decline for the Group over subsequent years.

To cover pension obligations over the long term, Deutsche Telekom has transferred funds to a corporate CTA and a company special pension fund (Unterstützungskasse).

As part of the company pension scheme in Switzerland for T-Systems Schweiz AG, there is a contribution-based benefit plan financed by employer and employee contributions, which is managed by the legally independent T-Systems pension fund. Following a restructuring of the Swiss companies and harmonization of the pension fund commitments as of January 1, 2014, T-Systems Data Migration Consulting AG has also since been included in the pension fund of T-Systems Schweiz AG. As is often the case in Switzerland, both companies grant higher benefits than legally required. The Swiss Federal Law on Occupational Retirement, Surviving Dependants' and Disability Pension (Bundesgesetz über die berufliche Alters-, Hinterlassenen- und Invalidenvorsorge – BVG) sets out minimum requirements for the pay to be insured, the age-based contributions, and a minimum annuity factor for the obligatory portion of the accrued retirement assets to be annuitized. In addition, the Swiss Federal Council defines a minimum interest rate for the obligatory retirement assets (2015: 1.75 percent, 2016: 1.25 percent).

The foundation board (Stiftungsrat) presides over the Swiss pension fund. It ensures the day-to-day running of the pension fund and decides on fundamental aspects, such as the amount and the structure of the pension benefits and the investment strategy for the fund. The foundation board is equally comprised of employer and employee representatives. According to information provided by the pension fund, the average annual yield of the fund in the past amounted to approximately 1.75 percent.

Due to the minimum yield for the obligatory retirement assets, a risk exists for the plans in Switzerland that additional resources would have to be allocated to the pension fund if it were to be underfinanced. The pension fund offers the plan members the option to choose a life-long pension instead of a one-time payment. This option gives rise to longevity and investment risks, since at the time of retirement, assumptions must be made regarding life expectancy and return on assets.

In Greece (OTE S. A.), mandatory staff retirement indemnities are due in cases of premature termination by the employer and, to a lesser extent, upon retirement by the employee. These are paid out as a lump sum and can amount to several times the employee's last monthly pay (including cap), depending on the employee's length of service. Due to a change in the law in 2012, the lump sum is capped at a maximum of twelve monthly salaries. The company also makes a voluntary top-up payment. Payments in the scope made in the 2013 financial year as part of restructuring programs were not made in 2015.

OTE S. A. is also obliged to make a one-time payment for the employees' children when they reach the age of 25 (youth accounts). The benefit plan, which had previously been based on the level of the employee's final monthly salary, was changed in November 2011 to a plan with a contribution-based promise financed by contributions by the employee and corresponding limited matching contributions by the employer.

The benefits granted by the staff retirement indemnities and youth accounts plans are paid out as a lump sum. For this reason, there is no longevity risk. In addition, employees and retirees are also entitled to phone credits. OTE S. A.'s payment obligation therefore depends on the price of the telephone unit and the level of credit utilization by those entitled to them. The volume of the obligation (credit) is capped. Measured against the total amount of pension benefits paid by OTE S. A., the scope of these obligations is relatively small.

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

T 105

millions of €

	2015	2014
PLAN ASSETS AT FAIR VALUE AS OF JANUARY 1	2,498	1,973
Changes attributable to business combinations/ transfers of operation/acquisitions and disposals	0	0
Interest income on plan assets (calculated using the discount rate)	50	65
Amount by which the actual return exceeds (falls short of) the interest income on plan assets (remeasurement)	(82)	207
Contributions by employer	276	266
Contributions by plan participants	5	5
Benefits actually paid from plan assets	(31)	(30)
Settlements	–	–
Administration costs	0	0
Tax payments	–	–
Exchange rate fluctuations for plans in foreign currency	28	12
PLAN ASSETS AT FAIR VALUE AS OF DECEMBER 31	2,744	2,498

Contributions by employer as of December 31, 2015 include a payment of EUR 250 million (December 31, 2014: EUR 250 million) to a corporate CTA in Germany. The contributions by employer are usually allocated at year-end. Due to the general capital market situation, the positive development of actual income observed in the prior year did not continue in 2015.

Breakdown of plan assets at fair value by investment category:

T 106

millions of €

	Dec. 31, 2015	Of which: price in an active market	Of which: price without an active market
Equity securities	609	609	0
Debt securities	1,825	1,825	0
Real estate	54	54	0
Derivatives	0	0	0
Investment funds	0	0	0
Asset-backed securities	0	0	0
Structured debt instruments	0	0	0
Cash and cash equivalents	200	200	0
Other	56	14	42
PLAN ASSETS AT FAIR VALUE	2,744	2,702	42

T 107

millions of €

	Dec. 31, 2014	Of which: price in an active market	Of which: price without an active market
Equity securities	521	521	0
Debt securities	1,688	1,688	0
Real estate	45	45	0
Derivatives	9	9	0
Investment funds	0	0	0
Asset-backed securities	0	0	0
Structured debt instruments	0	0	0
Cash and cash equivalents	181	181	0
Other	54	12	42
PLAN ASSETS AT FAIR VALUE	2,498	2,456	42

The investment policy and risk management is set in line with the risk and development characteristics of the pension obligations. On the basis of a systematic, integrated asset/liability management (ALM) analysis, potential results from different investment portfolios, which can cover a large number of asset classes, are compared with the stochastically simulated development of the pension obligations, thereby explicitly considering the relative development of plan assets against the pension obligations. The investment philosophy is mainly characterized by the objective of satisfying future obligations from granted pension commitments on time by systematically setting up and professionally managing a suitable portfolio for the plan assets. The investment strategy is derived from this with direct reference to the characteristics of the underlying pension obligations. This liability-driven investment (LDI) strategy aims to establish a widely diversified investment portfolio that generates a risk profile appropriate to the overall objective, by means of corresponding risk factors and diversification. The management of investments is subject to continuous monitoring to ensure active risk management. Cost-efficient investment management is effected by means of professional portfolio management involving external service providers.

At the reporting date, the plan assets at fair value include shares issued by Deutsche Telekom AG amounting to EUR 1,116 thousand (December 31, 2014: shares totaling EUR 736 thousand). No other own financial instruments were included in the years shown.

Development of the effect of the asset ceiling:

T 108

millions of €

	2015	2014
EFFECT OF ASSET CEILING AS OF JANUARY 1	5	0
Interest expense on asset ceiling (recognized in the income statement)	0	0
Changes in asset ceiling ((gains) losses recognized in equity)	0	5
Currency gain (loss)	0	0
EFFECT OF ASSET CEILING AS OF DECEMBER 31	5	5

The defined benefit cost for each period is composed of the following items and reported in the indicated accounts of the income statement:

T 109

millions of €

	Disclosure in income statement	2015	2014	2013
Current service cost	Functional costs [a]	287	228	219
Past service cost (due to plan amendments)	Functional costs [a]	(3)	(3)	(64)
Past service cost (due to curtailments)	Functional costs [a]	(3)	(8)	(8)
Settlements	Functional costs [a]	4	3	13
SERVICE COST		285	220	160
Interest cost	Other financial income (expense)	207	290	282
Interest income on plan assets (calculated using the discount rate)	Other financial income (expense)	(50)	(65)	(54)
Interest expense on the effect of the asset ceiling	Other financial income (expense)	0	0	0
NET INTEREST EXPENSE (INCOME) ON NET DEFINED BENEFIT LIABILITY (ASSET)		157	225	228
DEFINED BENEFIT COST		442	445	388
Administration costs actually incurred (paid from plan assets)	General and administrative expenses	0	0	0
TOTAL AMOUNTS RECOGNIZED IN PROFIT OR LOSS		442	445	388

[a] Including other operating expenses.

The consolidated statement of comprehensive income contains the following amounts:

T 110

millions of €

	2015	2014	2013
REMEASUREMENT ((GAIN) LOSS RECOGNIZED IN OTHER COMPREHENSIVE INCOME IN THE FINANCIAL YEAR)	(230)	1,581	(48)
Of which: remeasurement due to a change in defined benefit obligations	(312)	1,783	(33)
Of which: remeasurement due to a change in plan assets	82	(207)	(13)
Of which: remeasurement due to changes in the effect of asset ceiling (according to IAS 19.64)	0	5	(2)

Total benefit payments expected:

T 111

millions of €

	2016	2017	2018	2019	2020
Benefits paid from pension provisions	318	374	354	399	433
Benefits paid from plan assets	31	31	33	35	37
TOTAL BENEFITS EXPECTED	349	405	387	434	470

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

In Germany, an amount of EUR 250 million will be allocated to the CTA in 2016 to increase the plan assets. EUR 265 million is expected to be allocated to plan assets for 2016 at Group level.

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

T 112

millions of €

	Dec. 31, 2015	Dec. 31, 2014	Dec. 31, 2013	Dec. 31, 2012	Dec. 31, 2011
Defined benefit obligations	10,753	10,940	8,965	8,973	6,966
Plan assets at fair value	(2,744)	(2,498)	(1,973)	(1,680)	(860)
DEFINED BENEFIT OBLIGATIONS IN EXCESS OF PLAN ASSETS	**8,009**	**8,442**	**6,992**	**7,293**	**6,106**

T 113

%

Adjustments	2015	2014	2013	2012	2011
Experience-based increase (decrease) of defined benefit obligations	0.0	(0.1)	0.3	(0.2)	(0.3)
Experience-based increase (decrease) of plan assets	(3.0)	8.3	0.7	2.6	(1.2)

DEFINED CONTRIBUTION PLANS

The employer's contribution paid to the statutory pension scheme (Deutsche Rentenversicherung) in Germany in the 2015 financial year totaled EUR 0.3 billion (2014: EUR 0.4 billion, 2013: EUR 0.4 billion). Group-wide, EUR 94 million (2014: EUR 88 million, 2013: EUR 103 million) from current contributions for additional defined contribution plans was recognized in the consolidated income statement in 2015.

CIVIL-SERVANT RETIREMENT ARRANGEMENTS AT DEUTSCHE TELEKOM

An expense of EUR 538 million was recognized in the 2015 financial year (2014: EUR 552 million, 2013: EUR 567 million) for the annual contribution to the Civil Service Pension Fund generally amounting to 33 percent of the pensionable gross emoluments of active civil servants and the notional pensionable gross emoluments of civil servants on leave of absence. The present value of future payment obligations was EUR 4.2 billion at the reporting date (December 31, 2014: EUR 5.1 billion, December 31, 2013: EUR 5.0 billion) and is shown under other financial obligations (please refer to Note 35 "Other financial obligations," PAGE 224).

13 OTHER PROVISIONS

T 114

millions of €

	Provisions for termination benefits	Other provisions for personnel costs	Provisions for restoration obligations	Provisions for litigation risks	Provisions for sales and procurement support	Miscellaneous other provisions	Total
AT DECEMBER 31, 2013	**282**	**1,981**	**1,247**	**289**	**367**	**1,025**	**5,191**
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)
AT DECEMBER 31, 2014	**183**	**2,112**	**1,378**	**415**	**422**	**1,380**	**5,890**
Of which: current	181	1,467	175	408	422	864	3,517
Changes in the composition of the Group	0	1	0	0	0	0	1
Currency translation adjustments	0	43	35	2	15	47	142
Addition	70	1,884	365	93	384	902	3,698
Use	(62)	(1,728)	(186)	(122)	(344)	(639)	(3,081)
Reversal	(6)	(89)	(55)	(67)	(17)	(104)	(338)
Interest effect	0	97	8	0	0	0	105
Other changes	1	(57)	1	(7)	0	(10)	(72)
AT DECEMBER 31, 2015	**186**	**2,263**	**1,546**	**314**	**460**	**1,576**	**6,345**
Of which: current	183	1,452	66	307	460	899	3,367

In the measurement of the other provisions, Deutsche Telekom is exposed to interest rate fluctuations, which is why the effect of a possible change in the interest rate on the principal non-current provisions was simulated. The other, non-staff-related provisions are discounted using maturity-related discount rates specific for the respective currency area. To this end, Deutsche Telekom determines discount rates with maturities of up to 30 years. In 2015, the discount rates ranged from 0.01 to 4.00 percent (2014: from 0.50 to 2.50 percent) in the euro currency area, and from 1.86 to 5.92 percent (2014: from 2.00 to 3.50 percent) in the U.S. dollar currency area. If the discount rate were increased by 50 basis points with no other change in the assumptions, the present value of the principal other non-current provisions would decrease by EUR 96.9 million (December 31, 2014: EUR 90.1 million). If the discount rate were decreased by 50 basis points with no other change in the assumptions, the present value of the principal other non-current provisions would increase by EUR 103.1 million (December 31, 2014: EUR 100.2 million).

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

T 115

millions of €

	Jan. 1, 2015	Addition	Use	Reversal	Other changes	Dec. 31, 2015
Severance and voluntary redundancy models	183	70	(62)	(6)	1	186
Partial retirement	176	359	(249)	–	(1)	285
	359	**429**	**(311)**	**(6)**	**0**	**471**
Of which: current	272					286

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

Provisions for restoration obligations include the estimated costs for dismantling and removing an asset, and restoring the site on which it is located. The estimated costs are included in the costs of the relevant asset. EUR 0.2 billion of the additions is attributable to the remeasurement of existing restoration obligations of T-Mobile US. New knowledge relating to the decommissioning of MetroPCS's CDMA mobile network prompted T-Mobile US to review the assumptions for the existing restoration obligations.

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

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

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

14 OTHER LIABILITIES

T 116

millions of €

	Dec. 31, 2015	Of which: current	Dec. 31, 2014	Of which: current
Early retirement	1,451	512	1,669	566
Deferred revenue	2,493	1,868	1,512	1,286
Liabilities from straight-line leases	2,132	–	1,801	–
Liabilities from other taxes	1,055	1,055	1,173	1,167
Other deferred revenue	554	329	969	490
Liabilities from severance payments	193	190	144	135
Miscellaneous other liabilities	643	497	769	516
	8,521	**4,451**	**8,037**	**4,160**

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 (Bundeseisenbahnvermögen) and the Successor Companies of the Former Deutsche Bundespost. For civil servants employed at Deutsche Telekom, the law provides the opportunity under certain conditions to retire early from the age of 55. When the German Act on the Reorganization of the Civil Service Pension Fund (Gesetz zur Neuordnung der Postbeamtenversorgungskasse) came into effect, the provisions for early retirement for civil servants were extended until December 31, 2016. The Board of Management resolved to make use of these provisions for the years 2014 and 2015.

15 SHAREHOLDERS' EQUITY

ISSUED CAPITAL

As of December 31, 2015, the share capital of Deutsche Telekom totaled EUR 11,793 million. The share capital is divided into 4,606,651,870 no par value registered shares.

T 117

	2015		2014	
	thousands	%	thousands	%
Federal Republic of Germany – Berlin, Germany	660,480	14.3	646,575	14.3
KfW Bankengruppe – Frankfurt/Main, Germany	803,937	17.5	791,176	17.4
Free float	3,142,235	68.2	3,097,820	68.3
Of which: BlackRock, New York, NY, United States [a]	234,799		226,636	
	4,606,652	**100.0**	**4,535,571**	**100.0**

[a] The investment in Deutsche Telekom totaled 5.097 percent as of December 8, 2015. According to the last notification from BlackRock dated December 11, 2015, the reporting threshold of 5 percent of the voting rights was thus exceeded.

Treasury shares. The shareholders' meeting resolved on May 24, 2012 to authorize the Board of Management to purchase shares in the Company by May 23, 2017, with the amount of share capital accounted for by these shares totaling up to EUR 1,106,257,715.20, provided the shares to be purchased on the basis of this authorization in conjunction with the other shares of the Company that the Company has already purchased and still possesses or are to be assigned to it under § 71d and § 71e AktG do not at any time account for more than 10 percent of the Company's share capital. Moreover, the requirements under § 71 (2) sentences 2 and 3 AktG must be complied with. Shares shall not be purchased for the purpose of trading in treasury shares. This authorization may be exercised in full or in part. The purchase can be carried out in partial tranches spread over various purchase dates within the authorization period until the maximum purchase volume is

reached. Dependent Group companies of Deutsche Telekom AG within the meaning of § 17 AktG or third parties acting for the account of Deutsche Telekom AG or for the account of dependent Group companies of Deutsche Telekom AG within the meaning of § 17 AktG are also entitled to purchase the shares. The shares are purchased through the stock exchange in adherence to the principle of equal treatment (§ 53a AktG). Shares can instead also be purchased by means of a public purchase or share exchange offer addressed to all shareholders, which, subject to a subsequently approved exclusion of the right to offer shares, must also comply with the principle of equal treatment.

The shares may be used for one or several of the purposes permitted by the authorization granted by the shareholders' meeting on May 24, 2012 under item 7 on the agenda. The shares may also be used for purposes involving an exclusion of subscription rights. They may also be sold on the stock market or by way of an offer to all shareholders, or withdrawn. The shares may also be used to fulfill the rights of Board of Management members to receive shares in Deutsche Telekom AG, which the Supervisory Board has granted to these members as part of the arrangements governing the compensation of the Board of Management, on the basis of a decision by the Supervisory Board to this effect.

Under the resolution of the shareholders' meeting on May 24, 2012, the Board of Management is also authorized to acquire the shares through the use of equity derivatives.

On the basis of the above authorization by the shareholders' meeting on May 24, 2012 and a corresponding authorization by the shareholders' meeting on May 12, 2011, 110 thousand shares were acquired in June 2011, 206 thousand shares in September 2011, and 268 thousand shares in January 2013. The total volumes amounted to EUR 2,762 thousand in the 2011 financial year, and EUR 2,394 thousand in the 2013 financial year (excluding transaction costs). This increased the number of treasury shares by 316 thousand and 268 thousand, respectively.

In the 2015 financial year, Deutsche Telekom made use of the authorization by the shareholders' meeting on May 24, 2012. The Board of Management decided on September 29, 2015 to acquire a total of 950 thousand shares. On September 30, 2015 and October 1, 2015, shares were acquired in accordance with the authorization for a total acquisition price of EUR 14,787 thousand (excluding transaction costs) with an average purchase price of EUR 15.57 per share. The treasury shares resulting from the share buy-back accounted for EUR 2,432 thousand of share capital as at December 31, 2015. Retained earnings thus decreased by EUR 12,355 thousand.

As part of the Share Matching Plan, a total of 2 thousand shares were transferred free of charge to the custody accounts of eligible participants in the 2012 and 2013 financial years. A further 90 thousand treasury shares were transferred free of charge in the 2014 financial year.

Furthermore, a total of 140 thousand shares were reallocated in January, May and June 2015 and transferred free of charge to the custody accounts of eligible participants of the Share Matching Plan. The disposal of treasury shares resulting from the transfers accounted for EUR 358 thousand of share capital as at December 31, 2015. Retained earnings thus increased by EUR 877 thousand.

In November 2015, Deutsche Telekom sold 1,882 thousand treasury shares from its portfolio. The selling price was EUR 31,274 thousand (excluding transaction costs). The portion of the proceeds that exceeded the notional value of the shares, amounting to EUR 26,457 thousand, was allocated to the capital reserves. The resulting gain on disposal was reported under cash and cash equivalents. The disposal of treasury shares resulting from the sale accounted for EUR 4,817 thousand of share capital as at December 31, 2015.

As part of the acquisition of VoiceStream Wireless Corp., Bellevue, and Powertel, Inc., Bellevue, in 2001 Deutsche Telekom issued new shares from authorized capital to a trustee, for the benefit of holders of warrants, options, and conversion rights, among others. These options or conversion rights fully expired in the 2013 financial year. As a result, the trustee no longer has any obligation to fulfill any claims in accordance with the purpose of the deposit. The 18,517 thousand deposited shares are accounted for in the same way as treasury shares in accordance with both § 272 (1a) HGB and IFRS. The trust relationship was terminated at the start of 2016 and the deposited shares were transferred to a custody account of Deutsche Telekom AG.

Voting rights. Each share entitles the holder to one vote. These voting rights are restricted, however, in relation to treasury shares and shares allocable to Deutsche Telekom in the same way as treasury shares (at December 31, 2015: around 20 million in total). The "trust" shares, as they are known, (at December 31, 2015: around 19 million) relate to the acquisition of VoiceStream and Powertel (now T-Mobile US) in 2001 and are allocable to Deutsche Telekom at December 31, 2015 in the same way as treasury shares. As regards the shares issued to trusts, the trustee waived voting rights and subscription rights and, in general, dividend rights for the duration of the trusts' existence. The trusts were dissolved at the beginning of 2016 and the trust assets transferred to a custody account of Deutsche Telekom AG.

Authorized capital and contingent capital. Authorized capital and contingent capital comprised the following components as of December 31, 2015:

T 118

	Amount millions of €	No par value shares thousands	Purpose
2013 Authorized capital [a]	1,778	694,523	Capital increase against cash contribution/contribution in kind (until May 15, 2018)
2014 Contingent capital	1,100	429,688	Servicing convertible bonds and/or bonds with warrants issued on or before May 14, 2019

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

Capital increase in connection with the dividend in kind. The resolution on the dividend payout of EUR 0.50 per share for the 2014 financial year gave shareholders the choice between payment in cash or having their dividend entitlement converted into Deutsche Telekom AG shares. Dividend entitlements of Deutsche Telekom AG shareholders amounting to EUR 1.1 billion for shares from authorized capital (2013 authorized capital) were contributed in June 2015 and thus did not have an impact on cash flows. Deutsche Telekom AG carried out an increase in issued capital of EUR 0.2 billion against contribution of dividend entitlements for this purpose in June 2015. This increased capital reserves by EUR 0.9 billion. The number of shares increased by 71.1 million. The transaction costs were not material.

TRANSACTIONS WITH OWNERS

The amounts shown under transactions with owners primarily result from the acquisition of the remaining shares in Slovak Telekom in 2015. TABLE 119 shows the most significant effects included in Deutsche Telekom's consolidated statement of changes in equity (see PAGES 158 and 159) as of December 31, 2015 and December 31, 2014, respectively.

T 119

millions of €

	2015			2014		
	Issued capital and reserves attributable to owners of the parent	Non-controlling interests	Total shareholders' equity	Issued capital and reserves attributable to owners of the parent	Non-controlling interests	Total shareholders' equity
Changes in the composition of the Group	**0**	**0**	**0**	**0**	**1**	**1**
Other effects	0	0	0	0	1	1
Transactions with owners	**(233)**	**(619)**	**(852)**	**(506)**	**(324)**	**(830)**
Acquisition of the remaining shares in Slovak Telekom	(128)	(772)	(900)	–	–	–
Acquisition of the remaining shares in T-Mobile Czech Republic	–	–	–	(455)	(373)	(828)
Other effects	(105)	153	48	(51)	49	(2)

For further information, please refer to the section "Changes in the composition of the Group, transactions with owners, and other transcations," PAGE 175 ET SEQ.

NON-CONTROLLING INTERESTS: TOTAL OTHER COMPREHENSIVE INCOME

Total other comprehensive income of non-controlling interests primarily comprises remeasurement effects as part of the acquisition of the OTE group (business combination achieved in stages) totaling EUR 0.7 billion (December 31, 2014: EUR 0.8 billion) and currency translation effects of EUR 0.1 billion (December 31, 2014: EUR 0.2 billion).

NOTES TO THE CONSOLIDATED INCOME STATEMENT

For detailed information on special factors, please refer to the combined management report in the section "Development of business in the Group," PAGE 73 ET SEQ.

16 NET REVENUE

Net revenue breaks down into the following revenue categories:

T 120

millions of €

	2015	2014[a]	2013[a]
Revenue from the rendering of services	59,033	53,523	53,212
Revenue from the sale of goods and merchandise	9,460	8,726	6,630
Revenue from the use of entity assets by others	735	409	290
	69,228	**62,658**	**60,132**

[a] A detailed allocation system that allows the items to be classified more precisely led to a change in the allocation of total revenues to the individual revenue elements as compared with previous years. Prior-year figures have been adjusted accordingly.

For details of changes in net revenue, please refer to the section "Development of business in the Group" in the combined management report, PAGE 73 ET SEQ.

17 COST OF SALES

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

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

T 121

millions of €

	2015	2014	2013
Cost of sales from fixed-network and mobile communications	35,903	32,904	30,287
Cost of sales from the Systems Solutions operating segment	5,283	5,045	5,251
Other cost of sales	789	590	717
	41,975	**38,539**	**36,255**

Cost of sales increased by EUR 3.4 billion year-on-year, primarily as a result of exchange rate effects totaling EUR 2.6 billion from the translation of U. S. dollars to euros. Higher expenditure with regard to equipment sales at T-Mobile US and in the Germany operating segment also increased the cost of sales.

18 SELLING EXPENSES

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

T 122

millions of €

	2015	2014	2013
Costs of operational sales	10,268	9,527	9,309
Marketing costs	2,579	2,465	2,386
Costs of order management	884	234	268
Costs of accounts receivable management	945	737	794
Other selling expenses	1,372	935	1,040
	16,048	**13,898**	**13,797**

Selling expenses were EUR 2.2 billion higher than in the prior year. This was mainly attributable to costs incurred at T-Mobile US as a result of increased business with new customers. Exchange rate effects totaling EUR 1.2 billion from the translation of U. S. dollars to euros also increased this item.

19 GENERAL AND ADMINISTRATIVE EXPENSES

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

T 123

millions of €

	2015	2014	2013
General and administrative expenses incurred by the operating segments	3,961	3,319	3,103
General and administrative expenses incurred by the Group Headquarters & Group Services segment	1,423	1,402	1,415
	5,384	**4,721**	**4,518**

General and administrative expenses were EUR 0.7 billion higher than in the prior year. Higher expenditure in connection with staff increases in the United States operating segment impacted on general and administrative expenses in 2015. Exchange rate effects totaling EUR 0.2 billion from the translation of U. S. dollars to euros also increased this item.

20 OTHER OPERATING INCOME

T 124

millions of €

	2015	2014	2013
Income from reimbursements	272	451	452
Income from the reversal of impairment losses on non-current financial assets in accordance with IFRS 5	14	24	20
Income from the disposal of non-current assets	290	567	113
Income from insurance compensation	66	79	79
Income from divestitures and from the sale of stakes accounted for using the equity method	585	1,716	184
Miscellaneous other operating income	781	394	478
	2,008	**3,231**	**1,326**

Other operating income decreased by EUR 1.2 billion year-on-year. The EUR 0.3 billion decrease in income from the disposal of non-current assets mainly resulted from a spectrum transaction between T-Mobile US and Verizon Communications consummated in the previous year which had generated income of around EUR 0.4 billion in 2014. Another transaction completed with Verizon Communications on the exchange of mobile spectrum licenses resulted in income of EUR 0.1 billion in 2015. Income from divestitures and from the sale of stakes accounted for using the equity method decreased year-on-year by EUR 1.1 billion. The income from divestitures in the previous year had resulted from the completed sale of 70 percent of the shares in the Scout24 group totaling EUR 1.7 billion. The portion of income attributable to the recognition of the shares remaining at Deutsche Telekom in the previous year at their fair value at the date when control of the Scout24 group was lost amounted to EUR 0.5 billion. In connection with the IPO of Scout24 AG on October 1, 2015, Deutsche Telekom sold a total of 13.3 million shares in the company. Income from the sale of this stake, which was included in the consolidated financial statements using the equity method, amounted to around EUR 0.3 billion. The sale of the online platform t-online.de and the digital content marketing company InteractiveMedia in November 2015 generated income of EUR 0.3 billion from divestitures. Miscellaneous other operating income includes income of EUR 175 million resulting from an agreement to settle an ongoing complaints procedure under anti-trust law. A large number of smaller items are also included in miscellaneous other operating income.

21 OTHER OPERATING EXPENSES

T 125

millions of €

	2015	2014	2013
Impairment losses from the year-end impairment test	43	51	600
Other impairment losses	119	92	238
	162	**143**	**838**
Losses on the disposal of non-current assets	179	138	251
Losses from divestitures	1	41	53
Miscellaneous other operating expenses	459	1,162	816
	639	**1,341**	**1,120**
	801	**1,484**	**1,958**

Other operating expenses decreased year-on-year by EUR 0.7 billion. Miscellaneous other operating expenses include a large number of individual items accounting for marginal amounts.

Other operating expenses in 2015 included expense of EUR 0.3 billion (2014: EUR 0.2 billion, 2013: EUR 0.5 billion) from impairment losses recognized on intangible assets (excluding goodwill) and property, plant and equipment, as well as from the disposal of non-current assets. These expenses would predominantly have been allocable to the cost of sales.

22 FINANCE COSTS

T 126

millions of €

	2015	2014	2013
Interest income	246	325	228
Interest expense	(2,609)	(2,665)	(2,390)
	(2,363)	**(2,340)**	**(2,162)**
Of which: from financial instruments relating to categories in accordance with IAS 39			
Loans and receivables (LaR)	34	16	20
Held-to-maturity investments (HtM)	–	–	–
Available-for-sale financial assets (AfS)	7	6	9
Financial liabilities measured at amortized cost (FLAC) [a]	(2,288)	(2,290)	(2,160)

[a] Interest expense calculated according to the effective interest method and adjusted for accrued interest from derivatives recognized in the reporting period that were used as hedging instruments against interest rate-based changes in the fair values of financial liabilities measured at amortized cost in the reporting period for hedge accounting in accordance with IAS 39 (2015: interest income of EUR 182 million and interest expense of EUR 89 million, 2014: interest income of EUR 263 million and interest expense of EUR 107 million, 2013: interest income of EUR 119 million and interest expense of EUR 31 million).

EUR 217 million (2014: EUR 95 million, 2013: EUR 51 million) was capitalized as part of acquisition costs in the financial year. The amount was calculated on the basis of an interest rate in the average range between 4.7 percent at the start of the year and 3.5 percent at the end of the year (2014: between 4.6 and 4.7 percent) applied across the Group.

Interest payments (including capitalized interest) of EUR 3.7 billion (2014: EUR 3.5 billion, 2013: EUR 3.0 billion) were made in the financial year.

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

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

T 127

millions of €

	2015	2014	2013
Share of profit (loss) of joint ventures	(1)	(152)	(38)
Share of profit (loss) of associates	25	(46)	(33)
	24	**(198)**	**(71)**

The share of profit/loss of associates and joint ventures accounted for using the equity method improved by EUR 0.2 billion compared with the prior year due in particular to the share of loss of the EE joint venture of EUR −137 million recognized in the prior year (2013: EUR −44 million). It was included in the share of profit/loss of joint ventures.

24 OTHER FINANCIAL INCOME/EXPENSE

T 128

millions of €

	2015	2014	2013
Income from investments	436	1	1
Gains (losses) from financial instruments	(75)	(14)	(278)
Interest component from measurement of provisions and liabilities	(272)	(346)	(292)
	89	**(359)**	**(569)**

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

Income from investments includes the dividend payments of EUR 0.4 billion received from the EE joint venture. The dividend payments recognized in profit or loss related to the reclassification of the stake held in the joint venture to non-current assets and disposal groups held for sale.

Gains/losses from financial instruments comprise currency translation effects including gains/losses from derivatives used as hedges in hedge accounting in foreign currency of EUR −295 million (2014: EUR −387 million, 2013: EUR 174 million) and gains/losses from other derivatives as well as measurements of equity investments of EUR 220 million (2014: EUR 373 million, 2013: EUR −452 million).

25 INCOME TAXES

INCOME TAXES IN THE CONSOLIDATED INCOME STATEMENT

In the 2015 financial year, a tax expense of EUR 1.3 billion was recorded. The comparatively low tax ratio is primarily a consequence of tax refunds for prior years in Germany, Europe, and the United States. The tax ratio is also reduced by the gain from the sale of shares in two German shareholdings which was not taxable. The proceeds from the sale are subject to low taxation. The tax expense in the prior year had totaled EUR 1.1 billion. This lower tax expense primarily resulted from lower profit/loss before income tax.

The following table provides a breakdown of income taxes in Germany and internationally:

T 129

millions of €

	2015	2014	2013
CURRENT TAXES	**249**	**599**	**487**
Germany	(16)	234	56
International	265	365	431
DEFERRED TAXES	**1,027**	**507**	**437**
Germany	831	587	(41)
International	196	(80)	478
	1,276	**1,106**	**924**

Deutsche Telekom's combined income tax rate for 2015 amounts to 31.1 percent. It consists of corporate income tax at a rate of 15 percent, the solidarity surcharge of 5.5 percent on corporate income tax, and trade tax at an average multiplier of 436 percent (2014: 425 percent, 2013: 425 percent). The combined income tax rate for 2014 and 2013 amounted to 30.7 percent.

Reconciliation of the effective tax rate. Income taxes of EUR −1,276 million (as expense) in the reporting year, 2014: EUR −1,106 million (as expense), 2013: EUR −924 million (as expense) are derived as follows from the expected income tax expense/benefit that would have arisen had the statutory income tax rate of the parent company (combined income tax rate) been applied to profit/loss before income taxes:

T 130

millions of €

	2015	2014	2013
PROFIT BEFORE INCOME TAXES	**4,778**	**4,350**	**2,128**
Expected income tax expense (benefit) (income tax rate applicable to Deutsche Telekom AG: 2015: 31.1 %, 2014: 30.7 %, 2013: 30.7 %)	1,486	1,335	653
ADJUSTMENTS TO EXPECTED TAX EXPENSE (BENEFIT)			
Effect of changes in statutory tax rates	(3)	1	48
Tax effects from prior years	(112)	(78)	(61)
Tax effects from other income taxes	70	68	51
Non-taxable income	(154)	(456)	(36)
Tax effects from equity investments	(191)	(43)	20
Non-deductible expenses	98	85	120
Permanent differences	(27)	88	(89)
Goodwill impairment losses	(12)	3	166
Tax effects from loss carryforwards	34	57	136
Tax effects from additions to and reductions of local taxes	65	81	66
Adjustment of taxes to different foreign tax rates	24	(37)	(152)
Other tax effects	(2)	2	2
INCOME TAX EXPENSE (BENEFIT) ACCORDING TO THE CONSOLIDATED INCOME STATEMENT	**1,276**	**1,106**	**924**
Effective income tax rate %	27	25	43

Current income taxes in the consolidated income statement

TABLE 131 provides a breakdown of current income taxes:

T 131

millions of €

	2015	2014	2013
CURRENT INCOME TAXES	**249**	**599**	**487**
Of which: Current tax expense	347	598	559
Prior-period tax expense	(98)	1	(72)

Deferred taxes in the consolidated income statement

Deferred taxes developed as follows:

T 132

millions of €

	2015	2014	2013
DEFERRED TAX EXPENSE (BENEFIT)	**1,027**	**507**	**437**
Of which: From temporary differences	154	(252)	391
From loss carryforwards	917	780	34
From tax credits	(44)	(21)	12

INCOME TAXES IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Current income taxes in the consolidated statement of financial position:

T 133

millions of €

	Dec. 31, 2015	Dec. 31, 2014
Recoverable taxes	129	84
Tax liabilities	(197)	(276)
Current taxes recognized in other comprehensive income:		
Hedging instruments	(190)	54

Deferred taxes in the consolidated statement of financial position:

T 134

millions of €

	Dec. 31, 2015	Dec. 31, 2014
Deferred tax assets	5,248	5,169
Deferred tax liabilities	(9,205)	(7,712)
	(3,957)	**(2,543)**
Of which: recognized in other comprehensive income: Gain (loss) from the remeasurement of defined benefit plans	1,095	1,150
Revaluation surplus	–	1
Hedging instruments	(43)	(161)
RECOGNIZED IN OTHER COMPREHENSIVE INCOME BEFORE NON-CONTROLLING INTERESTS	**1,052**	**990**
Non-controlling interests	(11)	(6)
	1,041	**984**

Development of deferred taxes:

T 135

millions of €

	Dec. 31, 2015	Dec. 31, 2014
Deferred taxes recognized in the statement of financial position	(3,957)	(2,543)
Difference to prior year	(1,414)	(587)
Of which: Recognized in income statement	(1,027)	(507)
Recognized in other comprehensive income	62	480
Recognized in capital reserves	86	6
Acquisitions (disposals) (including assets and disposal groups held for sale)	(6)	(40)
Currency translation adjustments	(529)	(526)

Development of deferred taxes on loss carryforwards:

T 136

millions of €

	Dec. 31, 2015	Dec. 31, 2014
Deferred taxes on loss carryforwards before allowances	2,933	3,288
Difference to prior year	(355)	(498)
Of which: Recognition (derecognition)	(612)	(786)
Acquisitions (disposals) (including assets and disposal groups held for sale)	1	17
Currency translation adjustments	256	271

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

T 137

millions of €

	Dec. 31, 2015		Dec. 31, 2014	
	Deferred tax assets	Deferred tax liabilities	Deferred tax assets	Deferred tax liabilities
CURRENT ASSETS	**1,255**	**(369)**	**1,529**	**(270)**
Trade and other receivables	550	(129)	551	–
Inventories	185	(14)	130	–
Other assets	520	(226)	848	(270)
NON-CURRENT ASSETS	**3,459**	**(13,458)**	**2,828**	**(12,347)**
Intangible assets	632	(8,054)	807	(7,213)
Property, plant and equipment	1,053	(3,452)	787	(3,620)
Other financial assets	1,774	(1,952)	1,234	(1,514)
CURRENT LIABILITIES	**1,247**	**(677)**	**711**	**(847)**
Financial liabilities	372	(366)	306	(670)
Trade and other payables	58	(90)	48	(4)
Other provisions	278	(55)	120	(35)
Other liabilities	539	(166)	237	(138)
NON-CURRENT LIABILITIES	**5,870**	**(3,112)**	**5,159**	**(1,303)**
Financial liabilities	2,346	(1,714)	2,816	(126)
Provisions for pensions and other employee benefits	1,499	(1,154)	1,531	(1,044)
Other provisions	825	(186)	606	(118)
Other liabilities	1,200	(58)	206	(15)
TAX CREDITS	**367**	**–**	**296**	**–**
LOSS CARRYFORWARDS	**2,933**	**–**	**3,288**	**–**
INTEREST CARRYFORWARDS	**244**	**–**	**55**	**–**
TOTAL	**15,375**	**(17,616)**	**13,866**	**(14,767)**
Of which: non-current	11,708	(16,866)	11,599	(14,027)
Allowance	(1,716)	–	(1,642)	–
Netting	(8,411)	8,411	(7,055)	7,055
RECOGNITION	**5,248**	**(9,205)**	**5,169**	**(7,712)**

The allowances relate primarily to loss carryforwards.

The loss carryforwards amount to:

T 138

millions of €

	Dec. 31, 2015	Dec. 31, 2014
LOSS CARRYFORWARDS FOR CORPORATE INCOME TAX PURPOSES	**6,839**	**8,208**
Expiry within		
1 year	44	22
2 years	114	77
3 years	47	108
4 years	246	269
5 years	108	125
After 5 years	3,604	4,277
Unlimited carryforward period	2,676	3,330

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

T 139

millions of €

	Dec. 31, 2015	Dec. 31, 2014
LOSS CARRYFORWARDS FOR CORPORATE INCOME TAX PURPOSES	2,505	2,420
Expiry within		
1 year	24	22
2 years	114	77
3 years	45	108
4 years	25	44
5 years	41	55
After 5 years	152	209
Unlimited carryforward period	2,104	1,905
TEMPORARY DIFFERENCES IN CORPORATE INCOME TAX	423	424

In addition, no deferred taxes are recognized on trade tax loss carryforwards of EUR 107 million (December 31, 2014: EUR 100 million) and on temporary differences for trade tax purposes in the amount of EUR 9 million (December 31, 2014: EUR 8 million). Furthermore, apart from corporate income tax loss carryforwards, no deferred taxes amounting to EUR 858 million (December 31, 2014: EUR 796 million) were recognized for other foreign income tax loss carryforwards and, apart from temporary differences for trade tax purposes, no deferred taxes in the amount of EUR 30 million (December 31, 2014: EUR 50 million) were recognized for other foreign income taxes.

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

A positive tax effect in the amount of EUR 16 million (2014: EUR 17 million, 2013: EUR 14 million) attributable to the utilization of tax loss carryforwards on which deferred tax assets had not yet been recognized, was recorded in the reporting year.

No deferred tax liabilities were recognized on temporary differences in connection with equity interests in subsidiaries amounting to EUR 228 million (December 31, 2014: EUR 175 million) as it is unlikely that these differences will be reversed in the near future.

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

T 140

millions of €

	2015			2014			2013		
	Before tax amount	Tax (expense) benefits	Net of tax amount	Before tax amount	Tax (expense) benefits	Net of tax amount	Before tax amount	Tax (expense) benefits	Net of tax amount
Items not reclassified to the income statement retrospectively									
Gain (loss) from the remeasurement of defined benefit plans	230	(60)	170	(1,581)	477	(1,104)	48	(16)	32
Share of profit (loss) of investments accounted for using the equity method	0	0	0	(29)	0	(29)	(17)	0	(17)
	230	**(60)**	**170**	**(1,610)**	**477**	**(1,133)**	**31**	**(16)**	**15**
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	(1)	3	(4)	0	(4)	0	0	0
Change in other comprehensive income (not recognized in income statement)	2,000	0	2,000	1,849	0	1,849	(901)	0	(901)
Available-for-sale financial assets									
Recognition of other comprehensive income in income statement	0	0	0	(1)	0	(1)	0	0	0
Change in other comprehensive income (not recognized in income statement)	31	0	31	41	1	42	(4)	1	(3)
Gains (losses) from hedging instruments									
Recognition of other comprehensive income in income statement	(255)	79	(176)	(267)	82	(185)	178	(55)	123
Change in other comprehensive income (not recognized in income statement)	653	(205)	448	265	(80)	185	(162)	49	(113)
Share of profit (loss) of investments accounted for using the equity method									
Recognition of other comprehensive income in income statement	0	0	0	0	0	0	0	0	0
Change in other comprehensive income (not recognized in income statement)	25	0	25	0	0	0	(37)	0	(37)
	2,458	**(127)**	**2,331**	**1,883**	**3**	**1,886**	**(926)**	**(5)**	**(931)**
OTHER COMPREHENSIVE INCOME	2,688	(187)	2,501	273	480	753	(895)	(21)	(916)
Profit (loss)			3,502			3,244			1,204
TOTAL COMPREHENSIVE INCOME			6,003			3,997			288

26 PROFIT/LOSS ATTRIBUTABLE TO NON-CONTROLLING INTERESTS

T 141

millions of €

	2015	2014	2013
T-Mobile US	186	115	18
Hrvatski Telekom	69	65	79
Hellenic Telecommunications Organization (OTE)	(63)	48	24
Magyar Telekom	50	47	43
Slovak Telekom	6	36	25
T-Mobile Czech Republic	0	11	91
Other	0	(2)	(6)
	248	**320**	**274**

27 EARNINGS PER SHARE

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

T 142

		2015	2014	2013
Profit attributable to the owners of the parent (net profit (loss))	millions of €	3,254	2,924	930
Adjustment	millions of €	–	–	–
ADJUSTED BASIC/DILUTED NET PROFIT (LOSS)	millions of €	**3,254**	**2,924**	**930**
Number of ordinary shares issued	millions	4,574	4,497	4,391
Treasury shares	millions	(21)	(21)	(5)
Shares reserved for outstanding options	millions	–	–	(16)
ADJUSTED WEIGHTED AVERAGE NUMBER OF ORDINARY SHARES OUTSTANDING (BASIC/DILUTED)	millions	**4,553**	**4,476**	**4,370**
BASIC/DILUTED EARNINGS PER SHARE	€	**0.71**	**0.65**	**0.21**

The calculation of basic earnings per share is based on the time-weighted number of all ordinary shares outstanding. Furthermore, the weighted average number of ordinary shares outstanding is determined by deducting the weighted average number of treasury shares held by Deutsche Telekom AG. As part of the issue of new shares in the course of the acquisition of T-Mobile USA (VoiceStream/Powertel), the options and conversion rights existing in previous years were held in a trust depot for later issue and subsequent trading as registered shares and fully expired in the 2013 financial year. They have since been accounted for as treasury shares and were still included pro rata temporis in the average portfolio for the 2013 financial year. There are currently no diluting shares.

28 DIVIDEND PER SHARE

For the 2015 financial year, the Board of Management proposes a dividend of EUR 0.55 for each no par value share carrying dividend rights. On the basis of this payout volume, total dividends in the amount of EUR 2,523 million would be appropriated to the no par value shares carrying dividend rights as of February 9, 2016. The final amount of the total dividend payment depends on the number of no par value shares carrying dividend rights as of the date of the resolution on the appropriation of net income as adopted on the day of the shareholders' meeting.

A dividend of EUR 0.50 for the 2014 financial year for each no par value share carrying dividend rights was paid out in 2015. The shareholders had the choice between payment in cash or, alternatively, the conversion of their dividend entitlement into Deutsche Telekom AG shares (dividend in kind). In June 2015, dividend entitlements of EUR 1.1 billion were thus substituted by shares from authorized capital and thus did not have an effect on cash flows (see Note 15 "Shareholders' equity," PAGE 206 ET SEQ.).

29 AVERAGE NUMBER OF EMPLOYEES AND PERSONNEL COSTS

Average number of employees

T 143

		2015	2014	2013
GROUP (TOTAL)		**226,332**	**228,248**	**229,704**
Domestic		113,277	116,067	117,995
International		113,055	112,181	111,709
Non-civil servants		207,153	207,855	208,422
Civil servants (domestic, active service relationship)		19,179	20,393	21,282
Trainees and students on cooperative degree courses		7,942	8,098	8,145
PERSONNEL COSTS	millions of €	**15,856**	**14,683**	**15,144**

The average headcount decreased by 0.8 percent compared with the prior year. This trend is largely attributable to a lower domestic headcount, which was down by 2.4 percent. Intensified staff restructuring measures in the Systems Solutions operating segment in connection with the realignment of the business model, and in the Group Headquarters & Group Services segment contributed to this trend. In the Germany operating segment, by contrast, the headcount increased for the build-out of the network.

The average international headcount grew by 0.8 percent, due in particular to the higher staff levels in the United States operating segment as a result of the enhanced customer base. By contrast, the average headcount in the Europe operating segment declined as a consequence of efficiency enhancement measures in some countries.

Personnel costs increased by 8.0 percent year-on-year, almost half of which was attributable to exchange rate effects – primarily from the translation of U.S. dollars to euros. Higher restructuring expenses also increased personnel costs, as did the increase in the average salaries of employees. Here, the lower average headcount as described above had an offsetting effect.

30 DEPRECIATION, AMORTIZATION AND IMPAIRMENT LOSSES

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

T 144

millions of €

	2015	2014	2013
AMORTIZATION AND IMPAIRMENT OF INTANGIBLE ASSETS	**4,109**	**3,863**	**4,176**
Of which: Goodwill impairment losses	43	51	605
Amortization of mobile licenses	898	889	854
Impairment losses on mobile licenses	–	10	104
DEPRECIATION AND IMPAIRMENT OF PROPERTY, PLANT AND EQUIPMENT	**7,251**	**6,711**	**6,728**
Of which: Impairment losses recognized on property, plant and equipment	101	78	117
	11,360	**10,574**	**10,904**

Impairment losses break down as follows:

T 145

millions of €

	2015	2014	2013
INTANGIBLE ASSETS	**61**	**65**	**721**
Of which: Goodwill from the year-end impairment test	43	51	600
FCC licenses	–	10	104
PROPERTY, PLANT AND EQUIPMENT	**101**	**78**	**117**
Of which: From the year-end impairment test	–	–	–
	162	**143**	**838**

Depreciation, amortization and impairment losses increased by EUR 0.8 billion year-on-year. This development was mainly attributable to the increase in depreciation and amortization recorded in the United States operating segment primarily as a result of the build-out of 4G/LTE and the launch of the JUMP! On Demand business model, under which customers no longer purchase the device but lease it. The reduction in useful lives with regard to the decommissioning of the CDMA mobile network of MetroPCS taken over in 2013 also increased depreciation and amortization by EUR 0.1 billion.

In the reporting year, impairment losses of EUR 43 million were recognized on goodwill following scheduled impairment testing at the cash-generating units. For further details, please refer to Note 5 "Intangible assets," PAGE 184 ET SEQ.

Impairment losses on property, plant and equipment related mainly to land and buildings.

OTHER DISCLOSURES

31 NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

NET CASH FROM OPERATING ACTIVITIES

Net cash from operating activities increased by EUR 1.6 billion year-on-year to EUR 15.0 billion mainly as a result of the positive business development of the United States operating segment. During the reporting period, factoring agreements were concluded concerning monthly revolving sales of trade receivables. Factoring agreements resulted in positive effects of EUR 0.8 billion on net cash from operating activities in the 2015 financial year. This mainly comprises the renewed conclusion in 2015 of a factoring agreement in the Germany operating segment that was terminated in 2014 and a new factoring agreement concluded in the United States operating segment. The effect from factoring agreements in the prior year totaled EUR 0.2 billion. Cash inflows of EUR 0.2 billion resulted from an agreement to settle an ongoing complaints procedure under anti-trust law. Offsetting effects included payments made in 2015 in connection with the European Commission proceedings against Slovak Telekom and Deutsche Telekom. The dividend payment received for the first time from the Scout24 group of EUR 0.1 billion and a year-on-year increase of EUR 0.1 billion in the dividend payments from the EE joint venture increased net cash from operating activities.

Deutsche Telekom's working capital measures are focused on improvements in the area of liabilities as well as in the management of receivables and inventories. However, they are not used for active liquidity management. The negative effect on the change in assets carried as working capital can be attributed to the acquisition of mobile devices in connection with the JUMP! On Demand business model introduced by T-Mobile US in June 2015. The cash inflows from the factoring agreements and reduced trade receivables in the United States operating segment had a positive effect. Under the new business model, trade receivables no longer include the receivable from the sale of the device when a contract is concluded with a customer, but rather only the monthly lease installment for the device. For further explanations on individual assets carried as working capital, please refer to Note 2 "Trade and other receivables," PAGE 181, and Note 3 "Inventories," PAGE 182. The increase in other liabilities carried as working capital is attributable to the increase in trade payables, which is due in particular to the higher procurement volume in connection with the new business model introduced in the United States operating segment. Financing options selected in the reporting year under which the payments for trade payables become due at a later point in time by involving banks in the process also had a positive effect on other liabilities carried as working capital. For further explanations, please refer to Note 11 "Trade and other payables," PAGE 196.

T 146

Net cash used in investing activities
millions of €

	2015	2014	2013
Cash capex			
Germany operating segment	(5,609)	(3,807)	(3,411)
United States operating segment	(6,381)	(5,072)	(3,279)
Europe operating segment	(1,652)	(2,101)	(3,661)
Systems Solutions operating segment	(1,169)	(1,171)	(1,066)
Group Headquarters & Group Services	(342)	(381)	(411)
Reconciliation	540	688	760
	(14,613)	**(11,844)**	**(11,068)**
Net cash flows for collateral deposited for hedging transactions	1,785	606	(776)
Cash inflows from the sale of the shares in Scout24 AG	390	–	–
Proceeds from the disposal of property, plant and equipment	363	265	245
Net change in cash and cash equivalents due to the first-time inclusion of MetroPCS	–	–	1,641
Acquisition of the GTS Central Europe group	–	(539)	–
Cash flows from the loss of control of subsidiaries and associates [a]	(58)	1,540	650
Allocation under Contractual Trust Agreement (CTA) on pension commitments	(250)	(250)	(250)
Acquisition/sale of government bonds, net	(2,759)	11	(159)
Other	127	(550)	(179)
	(15,015)	**(10,761)**	**(9,896)**

[a] In the 2015 financial year, these mainly included outflows of cash and cash equivalents resulting from the sale of the online platform t-online.de and the digital marketing company InteractiveMedia to Ströer. In the prior year, this item included cash inflows of EUR 1.6 billion from the sale of 70 percent of the shares in the Scout24 group.

Cash capex increased by EUR 2.8 billion to EUR 14.6 billion. In the reporting period, mobile licenses were acquired for a total of EUR 3.8 billion, primarily in the United States and Germany operating segments. In the prior-year period, the United States and Europe operating segments had acquired mobile licenses for EUR 2.3 billion. In addition, cash capex increased primarily in the United States operating segment in connection with the network modernization, including 4G/LTE network roll-out, and in the Germany operating segment due to the investments made as part of the integrated network strategy in the vectoring/fiber-optic cable build-out, in the IP transformation, and in the LTE infrastructure.

Interest payments (including capitalized interest) of EUR 3.7 billion (2014: EUR 3.5 billion, 2013: EUR 3.0 billion) were made in the 2015 financial year. Capitalized interest was reported within cash capex in net cash used in investing activities, together with the associated assets.

T 147

Net cash used in/from financing activities
millions of €

	2015	2014	2013
Repayment of bonds	(4,056)	(4,677)	(4,748)
Dividends (including to non-controlling interests)	(1,256)	(1,290)	(2,243)
Repayment of financial liabilities from financed capex and opex	(846)	(760)	–
Repayment of EIB loans	(412)	–	(32)
Net cash flows for collateral deposited for hedging transactions	(254)	170	(537)
Repayment of lease liabilities	(224)	(164)	(172)
Repayment of financial liabilities for media broadcasting rights	(192)	(40)	–
Cash deposits from the EE joint venture, net	(16)	3	(195)
Deutsche Telekom AG share buy-back	(15)	–	(2)
OTE credit line, net	–	(45)	(704)
Repayment of financial liabilities to Sireo	–	–	(534)
Cash flows from continuing involvement factoring (net)	30	31	–
Sale of Deutsche Telekom AG treasury shares	31	–	–
Loans taken out with the EIB	1,199	400	–
Promissory notes, net	1,655	(1,293)	(309)
Issuance of bonds	2,208	3,816	9,051
Commercial paper, net	2,645	1,561	–
Cash inflows from transactions with non-controlling entities			
T-Mobile US capital increase	–	–	1,313
T-Mobile US stock options	43	17	102
Cash inflows from the assignment of OTE stock options	–	26	–
	43	**43**	**1,415**
Cash outflows from transactions with non-controlling entities			
Acquisition of the remaining shares in Slovak Telekom	(900)	–	–
Acquisition of the remaining shares in T-Mobile Czech Republic	–	(828)	–
T-Mobile US share buy-back	(141)	(53)	–
OTE share buy-back	–	(69)	–
	(1,041)	**(950)**	**–**
Other	(375)	(239)	32
	(876)	**(3,434)**	**1,022**

NON-CASH TRANSACTIONS IN THE CONSOLIDATED STATEMENT OF CASH FLOWS

In June 2015, dividend entitlements of Deutsche Telekom AG shareholders in the amount of EUR 1.1 billion did not have an effect on net cash used in/from financing activities when fulfilled; rather, they were substituted by shares from authorized capital (see Note 15 "Shareholders' equity," PAGE 206 ET SEQ.). The dividend entitlements of Deutsche Telekom AG shareholders having an effect on cash flows totaled EUR 1.2 billion. In the previous year, dividend entitlements of Deutsche Telekom AG shareholders amounting to EUR 1.0 billion did not have an impact on cash flows, while dividend entitlements of EUR 1.2 billion did have an effect on cash flows.

In the 2015 financial year, Deutsche Telekom chose financing options totaling EUR 0.7 billion (2014: EUR 0.6 billion) under which the payments for trade payables

from operating and investing activities become due at a later point in time by involving banks in the process. These payables are now shown under financial liabilities in the statement of financial position. As soon as the payments have been made, they are disclosed under net cash used in/from financing activities.

In the 2015 financial year, Deutsche Telekom primarily leased network equipment for a total of EUR 0.6 billion, which is recognized as a finance lease. This lease is now also shown under financial liabilities in the statement of financial position. Future repayments of the liabilities will be recognized in net cash from/used in financing activities.

Consideration for the acquisition of broadcasting rights will be paid by Deutsche Telekom in accordance with the terms of the contract on its conclusion or spread over the term of the contract. Financial liabilities of EUR 0.2 billion (2014: EUR 0.2 billion) were recognized in the 2015 financial year for future consideration for acquired broadcasting rights. As soon as the payments have been made, they are disclosed under net cash used in/from financing activities.

In the United States operating segment, mobile devices amounting to EUR 2.3 billion were recognized under property, plant and equipment in the reporting year. These relate to the business model JUMP! On Demand introduced at T-Mobile US in June 2015 under which customers no longer purchase the device but lease it. The payments are presented under net cash from in operating activities.

In the United States operating segment, the exchange of mobile licenses with Verizon Communication in the amount of EUR 0.3 billion was completed in December 2015. A share of EUR 0.2 billion of the purchase price of the mobile licenses acquired in June 2015 in a spectrum auction in Germany was recognized under financial liabilities. As soon as the payments have been made, they are disclosed under net cash used in/from financing activities.

In November 2015, Deutsche Telekom received newly issued shares of Ströer with a value of some EUR 0.3 billion through the non-cash sale of the online platform t-online.de and the digital marketing company InteractiveMedia.

32 SEGMENT REPORTING

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

The **Germany** operating segment comprises all fixed-network and mobile activities for consumers and business customers in Germany. In addition, the operating segment provides wholesale telecommunications services for the Group's other operating segments. The **United States** operating segment combines all mobile activities in the U.S. market. The **Europe** operating segment comprises all fixed-network and mobile operations of the national companies in Greece, Romania, Hungary, Poland, the Czech Republic, Croatia, the Netherlands, Slovakia, Austria, Albania, the F.Y.R.O. Macedonia, and Montenegro. The Europe operating segment additionally comprises the GTS Central Europe group (GTS) and the units International Carrier Sales & Solutions (ICSS), Group Technology, and the Global Network

T 148

millions of €

		Net revenue	Intersegment revenue	Total revenue	Profit (loss) from operations (EBIT)	Interest income	Interest expense	Share of profit (loss) of associates and joint ventures accounted for using the equity method	Income taxes	Segment assets [a, b]
Germany	2015	21,069	1,352	22,421	4,490	13	(221)	3	0	33,552
	2014	20,903	1,354	22,257	4,663	6	(277)	2	0	29,980
	2013	21,056	1,379	22,435	4,435	20	(367)	1	5	30,738
United States	2015	28,924	1	28,925	2,454	5	(1,284)	(12)	(360)	62,534
	2014	22,405	3	22,408	1,405	2	(867)	(41)	(203)	49,784
	2013	18,552	4	18,556	1,404	461	(737)	(33)	(418)	38,830
Europe	2015	12,415	303	12,718	1,450	19	(314)	2	(310)	30,296
	2014	12,596	376	12,972	1,704	27	(365)	2	(371)	31,215
	2013	13,174	530	13,704	972	25	(423)	4	(417)	30,400
Systems Solutions	2015	6,194	2,398	8,592	(516)	16	12	5	(39)	9,067
	2014	5,988	2,613	8,601	(422)	14	(1)	(9)	(31)	8,788
	2013	6,244	2,794	9,038	(294)	15	(1)	4	(29)	8,428
Group Headquarters & Group Services	2015	626	1,649	2,275	(860)	1,035	(1,641)	26	(566)	44,532
	2014	766	1,750	2,516	(109)	906	(1,808)	(152)	(492)	41,358
	2013	1,106	1,773	2,879	(1,582)	1,145	(1,871)	(47)	(249)	43,720
TOTAL	**2015**	**69,228**	**5,703**	**74,931**	**7,018**	**1,088**	**(3,448)**	**24**	**(1,275)**	**179,981**
	2014	**62,658**	**6,096**	**68,754**	**7,241**	**955**	**(3,318)**	**(198)**	**(1,097)**	**161,125**
	2013	**60,132**	**6,480**	**66,612**	**4,935**	**1,666**	**(3,399)**	**(71)**	**(1,108)**	**152,116**
Reconciliation	2015	–	(5,703)	(5,703)	10	(842)	839	–	(1)	(36,061)
	2014	–	(6,096)	(6,096)	6	(630)	653	–	(9)	(31,765)
	2013	–	(6,480)	(6,480)	(5)	(1,438)	1,009	–	184	(33,968)
GROUP	**2015**	**69,228**	**–**	**69,228**	**7,028**	**246**	**(2,609)**	**24**	**(1,276)**	**143,920**
	2014	**62,658**	**–**	**62,658**	**7,247**	**325**	**(2,665)**	**(198)**	**(1,106)**	**129,360**
	2013	**60,132**	**–**	**60,132**	**4,930**	**228**	**(2,390)**	**(71)**	**(924)**	**118,148**

[a] Relating to the Group Headquarters & Group Services segment, Deutsche Telekom AG shareholders opted to have part of their dividend entitlement converted into shares, meaning that this dividend in kind had no impact on cash flows (see Note 15 "Shareholders' equity," PAGE 206 ET SEQ.).

Factory (GNF). The Europe operating segment also offers ICT services to business customers in individual national companies.

The **Systems Solutions** operating segment bundles business with ICT products and solutions for large multinational corporations and public institutions. The operating segment offers its customers information and communication technology from a single source and develops and operates infrastructure and industry solutions. The offering primarily includes services from the cloud, M2M and security solutions, complementary, highly standardized mobile and fixed-network products, as well as solutions for virtual collaboration and IT platforms. They form the basis for the digital business models of corporate customers.

The **Group Headquarters & Group Services** segment comprises Service Headquarters and those subsidiaries of Deutsche Telekom AG that are not allocated to the operating segments, and the EE joint venture in the United Kingdom. As of December 31, 2015, the EE joint venture is reported under non-current assets and disposal groups held for sale (see also Note 4, PAGES 182 and 183).

Fixed-network business includes all voice and data communications activities based on fixed-network and broadband technology. This includes the sale of terminal equipment and other hardware, as well as the sale of services to resellers. The mobile communications business offers mobile voice and data services to consumers and business customers. Mobile devices and other hardware are sold in connection with the services offered. In addition, mobile services are sold to resellers and to companies that buy network services and market them independently to third parties (MVNOs).

The business segments shown are reviewed at regular intervals by the Deutsche Telekom Board of Management in terms of the allocation of resources and their earning performance.

The measurement principles for Deutsche Telekom's segment reporting structure are primarily based on the IFRSs adopted in the consolidated financial statements. Deutsche Telekom evaluates the segments' performance based on revenue and profit or loss from operations (EBIT), among other factors. Revenue generated and goods and services exchanged between segments are calculated on the basis of market prices. Services performed by Telekom IT are charged at cost. Segment assets and liabilities include all assets and liabilities that are carried in the financial statements prepared by the segments and included in the consolidated financial statements. Segment investments include additions to intangible assets and property, plant and equipment. Where entities accounted for using the equity method are directly allocable to a segment, their shares of profit or loss after income taxes and their carrying amounts are reported in this segment's accounts. The performance indicators shown in TABLE 148 are exclusively presented from the segments' perspective. The effects of intersegment transactions are eliminated and presented in aggregate form in the reconciliation line. The following table shows the performance indicators used by Deutsche Telekom to evaluate the operating segments' performance as well as additional segment-related indicators:

Segment liabilities [b]	Segment investments	Investments accounted for using the equity method	Depreciation and amortization	Impairment losses	Average number of employees	Net cash from operating activities	Net cash (used in) from investing activities	Of which: cash capex [c]	Net cash (used in) from financing activities [a]
26,270	6,340	20	(3,746)	(9)	69,440	8,185	(5,736)	(5,609)	(4,830)
23,148	4,144	19	(3,884)	(9)	68,106	8,810	(4,171)	(3,807)	(6,844)
23,200	3,538	17	(3,959)	(7)	67,765	8,646	(3,444)	(3,411)	(5,691)
46,087	10,164	215	(3,774)	(1)	41,669	5,327	(8,624)	(6,381)	2,935
35,724	7,318	197	(2,829)	(10)	37,858	3,170	(5,417)	(5,072)	1,952
26,888	4,676	198	(2,133)	(105)	32,962	2,580	(1,232)	(3,279)	2,728
12,595	2,051	61	(2,571)	(48)	50,635	3,358	(1,982)	(1,652)	(2,287)
13,520	2,718	52	(2,567)	(30)	52,829	3,597	(2,196)	(2,101)	662
12,699	4,192	59	(2,755)	(644)	56,810	3,658	(3,026)	(3,661)	(2,128)
6,043	1,192	21	(625)	(24)	46,536	132	(815)	(1,169)	710
5,962	1,279	14	(712)	(5)	48,817	687	(840)	(1,171)	424
5,279	1,133	24	(639)	(13)	49,985	999	(531)	(1,066)	138
50,830	397	504	(545)	(82)	18,052	2,638	1,056	(342)	(1,374)
48,702	441	335	(582)	(89)	20,639	2,510	912	(381)	(4,055)
51,952	573	5,869	(627)	(72)	22,182	3,266	3,731	(411)	(5,552)
141,825	**20,144**	**821**	**(11,261)**	**(164)**	**226,332**	**19,640**	**(16,101)**	**(15,153)**	**(4,846)**
127,056	**15,900**	**617**	**(10,574)**	**(143)**	**228,249**	**18,774**	**(11,712)**	**(12,532)**	**(7,861)**
120,018	**14,112**	**6,167**	**(10,113)**	**(841)**	**229,704**	**19,149**	**(4,502)**	**(11,828)**	**(10,505)**
(36,055)	(777)	1	63	2	–	(4,643)	1,086	540	3,970
(31,762)	(819)	–	143	–	(1)	(5,381)	951	688	4,427
(33,933)	(752)	–	47	3	–	(6,132)	(5,394)	760	11,527
105,770	**19,367**	**822**	**(11,198)**	**(162)**	**226,332**	**14,997**	**(15,015)**	**(14,613)**	**(876)**
95,294	**15,081**	**617**	**(10,431)**	**(143)**	**228,248**	**13,393**	**(10,761)**	**(11,844)**	**(3,434)**
86,085	**13,360**	**6,167**	**(10,066)**	**(838)**	**229,704**	**13,017**	**(9,896)**	**(11,068)**	**1,022**

[b] In line with internal reporting, the carrying amounts for investments have not been disclosed in segment reporting at segment level since January 1, 2015. Three holding companies have been reallocated as of July 1, 2015 from the Group Headquarters & Group Services segment into the Europe operating segment in connection with the build-out of the pan-European all-IP network. The comparatives were adjusted as of December 31, 2014 and December 31, 2013.

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

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

T 149

millions of €

	Non-current assets			Net revenue		
	Dec. 31, 2015	Dec. 31, 2014	Dec. 31, 2013	2015	2014	2013
Germany	37,280	35,343	35,200	25,078	24,999	25,384
International	65,678	56,766	54,663	44,150	37,659	34,748
Of which: Europe (excluding Germany)	21,099	21,654	27,288	14,431	14,311	15,173
North America	44,505	35,039	27,289	29,224	22,701	18,796
Other countries	74	73	86	495	647	779
GROUP	**102,958**	**92,109**	**89,863**	**69,228**	**62,658**	**60,132**

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

T 150

millions of €

	Net revenue		
	2015	2014	2013
Telecommunications	61,769	55,946	53,220
ICT solutions	6,833	6,513	6,713
Other	626	199	199
	69,228	**62,658**	**60,132**

33 CONTINGENCIES

As part of its ordinary business activities, Deutsche Telekom is involved in various proceedings both in and out of court with government agencies, competitors, and other parties, the outcome of which often cannot be reliably anticipated. As of the reporting date, the Group was exposed to contingent liabilities amounting to EUR 0.2 billion (December 31, 2014: EUR 0.3 billion) and to contingent assets amounting to EUR 0.0 billion (December 31, 2014: EUR 0.0 billion) that, on the basis of the information and estimates available, do not fulfill the requirements for recognition as liabilities or assets in the statement of financial position. Litigation provisions include the costs of legal counsel services and any probable losses. Deutsche Telekom does not believe that any additional costs arising from legal counsel services or the results of proceedings will have a material adverse effect on the results of operations and financial position of the Group. In addition to individual cases that do not have any significant impact on their own, the aforementioned total contingent liabilities include the following items, the sequence of which does not imply an evaluation of their probability of occurrence or potential damage. In the event that in extremely rare cases disclosures required by IAS 37 are not made, Deutsche Telekom comes to the conclusion that these disclosures could seriously undermine the outcome of the relevant proceedings.

CONTINGENT LIABILITIES

Proceedings by the Anti-Monopoly Commission in Poland. On November 23, 2011, the national Anti-Monopoly Commission (UOKiK) concluded investigations started in 2010. It decided that T-Mobile Polska (formerly PTC) and other Polish telecommunications companies had fixed prices in breach of anti-trust law and imposed a fine on T-Mobile Polska of PLN 34 million (approximately EUR 8 million). T-Mobile Polska believes these allegations are unfounded and thus appealed the decision. On June 19, 2015, the competent court canceled the fine on the grounds that the competition authorities were unable to prove the alleged price fixing. The national competition authorities appealed the decision of the court and a decision is pending. Any fine would only fall due after the decision becomes final and legally binding. The same applies to another fine of PLN 21 million (approximately EUR 5 million) imposed by UOKiK on T-Mobile Polska on January 2, 2012 for an alleged breach of consumer protection law. Overall, the risk remaining is classified as low and consequently Deutsche Telekom will not report further on the proceedings in the future.

Claims by partnering publishers of telephone directories. Several publishers that had set up joint ventures with DeTeMedien GmbH, a wholly owned subsidiary of Deutsche Telekom AG, to edit and publish subscriber directories, filed claims against DeTeMedien GmbH and/or Deutsche Telekom AG at the end of 2013. The complainants have been claiming damages or refund from DeTeMedien GmbH and to a certain extent from Deutsche Telekom AG as joint and several debtor next to DeTeMedien GmbH. The complainants have based their claims on allegedly excessive charges for the provision of subscriber data in the joint ventures. The amounts claimed by the complainants totaled around EUR 470 million plus interest at the end of 2014. So far, the Frankfurt/Main Regional Court rejected 22 out of 81 claims in the first instance. Two of these rulings are legally binding, the claim total

was accordingly reduced to approximately EUR 467 million plus interest. The complainants filed appeals against the other rulings with the Frankfurt/Main Higher Regional Court. On October 22, 2015, Deutsche Telekom AG, DeTeMedien GmbH and the majority of the partnering publishers of telephone directories concluded an agreement to settle their disputes, as a result of which 54 publishers applied to the court to waive their claims. Seven publishers withdrew their appeals, as a result of which the rulings of the first instance that rejected the claims became legally binding with immediate effect upon receipt by the court of the withdrawals. At present, 18 proceedings are still pending with a remaining claim total of approximately EUR 132 million (plus interest).

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

Anti-trust and consumer protection proceedings. Deutsche Telekom and its subsidiaries, joint ventures, and associates are subject to proceedings under competition law in various jurisdictions, which may also lead to civil follow-on claims. Looking at each of the proceedings individually, none has a material impact. Deutsche Telekom believes the respective allegations and claims for damages are unfounded. The outcome of the proceedings cannot be foreseen at this point in time.

Claims for damages against Slovak Telekom following the European Commission's decision to impose fines. Following the decision of the European Commission on October 15, 2014, both Orange Slovensko and SWAN filed civil action against Slovak Telekom with the competent court in Bratislava in August 2015, claiming compensation for damages of EUR 232 million and EUR 50 million respectively, plus interest. These claims seek compensation for alleged damages due to Slovak Telekom's abuse of a dominant market position, as determined by the European Commission. In December 2014, Slovak Telekom and Deutsche Telekom filed an appeal against the decision of the European Commission with the Court of the European Union; in addition, Slovak Telekom considers the complaint by Orange Slovensko to be largely unfounded. The complaint by SWAN has not yet been officially served to Slovak Telekom. It is uncertain whether SWAN is waiting for the outcome of the proceedings in relation to Orange Slovensko or, following publication of the European Commission's decision, considers it unlikely that a claim will be successful.

Toll Collect arbitration proceedings. The principal members of the Toll Collect consortium are Daimler Financial Services AG and Deutsche Telekom AG. In the arbitration proceedings between these principal shareholders and the consortium company Toll Collect GbR on one side and the Federal Republic of Germany on the other concerning disputes in connection with the truck toll collection system, Deutsche Telekom received the Federal Republic of Germany's statement of claim on August 2, 2005. In this statement, the Federal Republic claimed to have lost toll revenues of approximately EUR 3.51 billion plus interest owing to a delay in the commencement of operations. The total claims for contractual penalties amount to EUR 1.65 billion plus interest; these claims are based on alleged violations of the operator agreement: alleged lack of consent to subcontracting, allegedly delayed provision of on-board units and monitoring equipment. In a letter dated May 16, 2008, the Federal Republic recalculated its claim for damages for lost toll revenues and reduced it by EUR 169 million. The claim is now approximately EUR 3.33 billion plus interest. The main claims by the Federal Republic – including the contractual penalty claims – thus amount to around EUR 4.98 billion plus interest. Further hearings took place in spring and fall 2014. In connection with the hearing in spring 2014, the proceedings and the share of the risk borne by Deutsche Telekom were reexamined and, as a result, appropriate provisions for risk were recognized in the statement of financial position. A further hearing took place in June 2015, which was resumed in January 2016. There is no reason to adjust the provisions for risk recognized in 2014 in the statement of financial position. Deutsche Telekom AG believes that a claim arising from the joint and several liability is unlikely to be made in excess of Deutsche Telekom's share of the risk.

- Bank loans guarantee. Deutsche Telekom guarantees to third parties bank loans of up to a maximum amount of EUR 100 million granted to Toll Collect GmbH. These guarantees for bank loans will expire on October 15, 2018.

- Equity maintenance undertaking. The consortium partners have the obligation, on a joint and several basis, to provide Toll Collect GmbH with additional equity in order to ensure a minimum equity ratio of 15 percent (in the single-entity financial statements prepared in accordance with German GAAP) (equity maintenance undertaking). This obligation ends when the operating agreement expires on August 31, 2018, or earlier if the operating agreement is terminated prematurely. The amount of a potential settlement attributable to the equity maintenance undertaking cannot be estimated because of uncertainties.

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

The risks and obligations of Compagnie Financière et Industrielle des Autoroutes S. A., Sèvres Cedex (Cofiroute, which holds a 10-percent stake in Toll Collect) are limited to EUR 70 million. Deutsche Telekom AG and Daimler Financial Services AG have the obligation, on a joint and several basis, to indemnify Cofiroute against further claims.

Prospectus liability proceedings. There are around 2,600 ongoing actions filed by around 16,000 alleged buyers of T-Shares sold on the basis of the prospectuses published on May 28, 1999 (second public offering, or DT2) and May 26, 2000 (third public offering, or DT3). The complainants assert that individual figures given in these prospectuses were inaccurate or incomplete. The amount in dispute totals approximately EUR 80 million. Some of the actions are also directed at KfW and/or the Federal Republic of Germany as well as the banks that handled the issuances. The Frankfurt/Main Regional Court has issued certified questions to the Frankfurt/Main Higher Regional Court in accordance with the German Capital Investor Model Proceedings Act (Kapitalanleger-Musterverfahrensgesetz – KapMuG) and has temporarily suspended the initial proceedings. In the model proceedings ("Musterverfahren") on the second public offering (DT2) on July 3, 2013, the Frankfurt/Main Higher Regional Court issued a decision and ruled that the disputed stock exchange prospectus did not contain any errors.

On May 16, 2012, the Frankfurt/Main Higher Regional Court had ruled in the model proceedings ("Musterverfahren") on the third public offering (DT3) that there were also no errors in the prospectus for Deutsche Telekom AG's third public offering. The Frankfurt/Main Higher Regional Court therefore believes there is no basis for holding Deutsche Telekom AG liable. In its decision on October 21, 2014, the Federal Court of Justice revoked this ruling, determined that there was a mistake in the prospectus, and referred the case back to the Frankfurt/Main Higher Regional Court. A decision on possible liability for damages was not made. We continue to hold the opinion that there are compelling reasons why Deutsche Telekom AG should not be liable for damages.

Claims relating to charges for the shared use of cable ducts. With an action filed in spring 2012, Kabel Deutschland Vertrieb und Service GmbH (KDG) – now Vodafone Kabel Deutschland GmbH – is asserting two claims: first, Telekom Deutschland GmbH is to reduce the annual charge for the rights to use cable duct capacities in the future; second, it is to partially refund payments made in this connection since 2004. KDG quantified the amount of the claims incurred up to and including 2012 at approximately EUR 340 million plus interest. In its ruling on August 28, 2013, the Frankfurt/Main Regional Court dismissed the complaint. In the appeal proceedings, KDG also quantified its claims for 2013 through an extension of claim and is now seeking a refund of charges allegedly paid in excess of approximately EUR 407 million as well as the alleged benefit for Telekom Deutschland GmbH from additional interest of around EUR 34 million, plus interest in each case. On December 9, 2014, the Frankfurt/Main Higher Regional Court rejected the appeal and disallowed a further appeal. In response to the subsequent complaint against non-allowance of appeal filed by KDG, the Federal Court of Justice allowed KDG's appeal in a ruling dated December 15, 2015. In similar proceedings, Telekom Deutschland GmbH also received a claim filed on January 23, 2013 in which Unitymedia Hessen GmbH & Co. KG, Unitymedia NRW GmbH and Kabel BW GmbH demand that Telekom Deutschland GmbH cease charging the complainants more than a specific and precisely stated amount for the shared use of cable ducts. For charges allegedly paid in excess for the shared use of cable ducts from 2009 up to and including 2012, Unitymedia Hessen GmbH & Co. KG is currently demanding payment of approximately EUR 36.5 million plus interest, Unitymedia NRW GmbH EUR 90.8 million plus interest, and Kabel BW GmbH EUR 61.5 million plus interest.

Claim for compensation against OTE. In May 2009, Lannet Communications S. A. filed an action against OTE claiming compensation for damages of around EUR 176 million plus interest arising from an allegedly unlawful termination of services by OTE – mainly interconnection services, unbundling of local loops, and leasing of dedicated lines. A hearing took place on May 30, 2013; a ruling has not yet been issued.

Patents and licenses. Like many other large telecommunications and Internet providers, Deutsche Telekom is exposed to a growing number of intellectual property rights disputes. There is a risk that Deutsche Telekom may have to pay license fees and/or compensation; Deutsche Telekom is also exposed to a risk of cease-and-desist orders, for example relating to the sale of a product or the use of a technology.

Tax risks. In many countries, Deutsche Telekom is subject to the applicable legal tax regulations. Risks can arise from changes in local taxation laws or case law and different interpretations of existing provisions. As a result, they can affect on Deutsche Telekom's tax expense and benefit as well as tax receivables and liabilities.

34 LEASES

DEUTSCHE TELEKOM AS LESSEE

Finance leases. When a lease transfers substantially all risks and rewards to Deutsche Telekom as lessee, Deutsche Telekom initially recognizes the leased assets in the statement of financial position at the lower of fair value or present value of the future minimum lease payments. Most of the leased assets carried in the statement of financial position as part of finance leases relate to long-term rental and lease agreements for office buildings and cell towers or mobile communications facilities. The average lease term is 17 years. The agreements include extension and purchase options. TABLE 151 shows the net carrying amounts of leased assets capitalized in connection with a finance lease as of the reporting date:

T 151

millions of €

	Dec. 31, 2015	Of which: sale and leaseback transactions	Dec. 31, 2014	Of which: sale and leaseback transactions
Land and buildings	559	290	599	347
Technical equipment and machinery	796	0	455	0
Other	9	0	8	0
NET CARRYING AMOUNTS OF LEASED ASSETS CAPITALIZED	**1,364**	**290**	**1,062**	**347**

The increase in technical equipment and machinery is primarily a result of new finance leases for network upgrades at T-Mobile US totaling EUR 0.4 billion.

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

TABLE 152 provides a breakdown of these amounts:

T 152

millions of €

	Minimum lease payments		Interest component		Present values	
	Total	Of which: sale and leaseback	Total	Of which: sale and leaseback	Total	Of which: sale and leaseback
Dec. 31, 2015						
MATURITY						
Within 1 year	425	103	114	42	311	61
In 1 to 3 years	774	198	253	69	521	129
In 3 to 5 years	422	126	65	48	357	78
After 5 years	1,052	333	314	136	738	197
	2,673	**760**	**746**	**295**	**1,927**	**465**
Dec. 31, 2014						
MATURITY						
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
	2,187	**890**	**726**	**356**	**1,461**	**534**

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

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

The operating lease expenses recognized in profit or loss amounted to EUR 3.2 billion in the 2015 financial year (2014: EUR 3.3 billion, 2013: EUR 3.2 billion). TABLE 153 provides a breakdown of future obligations arising from operating leases:

T 153

millions of €

	Dec. 31, 2015	Dec. 31, 2014
MATURITY		
Within 1 year	3,322	2,918
In 1 to 3 years	5,650	4,856
In 3 to 5 years	4,548	3,971
After 5 years	7,822	7,164
	21,342	**18,909**

Obligations arising from operating leases increased from EUR 18.9 billion to EUR 21.3 billion, with T-Mobile US accounting for EUR 2.3 billion of this trend in particular as a result of exchange rate effects totaling EUR 1.6 billion from the translation of U.S. dollars to euros. In addition, the increase resulted from new and modified operating leases in connection with the 700 MHz network build-out for mobile sites, network equipment, and leased fixed-network connections.

DEUTSCHE TELEKOM AS LESSOR

Finance leases. Deutsche Telekom is a lessor in connection with finance leases. Essentially, these relate to the leasing of routers and other hardware, which Deutsche Telekom provides to its customers for data and telephone network solutions. Deutsche Telekom recognizes a receivable in the amount of the net investment in the lease. The lease payments made by the lessees are split into an interest component and a principal component using the effective interest method. The lease receivable is reduced by the principal received. The interest component of the payments is recognized as finance income in the income statement. TABLE 154 shows how the amount of the net investment in a finance lease is determined:

T 154

millions of €

	Dec. 31, 2015	Dec. 31, 2014
Minimum lease payments	219	242
Unguaranteed residual value	5	2
Gross investment	224	244
Unearned finance income	(14)	(17)
NET INVESTMENT (PRESENT VALUE OF THE MINIMUM LEASE PAYMENTS)	**210**	**227**

TABLE 155 presents the gross investment amounts and the present value of payable minimum lease payments:

T 155

millions of €

	Dec. 31, 2015		Dec. 31, 2014	
	Gross investment	Present value of minimum lease payments	Gross investment	Present value of minimum lease payments
MATURITY				
Within 1 year	94	86	98	90
In 1 to 3 years	116	110	113	103
In 3 to 5 years	12	12	31	33
After 5 years	2	2	2	1
	224	**210**	**244**	**227**

Operating leases. If Deutsche Telekom is a lessor in connection with operating leases, it continues to recognize the leased assets in its statement of financial position. The lease payments received are recognized in profit or loss. The leases mainly relate to the rental of cell towers, building space, and terminal equipment, and have an average term of 15 years. TABLE 156 presents the future minimum lease payments arising from non-cancelable operating leases:

T 156

millions of €

	Dec. 31, 2015	Dec. 31, 2014
MATURITY		
Within 1 year	1,184	314
In 1 to 3 years	728	380
In 3 to 5 years	339	289
After 5 years	485	507
	2,736	**1,490**

The increase in future minimum lease payments primarily results from expected lease payments from the lease of mobile terminal devices as part of the terminal equipment lease model introduced at T-Mobile US in June 2015.

35 OTHER FINANCIAL OBLIGATIONS

TABLE 157 provides an overview of Deutsche Telekom's other financial obligations:

T 157

millions of €

	Dec. 31, 2015			
	Total	Due within 1 year	Due > 1 year ≤ 5 years	Due > 5 years
Purchase commitments regarding property, plant and equipment	1,924	1,731	183	10
Purchase commitments regarding intangible assets	1,132	1,058	74	0
Firm purchase commitments for inventories	4,430	2,364	2,066	0
Other purchase commitments and similar obligations	10,774	5,445	3,980	1,349
Payment obligations to the Civil Service Pension Fund	4,185	492	1,409	2,284
Miscellaneous other obligations	755	277	478	0
	23,200	**11,367**	**8,190**	**3,643**

36 SHARE-BASED PAYMENT

SHARE MATCHING PLAN

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

In the 2015 financial year, executives who were not contractually obliged to participate in the Share Matching Plan were given the opportunity to participate on a voluntary basis. To participate, the executives invested a minimum of 10 percent and a maximum of 33.3 percent of their variable short-term remuneration component, which is based on the achievement of targets set for each person for the financial year (Variable I), in Deutsche Telekom AG shares. Deutsche Telekom AG will award additional shares for every share acquired as part of this executive's aforementioned personal investment (Share Matching Plan). Participation in the Share Matching Plan and the number of additional shares granted are contingent on the executive's individual performance. The additional shares will be allotted to the beneficiaries of this plan on expiration of the four-year lock-up period. The offer to executives to participate voluntarily in the Share Matching Plan is only made in the years in which the previous year's free cash flow target was achieved.

The individual Share Matching Plans are each recognized for the first time at fair value on the grant date. To determine the fair value, the expected dividend entitlements are deducted from Deutsche Telekom AG's share price, as there are no dividend entitlements until the matching shares have been allocated. In the 2015 financial year, a total of 0.5 million matching shares were allocated to beneficiaries

of the plan at a weighted average fair value of EUR 14.10. The cost is to be recognized against the capital reserves pro rata temporis until the end of the service period and amounted to EUR 2.91 million as of December 31, 2015 (December 31, 2014: EUR 1.89 million). The capital reserves recognized for the Share Matching Plan as of December 31, 2015 amounted to EUR 8.17 million (December 31, 2014: EUR 5.26 million).

For the compensation system of Board of Management members who also participate in the Share Matching Plan, please refer to the "Compensation report" in the combined management report, PAGE 143 ET SEQ.

LONG-TERM INCENTIVE PLAN

In the 2015 financial year, executives who had not yet made a contractual commitment to participate in the long-term incentive plan were given the first-time opportunity to participate. The participating executives receive a package of virtual shares at the inception of the plan. The number of virtual shares is contingent on the participant's management group assignment, individual performance, and annual target salary. Taking these factors into account, the value of the package of virtual shares at the inception of the plan is between 10 and 43 percent of the participant's annual target salary.

Over the term of the four-year plan, the value of the virtual shares changes in line with Deutsche Telekom share price development. The number of virtual shares will change on achievement of the targets for four equally weighted performance indicators (return on capital employed, adjusted earnings per share, employee satisfaction, and customer satisfaction), to be determined at the end of each year. At the end of the four-year plan, the results of each of the four years will be added together and the virtual shares will be converted on the basis of a share price calculated in a reference period and paid out in cash.

The long-term incentive plan was measured at fair value on the grant date. The fair value of the plan is calculated by multiplying the number of virtual shares by Deutsche Telekom AG's share price discounted to the reporting date. In the 2015 financial year, a total of 4.4 million virtual shares were granted at a weighted average fair value of EUR 13.16. The plan must be remeasured at every reporting date until the end of the service period and expensed pro rata temporis. As of December 31, 2015, the cost of the long-term incentive plan amounted to EUR 17.24 million (December 31, 2014: EUR 0 million). A provision was recognized in the same amount.

SHARE-BASED PAYMENT AT T-MOBILE US

T-Mobile US maintains the 2013 Omnibus Incentive Plan, which authorized the issuance of up to 63 million shares of common stock of T-Mobile US. Under the incentive plan, the company may grant stock options, stock appreciation rights, restricted stock, restricted stock units (RSUs), and performance awards to employees, consultants, advisors, and non-employee directors. As of December 31, 2015, there were 29 million T-Mobile US shares of common stock (December 31, 2014: 37 million shares) available for future grants under the incentive plan.

T-Mobile US grants RSUs to eligible employees and certain non-employee directors. RSUs entitle the grantee to receive shares of T-Mobile US common stock at the end of a vesting period up to 3.5 years.

T-Mobile US also grants performance stock units (PSUs) to eligible key executives of the company. PSUs entitle the holder to receive shares of T-Mobile US common stock at the end of a vesting period up to 2.5 years if a specific performance goal is achieved. The number of shares ultimately received is dependent on specified performance of T-Mobile US's operating free cash flow as well as its total shareholder return against a defined peer group.

The plan resulted in the following development:

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	Number of shares	Weighted average fair value at grant date USD
Non-vested as of January 1, 2015	**19,952,089**	**24.15**
Granted	9,760,057	35.56
Vested	(11,956,345)	25.28
Forfeited	(1,421,530)	27.36
Non-vested as of December 31, 2015	**16,334,271**	**29.95**

The program is measured at fair value on the grant date and recognized as expense, net of expected forfeitures, following a graded vesting schedule over the related service period. The fair value of stock awards for the RSUs is based on the closing price of T-Mobile US' common stock on the date of grant. The fair value of stock awards for the PSUs was determined using the Monte Carlo model. Stock-based compensation expense was EUR 227 million as of December 31, 2015 (December 31, 2014: EUR 159 million).

Prior to the business combination, MetroPCS had established various stock option plans (predecessor plans). The MetroPCS stock options were adjusted in connection with the business combination. Following stockholder approval of T-Mobile US' 2013 Omnibus Incentive Plan, no new awards may be granted under the predecessor plans.

The plan resulted in the following development of the T-Mobile US stock options:

T 159

	Number of shares	Weighted average exercise price USD	Weighted average remaining contractual life (years)
Stock options outstanding/ exercisable at January 1, 2015	**4,348,912**	**24.96**	**3.7**
Exercised	(2,381,650)	19.91	
Forfeited	(142,908)	38.32	
Stock options outstanding/ exercisable at December 31, 2015	**1,824,354**	**30.50**	**2.7**

The exercise of stock options generated cash inflows of EUR 42 million (USD 47 million) in the 2015 financial year (2014: EUR 17 million (USD 27 million)).

37 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

T 160

Carrying amounts, amounts recognized, and fair values by class and measurement category
millions of €

			Amounts recognized in the statement of financial position in accordance with IAS 39			
	Category in accordance with IAS 39	Carrying amounts Dec. 31, 2015	Amortized cost	Cost	Fair value recognized in equity	Fair value recognized in profit or loss
ASSETS						
Cash and cash equivalents	LaR	6,897	6,897			
Trade receivables	LaR	8,752	8,752			
Originated loans and receivables	LaR/n. a.	3,283	3,076			
Of which: collateral paid	LaR	98	98			
Other non-derivative financial assets						
Held-to-maturity investments	HtM	10	10			
Available-for-sale financial assets [a]	AfS	3,354		156	3,198	
Derivative financial assets [b]						
Derivatives without a hedging relationship	FAHfT	1,526				1,526
Of which: termination rights embedded in bonds issued	FAHfT	390				390
Derivatives with a hedging relationship	n. a.	1,160			870	290
LIABILITIES [c]						
Trade payables	FLAC	11,037	11,037			
Bonds and other securitized liabilities	FLAC	47,766	47,766			
Liabilities to banks	FLAC	4,190	4,190			
Liabilities to non-banks from promissory notes	FLAC	934	934			
Liabilities with the right of creditors to priority repayment in the event of default	FLAC	1,822	1,822			
Other interest-bearing liabilities	FLAC	3,009	3,009			
Of which: collateral received	FLAC	1,740	1,740			
Other non-interest-bearing liabilities	FLAC	1,798	1,798			
Finance lease liabilities	n. a.	1,927				
Derivative financial liabilities [b]						
Derivatives without a hedging relationship	FLHfT	817				817
Of which: conversion rights embedded in Mandatory Convertible Preferred Stock	FLHfT	298				298
Of which: options granted to third parties for the purchase of shares in subsidiaries	FLHfT	39				39
Derivatives with a hedging relationship	n. a.	117			107	10
Of which: aggregated by category in accordance with IAS 39						
Loans and receivables	LaR	18,725	18,725			
Held-to-maturity investments	HtM	10	10			
Available-for-sale financial assets [a]	AfS	3,354		156	3,198	
Financial assets held for trading	FAHfT	1,526				1,526
Financial liabilities measured at amortized cost	FLAC	70,556	70,556			
Financial liabilities held for trading	FLHfT	817				817

[a] For details, please refer to Note 8 "Other financial assets," PAGES 192 and 193.
[b] For details, please refer to TABLE 166 on derivatives in this Note, PAGE 236.
[c] For financial guarantees and loan commitments existing at the reporting date, please refer to the additional information provided in this section, PAGE 234.
[d] The exemption provisions under IFRS 7.29a were applied for information on specific fair values.

Trade receivables include receivables amounting to EUR 1.0 billion (December 31, 2014: EUR 1.6 billion) due in more than one year. The fair value generally equates to the carrying amount.

Amounts recognized in the statement of financial position in accordance with IAS 17	Fair value Dec. 31, 2015 [d]	Category in accordance with IAS 39	Carrying amounts Dec. 31, 2014	Amounts recognized in the statement of financial position in accordance with IAS 39				Amounts recognized in the statement of financial position in accordance with IAS 17	Fair value Dec. 31, 2014 [d]
				Amortized cost	Cost	Fair value recognized in equity	Fair value recognized in profit or loss		
	–	LaR	7,523	7,523					–
	–	LaR	10,262	10,262					–
207	3,318	LaR/n. a.	3,224	2,997				227	3,256
	–	LaR	527	527					–
	–	HtM	10	10					–
	3,198	AfS	683		122	561			561
	1,526	FAHfT	835				835		835
	390	FAHfT	183				183		183
	1,160	n. a.	508			286	222		508
	–	FLAC	9,631	9,631					–
	52,194	FLAC	44,219	44,219					49,402
	4,247	FLAC	3,676	3,676					3,788
	1,069	FLAC	946	946					1,106
	1,830	FLAC	–	–					–
	3,059	FLAC	1,775	1,775					1,836
	–	FLAC	486	486					–
	–	FLAC	2,055	2,055					–
1,927	2,166	n. a.	1,461					1,461	1,869
	817	FLHfT	664				664		664
	298	FLHfT	–						–
	39	FLHfT	–						–
	117	n. a.	431			423	8		431
	3,111	LaR	20,782	20,782					3,029
	–	HtM	10	10					–
	3,198	AfS	683		122	561			561
	1,526	FAHfT	835				835		835
	62,399	FLAC	62,302	62,302					56,132
	817	FLHfT	664				664		664

Financial instruments not measured at fair value, the fair values of which are disclosed nevertheless

T 161

millions of €

	Dec. 31, 2015				Dec. 31, 2014			
	Level 1 Inputs as prices in active markets	Level 2 Other inputs that are directly or indirectly observable	Level 3 Inputs that are unobservable[a]	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[a]	Total
ASSETS								
Originated loans and receivables		3,318		**3,318**		3,256		**3,256**
LIABILITIES								
Financial liabilities measured at amortized cost (FLAC)	41,498	20,810	91	**62,399**	41,121	14,828	183	**56,132**
Of which: bonds and other securitized liabilities	41,498	10,605	91	**52,194**	41,121	8,098	183	**49,402**
Of which: liabilities to banks		4,247		**4,247**		3,788		**3,788**
Of which: liabilities to non-banks from promissory notes		1,069		**1,069**		1,106		**1,106**
Of which: liabilities with the right of creditors to priority repayment in the event of default		1,830		**1,830**				
Of which: other interest-bearing liabilities		3,059		**3,059**		1,836		**1,836**
Finance lease liabilities		2,166		**2,166**		1,869		**1,869**

[a] Separation of embedded derivatives; the fair value of the entire instrument must be categorized as Level 1.

Financial instruments measured at fair value

T 162

millions of €

	Dec. 31, 2015				Dec. 31, 2014			
	Level 1 Inputs as prices in active markets	Level 2 Other inputs that are directly or indirectly observable	Level 3 Inputs that are unobservable	Total	Level 1 Inputs as prices in active markets	Level 2 Other inputs that are directly or indirectly observable	Level 3 Inputs that are unobservable	Total
ASSETS								
Available-for-sale financial assets (AfS)	2,931		267	**3,198**	348	5	208	**561**
Financial assets held for trading (FAHfT)		1,136	390	**1,526**		652	183	**835**
Derivative financial assets with a hedging relationship		1,160		**1,160**		508		**508**
LIABILITIES								
Financial liabilities held for trading (FLHfT)		480	337	**817**		664		**664**
Derivative financial liabilities with a hedging relationship		117		**117**		431		**431**

Of the available-for-sale financial assets (AfS) presented under other non-derivative financial assets, the instruments presented in the different levels constitute separate classes of financial instruments. In Level 1, EUR 2,931 million (December 31, 2014: EUR 348 million) is recognized, the majority of which relates to listed government bonds, the fair values of which are the price quotations at the reporting date. The carrying amount of EUR 2.8 billion – when translated into euros – of the year-on-year increase in the instruments recognized as Level 1, resulted from the acquisition of short-term U.S. government bonds. For information on the issue of liabilities by T-Mobile US, please refer to Note 10 “Financial liabilities,” PAGE 193 ET SEQ.

The available-for-sale financial assets assigned to Level 3 that are carried under other non-derivative financial assets are equity investments with a carrying amount of EUR 267 million measured using the best information available at the reporting date. As a rule, Deutsche Telekom considers executed transactions involving shares in those companies to have the greatest relevance. Executed transactions involving shares in comparable companies are also considered. The closeness of the transaction in question to the reporting date and the question of whether the transaction was at arm's length are relevant for the decision on which information will ultimately be used for the measurement. Furthermore, the degree of similarity between the object being measured and comparable companies must be taken into consideration. Based on Deutsche Telekom's own assessment, the fair values of the equity investments at the reporting date could be determined with sufficient reliability. In the case of investments with a carrying amount of EUR 107 million, transactions involving shares in these companies took place at arm's length sufficiently close to the reporting date, which is why in Deutsche Telekom's view the share prices agreed in the transactions were to be used without adjustment for the measurement as of December 31, 2015. In the case of investments with a carrying amount of EUR 138 million, although the last arm's length transactions relating to shares in these companies took place some time ago, based on the analysis of operational development (in particular revenue, EBIT and liquidity) in Deutsche Telekom's assessment, the previous carrying amount nevertheless corresponds to the fair value and, due to limited comparability, is preferable to measurement on the basis of transactions executed more recently relating to shares in comparable companies. In the case of investments with a carrying amount of EUR 22 million, for which the last arm's length transactions relating to shares in these companies took place some time ago, in Deutsche Telekom's assessment, measurement on the basis of transactions executed more recently relating to shares in comparable companies provides the most reliable representation of the fair values. Here, multiples to the reference variable of net revenue (ranging between 1.40 and 5.56) were used, taking the respective median. In certain cases, due to specific circumstances, valuation discounts need to be applied to the respective multiples. If the value of the respective 2/3-quantile (1/3-quantile) had been used as a multiple with no change in the reference variables, the fair value of the investments at the reporting date would have been EUR 2 million higher (EUR 7 million lower). If the reference variables had been 10 percent higher (lower) with no change in the multiples, the fair value of the investments at the reporting date would have been EUR 2 million higher (EUR 2 million lower). In the reporting period, net expense of EUR 8 million was recognized in other financial income/expense for unrealized losses for the investments in the portfolio at the reporting date. Please refer to the following TABLE 163 for the development of the carrying amounts in the reporting period. No plans existed as of the reporting date to sell these investments.

The listed bonds and other securitized liabilities are assigned to Level 1 or Level 2 on the basis of the amount of the trading volume for the relevant instrument. Issues denominated in euros or U.S. dollars with relatively large nominal amounts are routinely to be classified as Level 1, the rest routinely as Level 2. The fair values of the instruments assigned to Level 1 equal the nominal amounts multiplied by the price quotations at the reporting date. The fair values of the instruments assigned to Level 2 are calculated as the present values of the payments associated with the debts, based on the applicable yield curve and Deutsche Telekom's credit spread curve for specific currencies.

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

Since there are no market prices available for the derivative financial instruments in the portfolio assigned to Level 2 due to the fact that they are not listed on the market, the fair values are calculated using standard financial valuation models, based entirely on observable inputs. The fair value of derivatives is the value that Deutsche Telekom would receive or have to pay if the financial instrument were transferred at the reporting date. Interest rates of contractual partners relevant as of the reporting date are used in this respect. The middle rates applicable as of the reporting date are used as exchange rates. In the case of interest-bearing derivatives, a distinction is made between the clean price and the dirty price. In contrast to the clean price, the dirty price also includes the interest accrued. The fair values carried correspond to the full fair value or the dirty price.

The financial assets held for trading assigned to Level 3 that are carried under other derivative financial assets relate to options embedded in bonds issued by T-Mobile US with a carrying amount of EUR 390 million when translated into euros. The options, which can be exercised by T-Mobile US at any time, allow early redemption of the bonds at fixed exercise prices. Observable market prices are available routinely and also at the reporting date for the bonds as entire instruments, but not for the options embedded therein. The termination rights were measured using an option pricing model. Historical interest rate volatilities of bonds issued by T-Mobile US and comparable issuers were used for the measurement because we believe that these provide a more reliable estimate for these unobservable inputs at the reporting date than current market interest rate volatilities. The absolute figure used for the interest rate volatility at the current reporting date was between 1.8 and 2.4 percent. The spread curve, which is also unobservable, was derived on the basis of current market prices of bonds issued by T-Mobile US and debt instruments of comparable issuers. The spreads used at the current reporting date were between 3.3 and 4.9 percent for the maturities of the bonds and between 2.2 and 2.8 percent for shorter terms. In our opinion, 10 percent constituted the best estimate for the mean reversion, another unobservable input. If 10 percent higher (lower) interest rate volatilities in absolute terms had been used for the measurement at the reporting date, with otherwise unchanged parameters, the fair value of the options from T-Mobile US' perspective would have been EUR 54 million higher (EUR 59 million lower) when translated into euros. If spreads of 100 basis points higher (lower) had been used for the measurement at the reporting date, with otherwise unchanged parameters, the fair value of the options from T-Mobile US' perspective would have been EUR 144 million lower (EUR 217 million higher) when translated into euros. If a mean reversion of 100 basis points higher (lower) had been used for the measurement at the reporting date, with otherwise unchanged parameters, the fair value of the options from T-Mobile US' perspective would have been EUR 13 million lower (EUR 16 million higher) when translated into euros. In the reporting period, net income of EUR 166 million when translated into euros was recognized under the Level 3 measurement in other financial income/expense for unrealized gains for the options in the portfolio at the reporting date. Please refer to TABLE 163 for the development of the carrying amounts in the reporting period. The value increases recognized in profit or loss in the reporting period are mainly attributable to lower interest rates and a historically higher absolute interest rate volatility. The value reductions recognized in profit or loss in the reporting period are mainly due to an increase in the interest rate level. Due to its distinctiveness, this instrument constitutes a separate class of financial instruments.

The financial liabilities held for trading assigned to Level 3 that are presented under financial liabilities with a carrying amount of EUR 298 million when translated into euros relate to stock options embedded in the Mandatory Convertible Preferred Stock issued by T-Mobile US. The Mandatory Convertible Preferred Stock will be converted into a variable number of shares of T-Mobile US on the maturity date in 2017 and, in accordance with IFRS, is accounted for as debt rather than equity. The entire instrument is split into a debt instrument (bond) measured at amortized cost and an embedded derivative measured at fair value through profit or loss. In addition to conversion on the maturity date, this derivative also includes the early conversion rights granted to investors. An observable market price is available regularly and at the reporting date for the Mandatory Convertible Preferred Stock as an entire instrument, but not for the options embedded therein. The conversion rights were measured using an option pricing model. The market price of the entire instrument and its individual components is largely dependent on T-Mobile US' share price performance and the market interest rates. If the share price of T-Mobile US had been 10 percent higher (lower) at the reporting date, with otherwise unchanged parameters, the fair value of the options from T-Mobile US' perspective would have been EUR 110 million lower (EUR 108 million higher) when translated into euros. If a market interest rate of 100 basis points higher (lower) had been used for the measurement at the reporting date, with otherwise unchanged parameters, the fair value of the options from T-Mobile US' perspective would have been EUR 15 million lower (EUR 16 million higher) when translated into euros. In the reporting period, a net expense of EUR 295 million when translated into euros was recognized in other financial income/expense for unrealized losses for the options in the portfolio at the reporting date. Please refer to TABLE 163 for the development of the carrying amount in the reporting period. As of December 31, 2014, the value of the derivative was still slightly positive from Deutsche Telekom's perspective (carrying amount less than EUR 1 million), which is why it had to be disclosed as an asset. The change in the market price in the reporting period is largely attributable to the rise in T-Mobile US' share price. Due to its distinctiveness, this instrument constitutes a separate class of financial instruments.

The financial liabilities assigned to Level 3 include derivative financial liabilities with a carrying amount of EUR 39 million resulting from an option granted to third parties in the reporting period for the purchase of shares in a subsidiary of Deutsche Telekom. The term ends in 2017 and no notable fluctuations in value are expected in future. Due to its distinctiveness, this instrument constitutes a separate class of financial instruments.

T 163

Development of the carrying amounts of the financial assets and financial liabilities assigned to Level 3
millions of €

	Available-for-sale financial assets (AfS)	Financial assets held for trading (FAHfT): Early redemption options embedded in bonds	Financial liabilities held for trading (FLHfT): Conversion rights embedded in Mandatory Convertible Preferred Stock
Carrying amount as of January 1, 2015	**208**	**183**	**0**
Additions (including first-time categorization as Level 3)	49	27	–
Value decreases recognized in profit/loss	(8)	(174)	(323)
Value increases recognized in profit/loss	–	340	28
Value decreases recognized directly in equity	(18)	–	–
Value increases recognized directly in equity	48	–	–
Disposals	(12)	–	–
Currency translation effects recognized directly in equity	–	14	(3)
CARRYING AMOUNT AS OF DECEMBER 31, 2015	**267**	**390**	**(298)**

T 164

Net gain/loss by measurement category
millions of €

	Recognized in profit or loss from interest, dividends	Recognized in profit or loss from subsequent measurement			Recognized directly in equity from subsequent measurement	Recognized in profit or loss from derecognition	Net gain (loss)
		At fair value	Currency translation	Impairments/ allowances	At fair value		2015
Loans and receivables (LaR)	34		1,854	(748)			**1,140**
Held-to-maturity investments (HtM)							**–**
Available-for-sale financial assets (AfS)	7			(4)	31	3	**37**
Financial instruments held for trading (FAHfT and FLHfT)	n. a.	258					**258**
Financial liabilities measured at amortized cost (FLAC)	(2,381)		(2,144)				**(4,525)**
	(2,340)	**258**	**(290)**	**(752)**	**31**	**3**	**(3,090)**

millions of €

	Recognized in profit or loss from interest, dividends	Recognized in profit or loss from subsequent measurement			Recognized directly in equity from subsequent measurement	Recognized in profit or loss from derecognition	Net gain (loss)
		At fair value	Currency translation	Impairments/ allowances	At fair value		2014
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)**
	(2,423)	**435**	**(390)**	**(734)**	**41**	**49**	**(3,022)**

Interest from financial instruments is recognized in finance costs, dividends in other financial income/expense (please also refer to Note 22 "Finance costs," PAGE 210, and Note 24 "Other financial income/expense," PAGE 210). Deutsche Telekom recognizes the other components of net gain/loss in other financial income/expense, except for allowances on trade receivables (please also refer to Note 2 "Trade and other receivables," PAGE 181) that are classified as loans and receivables, which are reported under selling expenses. The net gain from the subsequent measurement for financial instruments held for trading (EUR 258 million) also includes interest and currency translation effects. The net currency translation gains on financial assets classified as loans and receivables (EUR 1,854 million) are primarily attributable to the Group-internal transfer of foreign-currency loans taken out by Deutsche Telekom's financing company, Deutsche Telekom International Finance B. V., on the capital market. These were offset by corresponding currency translation losses on capital market liabilities of EUR 2,144 million. These include currency translation gains from derivatives that Deutsche Telekom used as hedges for hedge accounting in foreign currency (EUR 335 million; 2014: currency translation gains of EUR 331 million). Finance costs from financial liabilities measured at amortized cost (expense of EUR 2,381 million) primarily consist of interest expense on bonds and other (securitized) financial liabilities. The item also includes interest expenses from interest added back and interest income from interest discounted from trade payables. However, it does not include the interest expense and interest income from interest rate derivatives Deutsche Telekom used in the reporting period to hedge the fair value risk of financial liabilities (please also refer to Note 22 "Finance costs," PAGE 210).

Principles of risk management. Deutsche Telekom is exposed in particular to risks from movements in exchange rates, interest rates, and market prices that affect its assets, liabilities, and forecast transactions. Financial risk management aims to limit these market risks through ongoing operational and finance activities. Selected derivative and non-derivative hedging instruments (hedging transactions) are used for this purpose, depending on the risk assessment. However, Deutsche Telekom only hedges the risks that affect the Group's cash flow. Derivatives are exclusively used as hedging instruments, i. e., not for trading or other speculative purposes. To reduce the credit risk, hedging instruments are generally only concluded with leading financial institutions whose credit rating is at least BBB+/Baa1. In addition, the credit risk for derivatives with a positive market value is minimized through collateral agreements with all core banks. Furthermore, the limits for deposits are also set and monitored on a daily basis depending on the rating, share price performance, and credit default swap level of the counterparty.

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

Treasury regards effective management of the market risk as one of its main tasks. The main risks relate to foreign currencies and interest rates.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

If the euro had gained (lost) 10 percent against the U.S. dollar and the pound sterling at December 31, 2015, the hedging reserve in shareholders' equity and the fair values of the hedging instruments before taxes would have been EUR 38 million higher (lower) (December 31, 2014: EUR 21 million higher (lower)). The hypothetical effect of EUR 38 million on profit or loss primarily results from the currency sensitivities EUR/USD: EUR 52 million and EUR/GBP: EUR –14 million.

If the euro had gained (lost) 10 percent against all currencies at December 31, 2015, other financial income and the fair value of the hedging instruments before taxes would have been EUR 42 million higher (lower) (December 31, 2014: EUR 115 million higher (lower)). The hypothetical effect of EUR 42 million on profit or loss primarily results from the currency sensitivities EUR/PLN: EUR 26 million and EUR/USD: EUR 18 million.

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

Due to the derivative hedging instruments, an average of 53 percent (2014: 60 percent) of net debt in 2015 denominated in euros and 87 percent (2014: 93 percent) of net debt denominated in U.S. dollars had a fixed rate of interest. The average value is representative for the year as a whole. Since T-Mobile US as a self-financing company is responsible for the "net exposure in USD" and a higher fixed portion for high-yield issuers is quite usual in the market and appropriate, no interest rate management measures for the U.S. dollar were resolved or implemented in 2015.

Interest rate risks are presented by way of sensitivity analyses in accordance with IFRS 7. These show the effects of changes in market interest rates on interest payments, interest income and expense, other income components, and, if appropriate, shareholders' equity. The interest rate sensitivity analyses are based on the following assumptions: Changes in the market interest rates of non-derivative financial instruments with fixed interest rates only affect income if these are measured at their fair value. As such, all financial instruments with fixed interest rates that are carried at amortized cost are not subject to interest rate risk as defined in IFRS 7.

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

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

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

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

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

If the market interest rates had been 100 basis points higher at December 31, 2015, profit or loss before taxes would have been EUR 369 million (December 31, 2014: EUR 301 million) lower. If the market interest rates had been 100 basis points lower at December 31, 2015, profit or loss before taxes would have been EUR 443 million (December 31, 2014: EUR 366 million) higher. This simulation includes the effects from the financial instruments assigned to Level 3 described above. The hypothetical effect of EUR −369 million/EUR +443 million on income primarily results from the potential effects of EUR −353 million/EUR +426 million from interest rate derivatives, EUR −35 million/EUR +35 million from non-derivative, variable-interest financial liabilities, as well as EUR +33 million/EUR −33 million from other non-derivative financial assets. Potential effects from interest rate derivatives are partially balanced out by the contrasting performance of non-derivative financial instruments, which cannot, however, be shown as a result of applicable accounting standards. If the market interest rates had been 100 basis points higher (lower) at December 31, 2015, the hedging reserve would have been EUR 24 million lower (higher) (December 31, 2014: EUR 97 million higher (lower)), and gains and losses recognized in equity from the remeasurement of available-for-sale financial assets before taxes would have been EUR 9 million lower (higher) (December 31, 2014: EUR 0 million).

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

Aside from the value-creating factors in the financial instruments assigned to Level 3 described above, there were no other price risks as of December 31, 2015, as was also the case at December 31, 2014.

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

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

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millions of €

	Dec. 31, 2015			
	Trade receivables	Trade payables	Derivative financial assets	Derivative financial liabilities
Gross amounts subject to enforceable master netting arrangements or similar agreements	701	778	2,296	597
Amounts set off in the statement of financial position in accordance with IAS 32.42	(126)	(126)	–	–
Net amounts presented in the statement of financial position	**575**	**652**	**2,296**	**597**
Amounts subject to enforceable master netting arrangements or similar agreements and not meeting all offsetting requirements in accordance with IAS 32.42	**(23)**	**(23)**	**(2,217)**	**(587)**
Of which: amounts related to recognized financial instruments	(23)	(23)	(492)	(492)
Of which: amounts related to financial collateral (including cash collateral)	–	–	(1,725)	(95)
NET AMOUNTS	**552**	**629**	**79**	**10**

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)	–	–
Net amounts presented in the statement of financial position	**199**	**245**	**1,160**	**1,095**
Amounts subject to enforceable master netting arrangements or similar agreements and not meeting all offsetting requirements in accordance with IAS 32.42	**(11)**	**(11)**	**(1,108)**	**(1,091)**
Of which: amounts related to recognized financial instruments	(11)	(11)	(624)	(624)
Of which: amounts related to financial collateral (including cash collateral)	–	–	(484)	(467)
NET AMOUNTS	**188**	**234**	**52**	**4**

Offsetting is applied in particular to receivables and liabilities at Deutsche Telekom AG and Telekom Deutschland GmbH for the routing of international calls via the fixed network and for roaming fees in the mobile network.

In line with the contractual provisions, in the event of insolvency all derivatives with a positive or negative fair value that exist with the respective counterparty are offset against each other, leaving a net receivable or liability. The net amounts are normally recalculated every bank working day and offset against each other. When the netting of the positive and negative fair values of all derivatives was positive from Deutsche Telekom's perspective, the counterparty provided Deutsche Telekom with cash pursuant to the collateral contracts mentioned in Note 1 "Cash and cash equivalents," PAGE 180. The credit risk was thus further reduced.

When the netting of the positive and negative fair values of all derivatives was negative from Deutsche Telekom's perspective, Deutsche Telekom provided cash collateral to counterparties pursuant to collateral agreements. The net amounts are normally recalculated every bank working day and offset against each other. The cash collateral paid (please also refer to Note 8 "Other financial assets," PAGES 192 and 193) is offset by corresponding negative net derivative positions of EUR 95 million at the reporting date, which is why it was not exposed to any credit risks in this amount as of the reporting date. The collateral paid is reported under originated loans and receivables within other financial assets. On account of its close connection to the corresponding derivatives, the collateral paid constitutes a separate class of financial assets. Likewise, the collateral received, which is reported as other interest-bearing liabilities under financial liabilities, constitutes a separate class of financial liabilities on account of its close connection to the corresponding derivatives.

In accordance with the terms of bonds issued by a Deutsche Telekom subsidiary, this subsidiary has the right to terminate the bonds prematurely under specific conditions. The rights of termination constitute embedded derivatives and are accounted for separately as derivative financial assets. The conversion rights contained in Mandatory Convertible Preferred Stock issued by a subsidiary of Deutsche Telekom constitute an embedded derivative and are recognized separately as a derivative. Since these rights of termination and conversion rights are not exposed to a credit risk, they constitute a separate class of financial instruments.

No other significant agreements reducing the maximum exposure to the credit risks of financial assets existed. The maximum exposure to credit risk of the other financial assets thus corresponds to their carrying amounts.

In addition, Deutsche Telekom is exposed to a credit risk through the granting of financial guarantees. Guarantees amounting to a nominal total of EUR 84 million had been pledged as of the reporting date (December 31, 2014: EUR 50 million), which also represent the maximum exposure to credit risk.

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

Risks from financing and loan commitments. Deutsche Telekom granted the EE joint venture an irrevocable loan commitment of a maximum of GBP 225 million at arm's length market conditions in the reporting period which has not yet been utilized. The credit facility can be utilized at any time and will expire on November 14, 2016. The credit facility will be extended each time by a further twelve months, unless terminated three months prior to the end of the term. The nominal amount of GBP 225 million is the maximum default risk associated with this loan commitment. The arrangement allows for Deutsche Telekom to unilaterally terminate the credit facility with immediate effect upon consummation of the sale of the EE joint venture. Deutsche Telekom made use of this right of termination at the time of the consummation of the sale on January 29, 2016. As a result, the loan commitment was canceled and since that time there has been no further obligation on the part of Deutsche Telekom. For information on the consummation of the sale, please refer to Note 40 "Related-party disclosures," PAGES 239 and 240, and Note 43 "Events after the reporting period," PAGE 241.

In connection with the operation of a network in the United Kingdom by the EE joint venture, Deutsche Telekom had undertaken to make a payment in the event that the joint venture is unable to meet its contractual obligations. This guarantee is valid until December 9, 2029. The nominal amount of GBP 150 million is the maximum default risk associated with this guarantee. Following the consummation of the sale of the EE joint venture in January 2016, the guarantee obligation will in future be adapted to the new circumstances. For information on the consummation of the sale, please refer to Note 40 "Related-party disclosures," PAGES 239 and 240, and Note 43 "Events after the reporting period," PAGE 241.

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

Liquidity risks. Please also refer to Note 10 "Financial liabilities," PAGE 193 SET SEQ.

HEDGE ACCOUNTING

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

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

In the reporting period, new fair value hedges with a total nominal volume of EUR 5.4 billion were designated for reducing the fair value risk.

As the list of the fair values of derivatives shows (see TABLE 166, PAGE 236), Deutsche Telekom had interest rate derivatives with a net fair value of EUR 0.3 billion (December 31, 2014: EUR 0.2 billion) designated as fair value hedges at December 31, 2015. The remeasurement of the hedged items resulted in losses of EUR 0.1 billion being recorded in other financial income/expense in the 2015 financial year (2014: losses of EUR 0.4 billion); the changes in the fair values of the hedging transactions resulted in gains of EUR 0.1 billion (2014: gains of EUR 0.4 billion) being recorded in other financial income/expense.

Cash flow hedges – interest rate risks. Deutsche Telekom entered into payer interest rate swaps and forward payer interest rate swaps (pay fixed, receive variable) to hedge the cash flow risk of variable-interest debt. The interest payments to be made in the hedging period are the hedged items and are recognized in profit or loss in the same period. The changes in the cash flows of the hedged items resulting from changes in the Euribor and Libor rates are offset against the changes in the cash flows of the interest rate swaps. The aim of this hedging is to transform the variable-interest bonds into fixed-income debt, thus hedging the cash flows of the financial liabilities. The terms of the hedging relationships will end in the years 2016 through 2018. Credit risks are not part of the hedging.

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

Ineffectiveness of EUR 7 million (income) was recognized in profit or loss under other financial income/expense in the reporting year (2014: income of EUR 19 million).

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

As the list of the fair values of derivatives shows (see TABLE 166, PAGE 236), Deutsche Telekom had interest rate derivatives with a fair value of EUR −0.1 billion (December 31, 2014: EUR −0.3 billion) amounting to a nominal total of EUR 1.0 billion (December 31, 2014: EUR 3.1 billion) designated as hedging instruments for the hedging of interest rate risks as part of cash flow hedges at December 31, 2015.

The recognition directly in equity of the change in the fair value of the hedging instruments resulted in losses (before taxes) of EUR 1 million (2014: losses of EUR 97 million) in shareholders' equity in the 2015 financial year. Losses amounting to EUR 100 million (2014: losses of EUR 77 million) recognized directly in equity were reclassified to other financial income/expense in the income statement in the 2015 financial year.

Cash flow hedges – currency risks. Deutsche Telekom entered into currency derivative and cross-currency swap agreements to hedge cash flows not denominated in a functional currency. The payments in foreign currency to be made in the hedging period are the hedged items and are recognized in profit or loss in the same period. The terms of the hedging relationships will end in the years 2016 through 2033. The effectiveness of the hedging relationship is tested prospectively and retrospectively using statistical methods in the form of a regression analysis. All designated hedging relationships were sufficiently effective as of the reporting date.

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

In the 2015 financial year, gains (before taxes) totaling EUR 654 million (2014: gains of EUR 362 million) resulting from the change in the fair values of currency derivatives were taken directly to equity (hedging reserve). These changes constitute the effective portion of the hedging relationship. In the 2015 financial year, gains totaling EUR 358 million recognized directly in equity were reclassified to other financial income/expense and losses totaling EUR 4 million were reclassified to profit/loss from operations (2014: gains of EUR 338 million were reclassified to other financial income/expense and gains of EUR 6 million to profit/loss from operations). There was no material ineffectiveness of these hedges recorded as of the reporting date.

As the list of the fair values of derivatives shows (see TABLE 166, PAGE 236), Deutsche Telekom had currency forwards of a net fair value of EUR −26 million (December 31, 2014: EUR −5 million), that are the result of foreign currency purchases totaling EUR 0.5 billion and foreign currency sales totaling EUR 0.7 billion (December 31, 2014: foreign currency purchases of EUR 0.2 billion and foreign currency sales of EUR 0.4 billion), as well as cross-currency swaps of a net fair value of EUR 0.9 billion (December 31, 2014: EUR 0.1 billion) and a total volume of EUR 4.8 billion (December 31, 2014: EUR 4.8 billion) designated as hedging instruments for cash flow hedges as of December 31, 2015.

Hedging of a net investment. The hedge of the net investment in T-Mobile US against fluctuations in the U.S. dollar spot rate designated in 2012 did not generate any effects in 2015. The level of gains/losses recognized directly in equity (total other comprehensive income) remained unchanged at EUR −0.4 billion (before taxes).

Derivatives. TABLE 166 shows the fair values of the various derivatives carried. A distinction is made depending on whether these are part of an effective hedging relationship as set out in IAS 39 (fair value hedge, cash flow hedge, net investment hedge) or not. Other derivatives can also be embedded, i. e., a component of a composite instrument that contains a non-derivative host contract.

T 166

millions of €

	Net carrying amounts Dec. 31, 2015	Net carrying amounts Dec. 31, 2014
ASSETS		
Interest rate swaps		
Without a hedging relationship	49	53
In connection with fair value hedges	290	222
In connection with cash flow hedges	–	–
Currency forwards/currency swaps		
Without a hedging relationship	29	67
In connection with cash flow hedges	7	4
Cross-currency swaps		
Without a hedging relationship	1,057	531
In connection with fair value hedges	–	–
In connection with cash flow hedges	863	282
Other derivatives in connection with cash flow hedges	–	–
Other derivatives without a hedging relationship	1	1
Embedded derivatives	390	183
LIABILITIES		
Interest rate swaps		
Without a hedging relationship	238	235
In connection with fair value hedges	–	–
In connection with cash flow hedges	74	252
Currency forwards/currency swaps		
Without a hedging relationship	147	229
In connection with cash flow hedges	33	9
In connection with net investment hedges	–	–
Cross-currency swaps		
Without a hedging relationship	76	185
In connection with fair value hedges	10	8
In connection with cash flow hedges	–	162
Other derivatives in connection with cash flow hedges	–	–
Other derivatives without a hedging relationship	58	15
Embedded derivatives	298	–

Transfer of financial assets

Factoring transactions with substantially all risks and rewards being transferred. Since January 1, 2015, a factoring transaction has been in place under which a bank is required to purchase current trade receivables. The bank's purchase obligation revolves on a monthly basis and covers a maximum receivables amount of EUR 250 million when translated into euros. Sales exceeding this amount must be agreed on a case-by-case basis. The agreement runs until 2020, giving Deutsche Telekom the freedom to decide whether receivables will be sold and in which revolving nominal volume. The risks relevant for the risk assessment with respect to the receivables sold are the credit risk and the risk of late payments (late payment risk). The credit risk represents substantially all the risks and rewards of ownership of the receivables and is transferred to the bank in full in return for payment of a fixed purchase price discount. The late-payment risk continues to be borne in full by Deutsche Telekom. The maximum exposure to loss resulting from late-payment risk relating to the receivables sold and derecognized as of December 31, 2015 (nominal volume EUR 306 million) is EUR 1 million. At the derecognition date, the fixed purchase price discount and the fair value of the expected loss resulting from the late-payment risk was expensed. The expected loss resulting from the late-payment risk recognized under financial liabilities represents Deutsche Telekom's entire continuing involvement; as of December 31, 2015, the carrying amount and fair value each amounted to less than EUR 1 million. Deutsche Telekom expensed EUR 72 million in total in the 2015 financial year from its continuing involvement to account for purchase price discounts and program fees (interest and bank margin). Deutsche Telekom recognizes the purchase price payments received from the buyers under cash generated from operations (please refer to Note 31 "Notes to the consolidated statement of cash flows," PAGE 216 ET SEQ.). The volume of receivables sold during the financial year amounted to between EUR 193 million and EUR 348 million. As of December 31, 2015, a total provision of EUR 3 million was recognized for the receivables management to be performed by Deutsche Telekom. A factoring agreement that was still active in the prior period was completed and settled as of the reporting date.

Factoring transactions involving the splitting of significant risks and rewards as well as the transfer of control. Factoring transactions are in place under which banks are required to purchase trade receivables. The receivables sold entail both charges already due and charges from sales of handsets payable over a period of up to two years. The banks' purchase obligation revolves on a monthly basis and covers a maximum receivables amount of EUR 737 million when translated into euros. Sales exceeding this amount must be agreed on a case-by-case basis. The purchase price up to a maximum amount of EUR 503 million will be paid out immediately upon sale; remaining portions of the purchase price will only be paid to the extent that the volume of receivables sold decreases further accordingly. The term of the agreements ends between 2016 and 2019, giving Deutsche Telekom the freedom to decide whether receivables will be sold and in which volume. The risks relevant for the risk assessment with respect to the receivables sold are the credit risk and the risk of late payments (late payment risk). The purchase price corresponds to the nominal amount. The maximum credit risk from the various tranches to be borne by Deutsche Telekom amounts to EUR 134 million. The other credit risk-related losses are borne by the banks. The existing loan insurance policy reimburses losses relating to certain receivables to a maximum amount of EUR 150 million and thus reduces the exposure to loss. The late-payment risk continues to be borne almost in full by Deutsche Telekom. The maximum exposure to loss resulting from credit risk and late-payment risk relating to the receivables sold as of December 31, 2015 (nominal volume EUR 451 million when translated into euros), excluding loan insurance coverage, is EUR 151 million. Substantially all the risks and rewards of ownership of the receivables were neither transferred nor retained (allocation of the material risks between Deutsche Telekom and the bank). Control of the receivables sold was transferred to the banks because these have the practical ability to resell the receivables. All receivables sold as of December 31, 2015 have been derecognized. At the derecognition date, the fair value of the expected losses was expensed as financial liabilities. As of December 31, 2015, the carrying amount of the financial liability representing Deutsche Telekom's entire continuing involvement was EUR 4 million and its fair value was EUR 4 million. Deutsche Telekom expensed EUR 13 million, including credit-risk discounts and loss allocations to cover monthly credit risks, in the financial year from its continuing involvement including program fees (interest and bank margin), and has expensed a total amount of EUR 51 million since the beginning of the transaction. Deutsche Telekom recognizes the purchase price payments received from the buyers under cash generated from operations (please refer to Note 31 "Notes to the consolidated statement of cash flows," PAGE 216 ET SEQ.). The bank has the right to sell back all overdue receivables to Deutsche Telekom. For some of the transactions, the

purchase price corresponds to the nominal amount and is payable in the month following the buy-back (outstanding receivables volume as of December 31, 2015: EUR 370 million when translated into euros). In other transactions, the purchase price equals the actual proceeds from collection or disposal, and is payable in the month after Deutsche Telekom receives these proceeds from collection or disposal (outstanding receivables volume as of December 31, 2015: EUR 81 million when translated into euros). Such buy-backs would not affect the allocation of the credit risk-related losses in any way, not even in the event of buy-back at nominal amount, as such losses would be passed back to the bank in line with the agreed risk allocation. The volume of receivables sold was not subject to major fluctuations since the beginning of the transaction. The carrying amount of the provision recognized by Deutsche Telekom as of December 31, 2015 for the receivables management to be performed is less than EUR 1 million.

Factoring transactions involving the splitting of significant risks and rewards with control remaining at Deutsche Telekom. Deutsche Telekom has entered into five factoring agreements under which it sells trade receivables on a revolving basis. The receivables are sold on a daily basis and settled on a monthly basis. The receivables sold entail both charges already due and charges from sales of handsets payable over a period of up to two years. The debtors are consumers as well as business customers. In none of the transactions is Deutsche Telekom exposed to risks other than the credit risk and late-payment risk resulting from the sold receivables agreed in the respective agreement. The term of the agreements ends between 2017 and 2020.

In one factoring agreement, the buyers have a monthly revolving purchase obligation that covers a maximum receivables amount of EUR 1,331 million when translated into euros. The purchase price up to a maximum of EUR 689 million when translated into euros will be paid out immediately upon sale; remaining portions of the purchase price will only be paid to the extent that the volume of receivables sold decreases further accordingly. As part of this transaction, subsidiaries of Deutsche Telekom sell receivables to a structured entity that is also a subsidiary of Deutsche Telekom and was established for the sole purpose of this factoring agreement. The structured entity has no assets and liabilities other than those resulting from the purchase and sale of the receivables under the factoring agreement. It resells the receivables to another structured entity. Deutsche Telekom does not consolidate this other structured entity because it has no ability to direct this entity's relevant activities. This other structured entity sells the ownership interests in the receivables to banks on a pro-rata basis. The required funding is provided to the structured entity consolidated by Deutsche Telekom in the context of Deutsche Telekom's general Group financing. The structured entity not consolidated by Deutsche Telekom is financed by the external buyers of the receivables. All receivables are purchased in an automated process based on the purchase criteria set out in the receivables purchase agreement. Deutsche Telekom is obligated to buy back aged receivables and receivables for which a write-down is imminent at nominal value. The cash flows resulting from the buy-backs would be in the month following the buy-back. Such buy-backs of receivables would not affect the allocation of the credit risk-related losses in any way, as the latter would be passed back to the buyers in line with the agreed risk allocation. The nominal volume of the receivables sold by Deutsche Telekom and not yet settled by the debtors was EUR 856 million as of the reporting date when translated into euros.

In another factoring agreement, the buyers have a monthly revolving purchase obligation. Here the amount of the purchase price to be paid immediately is determined on the basis of the characteristics of the receivables. The buyers' purchase obligation covers a receivables amount that leads to an immediate purchase price payment of EUR 735 million when translated into euros. The remaining purchase price is only paid if the volume of the receivables sold decreases accordingly or the characteristics of the receivables change. As part of this transaction, subsidiaries of Deutsche Telekom sell receivables to a structured entity that is also a subsidiary of Deutsche Telekom and was established for the sole purpose of this factoring agreement. The required funding is provided to this structured entity in the context of Deutsche Telekom's general Group financing. It has no assets and liabilities other than those resulting from the purchase and sale of the receivables under the factoring agreement. The structured entity transfers the legal role of creditor for the receivables to a bank that performs this role on behalf of the investors who have beneficial ownership of the receivables (administrative agent). These investors are a bank and a structured entity. Deutsche Telekom does not consolidate this structured entity because it has no ability to direct this entity's relevant activities. The structured entity is financed through the issue of commercial paper to third parties outside the Group or, alternatively, through a credit facility provided by a bank. All receivables are purchased in an automated process based on the purchase criteria set out in the receivables purchase agreement. Deutsche Telekom is obligated to buy back aged receivables and receivables for which a write-down is imminent at nominal value. Such buy-backs would not result in any cash outflow, but rather would correspondingly reduce the retained portions of the purchase price payable to Deutsche Telekom in the future. The buy-backs would not affect the allocation of the credit risk-related losses in any way, as the latter would be passed back to the buyers in line with the agreed risk allocation. The nominal volume of the receivables sold by Deutsche Telekom and not yet settled by the debtors was EUR 941 million as of the reporting date when translated into euros.

Another factoring agreement has a maximum program volume of EUR 150 million. If the buyer agrees to purchase receivables beyond this amount, the purchase price payment shall be deferred until the maximum program volume decreases again by the corresponding amount. With this structure, there is no structured entity consolidated by Deutsche Telekom. Rather, the receivables are sold directly to a structured entity that is not consolidated by Deutsche Telekom due to the lack of ability to direct the entity's relevant activities. This structured entity holds the receivables and allocates the risks and rewards resulting from these to Deutsche Telekom and a bank on the basis of contractual arrangements. The structured entity is financed through the issue of commercial paper to third parties outside the Group or, alternatively, through a credit facility provided by a bank. In one receivables portfolio, the receivables are purchased in an automated process based on the purchase criteria set out in the receivables purchase agreement. In another receivables portfolio, the structured entity has the freedom to decide whether and which receivables will be purchased, though purchase of the agreed minimum volume is imperative. Deutsche Telekom is obligated to buy back aged receivables and receivables for which a write-down is imminent at nominal value. The cash flows resulting from the buy-backs would occur in the month following the buy-back. Such buy-backs of receivables would not affect the allocation of the credit risk-related losses in any way, as the latter would be passed back to the buyers in line with the agreed risk allocation. The nominal volume of the receivables sold by Deutsche Telekom and not yet settled by the debtors was EUR 100 million as of the reporting date.

None of the structured entities has business activities other than the purchase or sale of trade receivables or other investments.

Under another factoring agreement with a maximum volume of receivables of EUR 725 million, Deutsche Telekom sells the receivables directly to the purchasers outside the Group without using structured entities as intermediaries. If more receivables are purchased, the purchase price payment is deferred until the maximum program volume accordingly falls again. Deutsche Telekom has the freedom to decide whether receivables can be sold and in which volume. Receivables for which a write-down is imminent are sold back to Deutsche Telekom. Here the purchase price corresponds to the actual proceeds from collection or disposal and is payable in the month after Deutsche Telekom receives these proceeds from collection or disposal. As such, these buy-backs would affect neither the allocation of the credit risk-related losses nor Deutsche Telekom's liquidity situation.

Under another factoring agreement with a maximum volume of receivables of EUR 150 million, Deutsche Telekom sells the receivables directly to the purchasers outside the Group without using structured entities as intermediaries. Deutsche Telekom has the freedom to decide whether receivables can be sold and in which volume. The existing loan insurance policy reimburses losses relating to certain receivables to a maximum amount of EUR 35 million and thus reduces the exposure to loss.

The nominal volume of the receivables sold by Deutsche Telekom under the five factoring agreements and not yet settled by the debtors was EUR 2,773 million as of the reporting date when translated into euros. The risks relevant for the risk assessment with respect to the receivables sold are the credit risk and the risk of late payments (late payment risk). The maximum credit risk to be borne by Deutsche Telekom amounts to EUR 457 million as of the reporting date when translated into euros and is largely attributable to transactions involving structured entities. The other credit risk-related losses are borne by the buyers. The late-payment risk continues to be borne in full by Deutsche Telekom. The maximum exposure to loss for Deutsche Telekom resulting from credit risk and late-payment risk relating to the receivables sold at the reporting date is EUR 469 million when translated into euros and is largely attributable to transactions involving structured entities. Substantially all the risks and rewards of ownership of the receivables were neither transferred nor retained (allocation of the material risks and rewards between Deutsche Telekom and the buyers). Deutsche Telekom continues to perform servicing for the receivables sold. Under the factoring agreements in which structured entities are engaged, buyers have the right to transfer the servicing to third parties for no specific reason. Although Deutsche Telekom is not authorized to use the receivables sold other than in its capacity as servicer, it retains control over the receivables sold because the buyers and the structured entities do not have the practical ability to resell the purchased receivables. At the time the receivables are sold, the fair value of the expected losses is expensed. Expected future payments are presented as a component of the associated liability. In transactions with structured entities, certain portions of the purchase price are initially held back and, depending on the amount of the actual defaults, are only paid to Deutsche Telekom at a later date. To the extent that such portions of the purchase price are expected to be received in the future, they are recognized at fair value. Deutsche Telekom continues to recognize the trade receivables sold to the extent of its continuing involvement, i. e., in the maximum amount with which it is still liable for the credit risk and late-payment risk inherent in the receivables sold, and recognizes a corresponding associated liability presented in liabilities to banks. The receivables and the associated liability are then derecognized in the extent to which Deutsche Telekom's continuing involvement is reduced (particularly when payment is made by the customer). The carrying amount of the receivables is subsequently reduced by the extent to which the actual losses to be borne by Deutsche Telekom resulting from the credit risk and the late-payment risk exceed the losses initially expected. This amount is recognized as an expense. Deutsche Telekom's continuing involvement as of December 31, 2015 amounted to EUR 469 million when translated into euros, and the carrying amount of the associated liability was EUR 475 million when translated into euros. Deutsche Telekom presents the purchase price payments received from the buyers under cash generated from operations where these relate to the derecognized portion of the receivables, and under net cash from/used in financing activities where they relate to the portion of the receivables that is still recognized (please also refer to Note 31 "Notes to the consolidated statement of cash flows," PAGE 216 ET SEQ.). The carrying amount of the provision recognized by Deutsche Telekom as of December 31, 2015 for the receivables management to be performed is EUR 4 million. The volume of receivables sold was not subject to major fluctuations since the beginning of the respective transaction.

38 CAPITAL MANAGEMENT

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

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

For further information, please refer to the section "Management of the Group," PAGE 63 ET SEQ., in the combined management report.

An important key performance indicator for the capital market communication with investors, analysts, and rating agencies is relative debt, i. e., net debt to adjusted EBITDA. This ratio stood at 2.4 at December 31, 2015 (December 31, 2014: 2.4). The target corridor for relative debt is between 2.0 and 2.5. Net debt is a non-GAAP figure not governed by International Financial Reporting Standards and its definition and calculation may vary from one company to another. A further essential key performance indicator is the equity ratio, i. e., the ratio of shareholders' equity to total assets as shown in the consolidated statement of financial position. The equity ratio was 26.5 percent as of December 31, 2015 (December 31, 2014: 26.3 percent). The target corridor is between 25 and 35 percent. In addition, Deutsche Telekom maintains a liquidity reserve covering all maturities of the next 24 months.

T 167

Calculation of net debt; shareholders' equity
millions of €

	Dec. 31, 2015	Dec. 31, 2014
Financial liabilities (current)	14,439	10,558
Financial liabilities (non-current)	47,941	44,669
FINANCIAL LIABILITIES	**62,380**	**55,227**
Accrued interest	(1,014)	(1,097)
Other	(857)	(1,038)
GROSS DEBT	**60,509**	**53,092**
Cash and cash equivalents	6,897	7,523
Available-for-sale/held-for-trading financial assets	2,877	289
Derivative financial assets	2,686	1,343
Other financial assets	479	1,437
NET DEBT	**47,570**	**42,500**
SHAREHOLDERS' EQUITY	**38,150**	**34,066**

39 SERVICE CONCESSION ARRANGEMENTS

Satellic NV, Machelen, Belgium, is a fully consolidated subsidiary of Deutsche Telekom and on July 25, 2014 signed a contractual arrangement with Viapass, the public agency responsible for toll collection in Belgium, for the establishment, operation, and financing of an electronic toll collection system. The system is expected to be in place by March 31, 2016. The operation phase that follows will have a duration of twelve years, with the additional option for Viapass to extend the term three times by one year. Satellic has no entitlement to the toll revenue collected but will receive contractually agreed fees for setting up and operating the system. Viapass is authorized to terminate the arrangement giving notice of six months with payment of reasonable compensation. In the event of regular or premature termination of the agreement, Satellic has an obligation to hand over to Viapass, on request, material assets for the operation of the toll collection system that have not yet passed to the ownership of Viapass; in such an event, however, the software platform for toll collection would not be handed over to Viapass. The agreement was classified as a service concessions arrangement within the meaning of IFRIC 12. During the phase of setting up the system, revenue from long-term construction contracts will be recognized pursuant to IAS 11 and a financial asset carried in accordance with IFRIC 12. The percentage of completion is determined as the percentage of cost incurred up until the reporting date relative to the total estimated cost (cost-to-cost method). Revenue from separate fees for operation and maintenance services during the operation phase will be recognized on an accrual basis in accordance with IAS 18. In the reporting year, revenue from construction contracts of EUR 239 million and capitalized costs from long-term construction contracts of EUR 293 million were reported under trade receivables. In accordance with IAS 11, revenue is only recognized in the amount of the contract costs expensed (zero-profit method). Total costs of EUR 293 million have been incurred so far under the construction contract.

40 RELATED-PARTY DISCLOSURES

Federal Republic of Germany and other related parties. The Federal Republic of Germany is both a direct and an indirect shareholder (via KfW Bankengruppe) and holds approximately 31.8 percent (December 31, 2014: 31.7 percent) of the share capital of Deutsche Telekom AG. The Federal Republic usually represents a solid majority at the shareholders' meeting due to its high attendance rate, giving the Federal Republic control over Deutsche Telekom. Therefore, the Federal Republic and the companies controlled by the Federal Republic, or companies over which the Federal Republic can exercise a significant influence are classified as related parties of Deutsche Telekom. Charges for services provided to the Federal Republic and its departments and agencies, and the individual companies are based on Deutsche Telekom's commercial pricing policies. Deutsche Telekom participates in the spectrum auctions of the Federal Network Agency. The acquisition of mobile communications spectrum through licenses may result in build-out requirements stipulated by the Agency.

The Federal Posts and Telecommunications Agency (Federal Agency) has been assigned certain tasks by law that affect cross-company issues at Deutsche Telekom AG, Deutsche Post AG, and Deutsche Postbank AG. The Federal Agency's responsibilities include the continuation of the Civil Service Health Insurance Fund (Postbeamtenkrankenkasse), the recreation service (Erholungswerk), the supplementary retirement pensions institution (Versorgungsanstalt der Deutschen Bundespost), and the welfare service (Betreuungswerk) for Deutsche Telekom AG, Deutsche Post AG, and Deutsche Postbank AG. The coordination and administrative tasks are performed on the basis of agency agreements. Up to and including the 2012 reporting year, Deutsche Telekom maintained a joint pension fund, Bundes-Pensions-Service für Post und Telekommunikation e. V., Bonn (Federal Pension Service for Post and Telecommunications – BPS-PT), together with Deutsche Post AG and Deutsche Postbank AG for civil-servant pension plans. The German Act on the Reorganization of the civil-servant Pension Fund (Gesetz zur Neuordnung der Postbeamtenversorgungskasse – PVKNeuG) transferred the functions of BPS-PT relating to civil-servant pensions (organized within the Civil Service Pension Fund) to the existing Federal Agency effective January 1, 2013. The civil-servant pension functions are therefore performed by the Civil Service Pension Fund as an integral part of the Federal Agency. This joint Civil Service Pension Fund works for the funds of all three companies and also handles the financial administration of the pension plan for the Federal Republic on a trust basis. For the 2015 financial year, Deutsche Telekom made payments in the amount of EUR 85 million (2014: EUR 58 million, 2013: EUR 58 million). Furthermore, payments are made to the Civil Service Pension Fund according to the provisions of the Act on the Reorganization of the Civil Service Pension Fund (please also refer to Note 12 "Provisions for pensions and other employee benefits," PAGE 197 ET SEQ.).

The Federal Republic and the companies controlled by the Federal Republic, or companies over which the Federal Republic can exercise a significant influence, are customers or suppliers of Deutsche Telekom and as such have mutual contractual relationships with Deutsche Telekom.

The Federal Republic of Germany (Federal Republic) and KfW Bankengruppe requested their dividend entitlements for the 2014 financial year relating to shares held in Deutsche Telekom AG be paid out partly in cash and partly in shares from authorized capital. In this connection, 13,905 thousand shares were transferred to the Federal Republic and 12,761 thousand shares to KfW Bankengruppe in June 2015. As of December 31, 2015, the Federal Republic held a share of 14.3 percent and KfW Bankengruppe a share of 17.5 percent in Deutsche Telekom AG. Otherwise, Deutsche Telekom did not execute any individually material transactions in the 2015 financial year at off-market terms and conditions or, as described, outside of its normal business activities.

Joint ventures. In the 2015 financial year, Deutsche Telekom generated revenue from service agreements (e. g., roaming charges) and service and licensing agreements, as well as other operating income totaling EUR 193 million (2014: EUR 283 million; 2013: EUR 294 million) from the EE joint venture established on April 1, 2010. Revenue generated with Toll Collect totaled EUR 83 million (2014: EUR 65 million, 2013: EUR 62 million), in particular from data processing and telecommunications services as well as consulting services.

Net funds of EUR 0.2 billion that had been originally invested by the EE joint venture were repaid to the company by Deutsche Telekom in the reporting year. Subsequently, the EE joint venture again invested a net EUR 0.2 billion with Deutsche Telekom.

At the end of the year, there were receivables vis-à-vis the EE joint venture in the amount of EUR 38 million (December 31, 2014: EUR 175 million, December 31, 2013: EUR 94 million), liabilities of EUR 235 million (December 31, 2014: EUR 257 million, December 31, 2013: EUR 241 million), and loan commitments of EUR 0.3 billion (December 31, 2014: EUR 0.3 billion, December 31, 2013: EUR 0.3 billion). The arrangement concerning the loan commitments allowed for unilateral termination by Deutsche Telekom with immediate effect upon consummation of the sale of the EE joint venture. At the closing date of the transaction, Deutsche Telekom AG exercised this termination right. As result, obligations from the loan commitment no longer exist. Loan guarantees and guarantee statements of EUR 0.9 billion (December 31, 2014: EUR 0.6 billion, December 31, 2013: EUR 0.6 billion) given by the company to third parties existed. Following the consummation of the sale of the EE joint venture on January 29, 2016, the guarantee obligations will in future be adapted to the new circumstances.

As of December 31, 2015, there were receivables vis-à-vis Toll Collect in the amount of EUR 40 million (December 31, 2014: EUR 11 million, December 31, 2013: EUR 13 million), liabilities of EUR 0 million (December 31, 2014: EUR 12 million, December 31, 2013: EUR 12 million), an equity maintenance undertaking, and loan guarantees granted to banks. For further details, please refer to Note 33 “Contingencies,” PAGE 220 ET SEQ.

There are otherwise no material revenue, receivables or liabilities from or to joint ventures.

Related individuals. In the reporting period, expenses for short-term benefits payable to members of the Board of Management and the Supervisory Board amounted to EUR 16.1 million (2014: EUR 13.5 million) and expenses for other long-term benefits amounted to EUR 3.2 million (2014: EUR 2.5 million). Service cost of EUR 3.2 million (2014: EUR 2.4 million) was recorded for Board of Management benefits. In addition, expenses for share-based payment for Board of Management members were incurred in the amount of EUR 870 thousand (2014: EUR 862 thousand). EUR 0.0 million (2014: EUR 2.9 million) was paid for termination benefits and recognized as an expense.

As of December 31, 2015, Deutsche Telekom recognized provisions for Board of Management compensation from short-term benefits of EUR 5.6 million (2014: EUR 4.7 million) and from other long-term benefits of EUR 7.3 million (2014: EUR 5.9 million). Furthermore, the present value of the defined benefit obligation (DBO) from the Board of Management pension amounts to EUR 20.5 million (2014: EUR 18.3 million).

The compensation of the Board of Management and the Supervisory Board totaled EUR 23.5 million in the reporting year (2014: EUR 22.2 million).

For further information, please refer to the “Compensation report” in the combined management report, PAGE 143 ET SEQ., and Note 41 “Compensation of the Board of Management and the Supervisory Board,” PAGE 240.

Employees elected to the Supervisory Board of Deutsche Telekom continue to be entitled to a regular salary as part of their employment contract. The amount of the salary is the adequate compensation for their job or activity within the Company. Besides this, no major transactions took place with related individuals.

41 COMPENSATION OF THE BOARD OF MANAGEMENT AND THE SUPERVISORY BOARD

COMPENSATION OF THE BOARD OF MANAGEMENT

The presentation of the system used for compensation of the Board of Management and the disclosures required in accordance with § 314 (1) No. 6a sentences 5–8 HGB are a component of the combined management report, PAGE 143 ET SEQ.

Board of Management compensation for the 2015 financial year

Total compensation of the members of the Board of Management for the 2015 financial year amounted to EUR 17.6 million (2014: EUR 13.9 million). This includes in total 101,207 entitlements to matching shares with a fair value on the date granted of EUR 1.4 million (2014: EUR 1.2 million).

Former members of the Board of Management

A total of EUR 7.1 million (2014: EUR 9.2 million) was granted for payments to and entitlements for former members of the Board of Management and their surviving dependents. Provisions (measured in accordance with IAS 19) totaling EUR 188.1 million (2014: EUR 196.9 million) were recognized for current pensions and vested rights to pensions for this group of persons and their surviving dependents.

Other

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

COMPENSATION OF THE SUPERVISORY BOARD

The main features of the compensation system and the disclosure of the compensation of the individual members of the Supervisory Board are a component of the combined management report, PAGE 151.

Total compensation of the members of the Supervisory Board for 2015 amounted to EUR 2,683,500.00 (plus VAT) and is comprised of fixed annual remuneration plus meeting attendance fees.

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

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

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

43 EVENTS AFTER THE REPORTING PERIOD

Sale of the EE joint venture. After the British Competition and Markets Authority (CMA) had approved the sale of the EE joint venture to the UK company BT unconditionally and without remedies in January 2016, Deutsche Telekom AG and the French telecommunications provider Orange consummated the transaction on January 29, 2016 at an adjusted purchase price of GBP 13.2 billion. In return for its stake in the EE joint venture, Deutsche Telekom AG received a financial stake of 12.0 percent in BT and a cash payment of GBP 25.7 million. In total, the sale is expected to generate income of around EUR 2.5 billion; around EUR 0.9 billion of this amount will result from effects recognized directly in equity in prior years. In addition, on January 25, 2016, the shareholders received a final dividend totaling GBP 0.3 billion from the EE joint venture, which Deutsche Telekom participated in with the capital share the Company had at that date of 50.0 percent. The financial stake in BT received in connection with this transaction will be disclosed as available-for-sale financial assets under other financial assets. The financial stake will be measured at fair value directly in equity.

Acquisition of mobile spectrum in the United States. In January 2016, T-Mobile US acquired spectrum licenses covering nearly 20 million people in seven major metropolitan markets for approximately USD 0.6 billion in cash. In January 2016, T-Mobile US entered into agreements with third parties for the exchange and acquisition of spectrum licenses covering approximately 23 million people in seven major metropolitan markets. In the first quarter of 2016, spectrum licenses to be exchanged of USD 0.3 billion will therefore be reclassified to non-current assets and disposal groups held for sale. A non-cash gain is expected to be recognized upon closing of the exchange transaction, which is expected to occur in mid-2016, subject to regulatory approval and other customary closing conditions.

Acquisition of mobile spectrum in Poland. At the spectrum auction in Poland which ended in October 2015, T-Mobile Polska was the highest bidder, acquiring spectrum of some EUR 0.5 billion, which was paid at the start of February 2016. T-Mobile Polska is also in negotiations with the Polish regulatory authority UKE to accept additional spectrum amounting to around EUR 0.5 billion. This was offered to T-Mobile Polska by UKE after the highest bidder had declined to accept the spectrum. In accordance with the rules of the auction, T-Mobile Polska was offered the spectrum for purchase as the second highest bidder. T-Mobile Polska submitted an application for the allocation of this spectrum block on February 8, 2016.

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

TABLE 168 provides a breakdown of the auditor's professional fees recognized as expenses in the 2015 financial year:

T 168

PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft
millions of €

	2015
Auditing services	15
Other assurance services	6
Tax advisory services	0
Other non-audit services	1
	22

Professional fees for auditing services include in particular fees for the statutory auditing of annual and consolidated financial statements, the review of the interim financial statements, auditing activities in connection with the documentation of the internal control system for financial reporting, and the auditing of information systems and processes, as well as fees for other auditing services.

Professional fees for other assurance services primarily relate to the commissioning of a review of regulatory issues for the Federal Network Agency.

Other non-audit services mainly relate to services in connection with fundamental business issues for the Company's compliance with requirements stipulated by the Federal Network Agency and other authorities, and services for the strategic support.

RESPONSIBILITY STATEMENT

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

Bonn, February 9, 2016

Deutsche Telekom AG
Board of Management

Timotheus Höttges

Reinhard Clemens

Niek Jan van Damme

Thomas Dannenfeldt

Dr. Christian P. Illek

Dr. Thomas Kremer

Claudia Nemat

The following auditor's report (*Bestätigungsvermerk*) has been issued in accordance with Section 322 of the German Commercial Code (*Handelsgesetzbuch*) on the consolidated financial statements and group management report (*Konzernlagebericht*) of Deutsche Telekom Aktiengesellschaft as of and for the financial year ended December 31, 2015. The list of shareholdings in accordance with Section 313 of the German Commercial Code (*Handelsgesetzbuch*) of Deutsche Telekom AG as of December 31, 2015, which is an integral part of the consolidated financial statements of Deutsche Telekom AG, and the group management report are neither included nor incorporate by reference in this offering memorandum.

INDEPENDENT AUDITOR'S REPORT

To Deutsche Telekom AG, Bonn

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of Deutsche Telekom AG, Bonn, and its subsidiaries, which comprise the consolidated statement of financial position, the consolidated income statement and statement of comprehensive income, the consolidated statement of changes in equity, the consolidated statement of cash flows and the notes to the consolidated financial statements, for the financial year from January 1 to December 31, 2015.

Board of Management's responsibility for the consolidated financial statements

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

Auditor's responsibility

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

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

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

Audit opinion

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

In our opinion based on the findings of our audit, the consolidated financial statements comply, in all material respects, with IFRSs, as adopted by the EU, and the additional requirements of German commercial law pursuant to § 315a (1) HGB and give a true and fair view of the net assets and financial position of the Group as at December 31, 2015 as well as the results of operations for the financial year then ended, in accordance with these requirements.

Report on the Group management report

We have audited the accompanying Group management report of Deutsche Telekom AG, Bonn, which is combined with the management report of the Company, for the financial year from January 1 to December 31, 2015. The Board of Management of Deutsche Telekom AG is responsible for the preparation of the combined management report in accordance with the requirements of German commercial law applicable pursuant to § 315a (1) HGB. We conducted our audit in accordance with § 317 (2) HGB and German generally accepted standards for the audit of the combined management report promulgated by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany) (IDW). Accordingly, we are required to plan and perform the audit of the combined management report to obtain reasonable assurance about whether the combined management report is consistent with the consolidated financial statements and the audit findings, as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development.

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

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

Frankfurt/Main, February 9, 2016

PricewaterhouseCoopers
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Harald Kayser	Thomas Tandetzki
Wirtschaftsprüfer	Wirtschaftsprüfer

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CONSOLIDATED FINANCIAL STATEMENTS OF DEUTSCHE TELEKOM AKTIENGESELLSCHAFT AS OF DECEMBER 31, 2014

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

T 056

millions of €

	Note	Dec. 31, 2014	Dec. 31, 2013
ASSETS			
CURRENT ASSETS		**29,798**	**21,963**
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
NON-CURRENT ASSETS		**99,562**	**96,185**
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
TOTAL ASSETS		**129,360**	**118,148**

millions of €

	Note	Dec. 31, 2014	Dec. 31, 2013
LIABILITIES AND SHAREHOLDERS' EQUITY			
CURRENT LIABILITIES		**28,198**	**22,496**
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
NON-CURRENT LIABILITIES		**67,096**	**63,589**
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
LIABILITIES		**95,294**	**86,085**
SHAREHOLDERS' EQUITY	15	**34,066**	**32,063**
Issued capital		11,611	11,395
Treasury shares		(53)	(54)
		11,558	**11,341**
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
ISSUED CAPITAL AND RESERVES ATTRIBUTABLE TO OWNERS OF THE PARENT		**25,437**	**23,879**
Non-controlling interests		8,629	8,184
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**129,360**	**118,148**

CONSOLIDATED INCOME STATEMENT

T 057

millions of €

	Note	2014	2013	2012
NET REVENUE	16	**62,658**	**60,132**	**58,169**
Cost of sales	17	(38,539)	(36,255)	(34,256)
GROSS PROFIT		**24,119**	**23,877**	**23,913**
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)
PROFIT (LOSS) FROM OPERATIONS		**7,247**	**4,930**	**(3,962)**
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)
PROFIT (LOSS) FROM FINANCIAL ACTIVITIES		**(2,897)**	**(2,802)**	**(2,412)**
PROFIT (LOSS) BEFORE INCOME TAXES		**4,350**	**2,128**	**(6,374)**
Income taxes	25	(1,106)	(924)	1,516
PROFIT (LOSS)		**3,244**	**1,204**	**(4,858)**
PROFIT (LOSS) ATTRIBUTABLE TO				
Owners of the parent (net profit (loss))		2,924	930	(5,353)
Non-controlling interests	26	320	274	495
EARNINGS PER SHARE	27			
Basic €		0.65	0.21	(1.24)
Diluted €		0.65	0.21	(1.24)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

T 058

millions of €

	2014	2013	2012
PROFIT (LOSS)	**3,244**	**1,204**	**(4,858)**
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
	(1,133)	**15**	**(1,266)**
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
	1,886	**(931)**	**17**
OTHER COMPREHENSIVE INCOME	**753**	**(916)**	**(1,249)**
TOTAL COMPREHENSIVE INCOME	**3,997**	**288**	**(6,107)**
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO			
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	Net profit (loss)
BALANCE AT JANUARY 1, 2012	**4,321,319**	**11,063**	**(6)**	**51,504**	**(25,371)**	**538**
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)	
TOTAL COMPREHENSIVE INCOME						
Transfer to retained earnings					3	
BALANCE AT DECEMBER 31, 2012	**4,321,319**	**11,063**	**(6)**	**51,506**	**(29,106)**	**(5,353)**
BALANCE AT JANUARY 1, 2013	**4,321,319**	**11,063**	**(6)**	**51,506**	**(29,106)**	**(5,353)**
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	
TOTAL COMPREHENSIVE INCOME						
Transfer to retained earnings					3	
BALANCE AT DECEMBER 31, 2013	**4,451,175**	**11,395**	**(54)**	**51,428**	**(37,437)**	**930**
BALANCE AT JANUARY 1, 2014	**4,451,175**	**11,395**	**(54)**	**51,428**	**(37,437)**	**930**
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)	
TOTAL COMPREHENSIVE INCOME						
Transfer to retained earnings					23	
BALANCE AT DECEMBER 31, 2014	**4,535,571**	**11,611**	**(53)**	**51,778**	**(39,783)**	**2,924**

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)
						(6,466)	**359**	**(6,107)**
	(3)					0		0
(2,448)	**(36)**	**43**	**327**	**42**	**(104)**	**25,928**	**4,603**	**30,531**
(2,448)	**(36)**	**43**	**327**	**42**	**(104)**	**25,928**	**4,603**	**30,531**
						12	287	299
553		(1)				(502)	3,527	3,025
						0		0
						(3,010)	(369)	(3,379)
						1,143		1,143
						113	45	158
						(2)		(2)
						930	274	1,204
(708)		(4)	16	(54)	(6)	(733)	(183)	(916)
						197	**91**	**288**
	(3)					0		0
(2,603)	**(39)**	**38**	**343**	**(12)**	**(110)**	**23,879**	**8,184**	**32,063**
(2,603)	**(39)**	**38**	**343**	**(12)**	**(110)**	**23,879**	**8,184**	**32,063**
						0	1	1
21						(506)	(324)	(830)
						0		0
						(2,215)	(81)	(2,296)
						1,023	2	1,025
						70	34	104
						2		2
						2,924	320	3,244
1,335		41	(3)	(30)	2	260	493	753
						3,184	**813**	**3,997**
	(23)					0		0
(1,247)	**(62)**	**79**	**340**	**(42)**	**(108)**	**25,437**	**8,629**	**34,066**

CONSOLIDATED STATEMENT OF CASH FLOWS

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millions of €

	Note	2014	2013	2012
	31			
PROFIT (LOSS)		**3,244**	**1,204**	**(4,858)**
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
CASH GENERATED FROM OPERATIONS		**15,911**	**15,092**	**15,762**
Interest paid		(3,390)	(2,961)	(3,060)
Interest received		872	886	875
NET CASH FROM OPERATING ACTIVITIES		**13,393**	**13,017**	**13,577**
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
NET CASH USED IN INVESTING ACTIVITIES		**(10,761)**	**(9,896)**	**(6,671)**

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)	–
NET CASH (USED IN) FROM FINANCING ACTIVITIES		**(3,434)**	**1,022**	**(6,601)**
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**
CASH AND CASH EQUIVALENTS, AT THE BEGINNING OF THE YEAR		**7,970**	**4,026**	**3,749**
CASH AND CASH EQUIVALENTS, AT THE END OF THE YEAR		**7,523**	**7,970**	**4,026**

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) 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.

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.

- 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.

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
ASSETS	
CURRENT ASSETS	
Cash and cash equivalents	Amortized cost
Trade and other receivables	Amortized cost
Current recoverable income taxes	Amount expected to be recovered from the taxation authorities, using the tax rates that have been enacted or substantively enacted by the end of the reporting period
Other financial assets	
Other non-derivative financial assets	
Held-to-maturity investments	Amortized cost
Available-for-sale financial assets	Fair value or at cost
Originated loans and receivables	Amortized cost
Derivative financial assets	Fair value
Inventories	Lower of net realizable value and cost
Non-current assets and disposal groups held for sale	Lower of carrying amount or fair value less costs of disposal (including allocable liabilities)
NON-CURRENT ASSETS	
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
LIABILITIES AND SHAREHOLDERS' EQUITY	
CURRENT LIABILITIES	
Financial liabilities	
Non-derivative interest-bearing and non-interest-bearing liabilities	Amortized cost
Derivative financial liabilities	Fair value
Trade payables	Amortized cost
Income tax liabilities	Amount expected to be paid to the taxation authorities, using the tax rates that have been enacted or substantively enacted by the end of the reporting period
Other provisions	Present value of the settlement amount
NON-CURRENT LIABILITIES	
Financial liabilities	
Non-derivative interest-bearing and non-interest-bearing liabilities	Amortized cost
Derivative financial liabilities	Fair value
Provisions for pensions and other employee benefits	Actuarial projected unit credit method
Other provisions	Present value of the settlement amount
Deferred tax liabilities	Non-discounted amount measured at the tax rates that are expected to apply to the period when the asset is realized or the liability settled

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

INTANGIBLE ASSETS (EXCLUDING GOODWILL)

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.

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:

T 064

	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.

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.

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 adjustments for discounts. The revenue and related expenses associated with the sale of mobile handsets and accessories are recognized when the products are delivered and accepted by the customer.

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.

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.

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
CURRENT ASSETS	**138**
Cash and cash equivalents	24
Trade and other receivables	41
Other current assets	9
Non-current assets and disposal groups held for sale	64
NON-CURRENT ASSETS	**598**
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
ASSETS	**736**
CURRENT LIABILITIES	**387**
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
NON-CURRENT LIABILITIES	**48**
Deferred tax liabilities	44
Other non-current liabilities	4
LIABILITIES	**435**

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 €

	Fair value at the acquisition date
Consideration transferred	301
Assets acquired for 100 % of the shares	(601)
Liabilities acquired for 100 % of the shares	435
GOODWILL	**135**

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 €

	Development of goodwill
Goodwill on May 30, 2014	135
Exchange rate effects	(2)
GOODWILL ON DECEMBER 31, 2014	**133**

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)
GROSS PROFIT (LOSS)	**(3)**	**469**	**(47)**	**17**	**(276)**	**0**	**160**
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)
PROFIT (LOSS) FROM OPERATIONS	**3**	**179**	**(213)**	**26**	**(82)**	**(3)**	**(90)**
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
PROFIT (LOSS) FROM FINANCIAL ACTIVITIES	**25**	**(100)**	**39**	**(5)**	**4**	**0**	**(37)**
PROFIT (LOSS) BEFORE INCOME TAXES	**28**	**79**	**(174)**	**21**	**(78)**	**(3)**	**(127)**
Income taxes	0	0	9	0	3	1	13
PROFIT (LOSS)	**28**	**79**	**(165)**	**21**	**(75)**	**(2)**	**(114)**

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
CONSOLIDATED SUBSIDIARIES			
January 1, 2014	67	177	244
Additions	2	34	36
Disposals (including mergers)	13	14	27
DECEMBER 31, 2014	**56**	**197**	**253**
ASSOCIATES ACCOUNTED FOR USING THE EQUITY METHOD			
January 1, 2014	4	9	13
Additions	1	1	2
Disposals	–	2	2
DECEMBER 31, 2014	**5**	**8**	**13**
JOINT VENTURES ACCOUNTED FOR USING THE EQUITY METHOD			
January 1, 2014	3	6	9
Additions	–	1	1
Disposals	–	4	4
DECEMBER 31, 2014	**3**	**3**	**6**
TOTAL			
January 1, 2014	74	192	266
Additions	3	36	39
Disposals (including mergers)	13	20	33
DECEMBER 31, 2014	**64**	**208**	**272**

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[c] millions of €	Profit (loss) from operations[c] millions of €	Shareholders' equity[c] millions of €	Average number of employees	Segment allocation
Telekom Deutschland GmbH, Bonn, Germany	**Dec. 31, 2014/2014**	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[a, b]	**Dec. 31, 2014/2014**	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	**Dec. 31, 2014/2014**	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[a]	**Dec. 31, 2014/2014**	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[a, b]	**Dec. 31, 2014/2014**	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[a, b]	**Dec. 31, 2014/2014**	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[b]	**Dec. 31, 2014/2014**	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[a, b]	**Dec. 31, 2014/2014**	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[a, b]	**Dec. 31, 2014/2014**	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[a, b]	**Dec. 31, 2014/2014**	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[a, b]	**Dec. 31, 2014/2014**	51.00	768	98	1,956	3,752	Europe
	Dec. 31, 2013/2013	51.00	828	69	1,903	3,811	

[a] Consolidated subgroup.
[b] Indirect shareholding of Deutsche Telekom AG.
[c] IFRS figures of the respective subgroup.

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[c] millions of €	Dividends paid out to non-controlling interests millions of €
T-Mobile US, Inc., Bellevue, Washington, United States[a, b]	**Dec. 31, 2014/2014**	33.71	33.71	4,516	–
	Dec. 31, 2013/2013	33.25	33.25	3,782	–
Hellenic Telecommunications Organization S.A. (OTE), Athens, Greece[a]	**Dec. 31, 2014/2014**	60.00	50.00	1,966	–
	Dec. 31, 2013/2013	60.00	50.00	1,961	–
Magyar Telekom Public Limited Company, Budapest, Hungary[a, b]	**Dec. 31, 2014/2014**	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[a, b]	**Dec. 31, 2014/2014**	0.00	0.00	–	–
	Dec. 31, 2013/2013	39.23	39.23	361	90
Hrvatski Telekom d.d., Zagreb, Croatia[a, b]	**Dec. 31, 2014/2014**	49.00	49.00	745	48
	Dec. 31, 2013/2013	49.00	49.00	714	110
Slovak Telekom a.s., Bratislava, Slovakia[a, b]	**Dec. 31, 2014/2014**	49.00	49.00	782	9
	Dec. 31, 2013/2013	49.00	49.00	756	35

[a] Consolidated subgroup.
[b] Indirect shareholding of Deutsche Telekom AG.
[c] 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).
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[c]	Non-current assets[c]	Current liabilities[c]	Non-current liabilities[c]	Profit (loss)[c]	Total comprehensive income[c]
T-Mobile US, Inc., Bellevue, Washington, United States[a, b]	**Dec. 31, 2014/2014**	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[a]	**Dec. 31, 2014/2014**	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[a, b]	**Dec. 31, 2014/2014**	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[a, b]	**Dec. 31, 2014/2014**	–	–	–	–	–	–
	Dec. 31, 2013/2013	489	739	190	56	227	146
Hrvatski Telekom d.d., Zagreb, Croatia[a, b]	**Dec. 31, 2014/2014**	723	1,140	251	107	133	126
	Dec. 31, 2013/2013	672	1,084	247	51	162	152
Slovak Telekom a.s., Bratislava, Slovakia[a, b]	**Dec. 31, 2014/2014**	789	1,254	249	154	73	64
	Dec. 31, 2013/2013	617	1,467	339	157	49	33

[a] Consolidated subgroup.
[b] Indirect shareholding of Deutsche Telekom AG.
[c] IFRS figures of the respective subgroup.

T 073

millions of €

Name and registered office		Net cash from operating activities[c]	Net cash (used in) from investing activities[c]	Net cash (used in) from financing activities[c]
T-Mobile US, Inc., Bellevue, Washington, United States[a, b]	2014	3,246	(3,582)	1,952
	2013	2,727	(973)	2,728
Hellenic Telecommunications Organization S.A. (OTE), Athens, Greece[a]	2014	1,135	(442)	(438)
	2013	1,290	297	(976)
Magyar Telekom Public Limited Company, Budapest, Hungary[a, b]	2014	482	(219)	(50)
	2013	471	(234)	(64)
T-Mobile Czech Republic a.s., Prague, Czech Republic[a, b]	2014	–	–	–
	2013	343	(246)	(267)
Hrvatski Telekom d.d., Zagreb, Croatia[a, b]	2014	320	(163)	(122)
	2013	315	(196)	(223)
Slovak Telekom a.s., Bratislava, Slovakia[a, b]	2014	275	(319)	(25)
	2013	297	(362)	(71)

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

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
	10,454	**7,712**

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

millions of €

Trade receivables	Of which: neither impaired nor past due on the reporting date	Of which: not impaired on the reporting date and past due in the following periods					
		Less than 30 days	Between 30 and 60 days	Between 61 and 90 days	Between 91 and 180 days	Between 181 and 360 days	More than 360 days
As of Dec. 31, 2014	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

millions of €

	2014	2013
ALLOWANCES AS OF JANUARY 1	**1,344**	**1,316**
Currency translation adjustments	15	(15)
Additions (allowances recognized as expense)	641	642
Use	(410)	(479)
Reversal	(222)	(120)
ALLOWANCES AS OF DECEMBER 31	**1,368**	**1,344**

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

millions of €

	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

millions of €

	Dec. 31, 2014	Dec. 31, 2013
Raw materials and supplies	65	75
Work in process	24	40
Finished goods and merchandise	1,414	947
	1,503	**1,062**

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.

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			
	EE	Deutsche Telekom AG real estate	Other	Total
NON-CURRENT ASSETS AND DISPOSAL GROUPS HELD FOR SALE				
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**
TOTAL	**5,727**	**95**	**56**	**5,878**

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			
	Level 1 Inputs as prices in active markets	Level 2 Other inputs that are directly or indirectly observable	Level 3 Inputs that are unobservable	Total
NON-CURRENT ASSETS AND DISPOSAL GROUPS HELD FOR SALE				
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
COST				
AT DECEMBER 31, 2012	**3,602**	**46,913**	**839**	**1,355**
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
AT DECEMBER 31, 2013	**4,118**	**50,471**	**1,006**	**2,450**
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
AT DECEMBER 31, 2014	**4,785**	**58,824**	**1,138**	**3,668**
ACCUMULATED AMORTIZATION AND IMPAIRMENT LOSSES				
AT DECEMBER 31, 2012	**2,352**	**22,173**	**614**	**158**
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
AT DECEMBER 31, 2013	**2,820**	**22,433**	**567**	**314**
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
AT DECEMBER 31, 2014	**3,093**	**25,316**	**619**	**542**
NET CARRYING AMOUNTS				
At December 31, 2013	1,298	28,038	439	2,136
AT DECEMBER 31, 2014	**1,692**	**33,508**	**519**	**3,126**

Acquired intangible assets				Goodwill	Advance payments and intangible assets under development	
UMTS licenses	GSM licenses	FCC licenses (T-Mobile US)	Other acquired intangible assets			Total
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[a]
GERMANY	**3,978**	**3,977**
UNITED STATES	**1,028**	**907**
EUROPE	**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
SYSTEMS SOLUTIONS	**3,091**	**3,074**
GROUP HEADQUARTERS & GROUP SERVICES	**0**	**28**
Of which: Digital Business Unit	0	28
	14,677	**14,562**

[a] 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.

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
GERMANY	**10**	**1.0**	**6.14**	**3**
UNITED STATES	**–**	**–**	**–**	**1**
EUROPE				
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 [a]	–
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
SYSTEMS SOLUTIONS	**10**	**1.5**	**7.80**	**3**
GROUP HEAD-QUARTERS & GROUP SERVICES				
Digital Business Unit	10	0.5	9.84	3

[a] 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
GERMANY	**10**	**1.0**	**6.23**	**3**
UNITED STATES	**–**	**–**	**–**	**1**
EUROPE				
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 [a]	–
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
SYSTEMS SOLUTIONS	**10**	**1.5**	**7.97**	**3**
GROUP HEAD-QUARTERS & GROUP SERVICES				
Digital Business Unit	10	0.5	9.48	3

[a] 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
COST					
AT DECEMBER 31, 2012	**19,134**	**102,496**	**7,711**	**2,857**	**132,198**
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)
AT DECEMBER 31, 2013	**18,430**	**104,193**	**7,859**	**2,423**	**132,905**
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)
AT DECEMBER 31, 2014	**18,644**	**109,043**	**8,332**	**3,004**	**139,023**
ACCUMULATED DEPRECIATION AND IMPAIRMENT LOSSES					
AT DECEMBER 31, 2012	**10,129**	**79,000**	**5,635**	**27**	**94,791**
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)
AT DECEMBER 31, 2013	**10,180**	**79,561**	**5,710**	**27**	**95,478**
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)
AT DECEMBER 31, 2014	**10,694**	**82,675**	**6,011**	**27**	**99,407**
NET CARRYING AMOUNTS					
At December 31, 2013	8,250	24,632	2,149	2,396	37,427
AT DECEMBER 31, 2014	**7,950**	**26,368**	**2,321**	**2,977**	**39,616**

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

	Deutsche Telekom share		Percentage of voting rights		Assigned to segment	Fair value of the investment, if a listed market price is available	
Name and registered office	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 [a]	28.24	–	28.24	–	Group Headquarters & Group Services	–	–
Hrvatske telekomunikacije d.d. Mostar, Mostar, Bosnia-Herzegovina [b]	39.10	39.10	39.10	39.10	Europe	38	41
T-Mobile USA Tower LLC, Wilmington, United States [c]	100.00	100.00	100.00	100.00	United States	–	–
T-Mobile West Tower LLC, Wilmington, United States [c]	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	–	–

[a] 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.
[b] Indirect shareholding via Hrvatski Telekom d.d., Croatia (Deutsche Telekom AG's share: 51.00 %).
[c] 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

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
NET ASSETS AS OF JANUARY 1	172	172	25	23
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
NET ASSETS AS OF DECEMBER 31	172	172	(114)	25
SHARE OF NET ASSETS ATTRIBUTABLE TO DEUTSCHE TELEKOM AS OF DECEMBER 31	66	67	(57)	13
Adjustment of carrying amount	0	0	57	0
Other reconciliation effects	(15)	(15)	0	0
CARRYING AMOUNT AS OF DECEMBER 31	51	52	0	13

T 091

millions of €

	Asa NewCo GmbH		T-Mobile USA Tower LLC		T-Mobile West Tower LLC	
	2014 [a]	2013	2014	2013	2014	2013
NET ASSETS AS OF JANUARY 1	1,096	–	75	79	86	90
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)
NET ASSETS AS OF DECEMBER 31	1,059	–	60	75	91	86
SHARE OF NET ASSETS ATTRIBUTABLE TO DEUTSCHE TELEKOM AS OF DECEMBER 31	309	–	60	75	91	86
Adjustment of carrying amount	0	–	0	0	0	0
Other reconciliation effects	0	–	0	0	0	0
CARRYING AMOUNT AS OF DECEMBER 31	309	–	60	75	91	86

[a] 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	73
Total interests				
Profit (loss)	(1)	1	(30)	(28)
Other comprehensive income	0	0	0	0
TOTAL COMPREHENSIVE INCOME	**(1)**	**1**	**(30)**	**(28)**

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
	5,260	**2,976**	**4,107**	**2,745**

T 094

millions of €

Originated loans and receivables	Of which: neither impaired nor past due on the reporting date	Of which: not impaired on the reporting date and past due in the following periods					
		Less than 30 days	Between 30 and 60 days	Between 61 and 90 days	Between 91 and 180 days	Between 181 and 360 days	More than 360 days
As of Dec. 31, 2014							
Due within one year	1,836	53	29	33	37	1	1
Due after more than one year	590	–	–	–	–	–	1
As of Dec. 31, 2013							
Due within one year	2,283	9	3	3	0	1	2
Due after more than one year	324	–	–	–	–	–	1

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 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).

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**
FINANCIAL LIABILITIES	**55,227**	**10,558**	**17,985**	**26,684**	**51,599**	**7,891**	**17,853**	**25,855**

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
NON-DERIVATIVE FINANCIAL LIABILITIES				
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)
DERIVATIVE FINANCIAL LIABILITIES AND ASSETS				
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		
FINANCIAL GUARANTEES AND LOAN COMMITMENTS [a]	(1)			(339)

[a] 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.

	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
NON-DERIVATIVE FINANCIAL LIABILITIES						
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)	
DERIVATIVE FINANCIAL LIABILITIES AND ASSETS						
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
FINANCIAL GUARANTEES AND LOAN COMMITMENTS [a]	(1)	(340)				

[a] 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
	9,681	**7,259**

Of the total of trade and other payables, EUR 9,679 million (December 31, 2013: EUR 7,253 million) is due within one year.

12 PROVISIONS FOR PENSIONS AND OTHER EMPLOYEE BENEFITS

DEFINED BENEFIT PLANS

The Group's pension obligations are based on 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
DEFINED BENEFIT LIABILITY	**8,465**	**7,006**
Defined benefit asset	(18)	(14)
NET DEFINED BENEFIT LIABILITY (ASSET)	**8,447**	**6,992**
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)
DEFINED BENEFIT OBLIGATIONS IN EXCESS OF PLAN ASSETS	**5,356**	**4,514**
Present value of the unfunded obligations	3,086	2,478
DEFINED BENEFIT LIABILITY (ASSET) ACCORDING TO IAS 19.63	**8,442**	**6,992**
Effect of asset ceiling (according to IAS 19.64)	5	–
NET DEFINED BENEFIT LIABILITY (ASSET)	**8,447**	**6,992**

T 101

millions of €

	2014	2013
NET DEFINED BENEFIT LIABILITY (ASSET) AS OF JANUARY 1	**6,992**	**7,295**
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)
NET DEFINED BENEFIT LIABILITY (ASSET) AS OF DECEMBER 31	**8,447**	**6,992**

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 [a]/1.09 [b]	3.25 [a]/2.53 [b]	2.86 [a]/2.26 [b]
Salary increase rate	Germany	2.50	2.75	2.75
	Switzerland	1.25	1.50	1.50
	Greece (OTE S.A.)	1.00 [c]	1.00 [d]	1.00 [e]
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.

[a] The discount rate relates to the plans for staff retirement indemnities and for phone credits (see the plan description, PAGE 223).
[b] The discount rate relates to the plan for youth accounts (see the plan description, PAGE 223).
[c] 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.
[d] 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.
[e] 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 [a]/6.3 [b]	13.0 [a]/7.0 [b]

[a] The duration relates to the plans for staff retirement indemnities and for phone credits (see the plan description, PAGE 223).
[b] 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.

Development of defined benefit obligations in the reporting year:

T 104

millions of €

	2014	2013
DEFINED BENEFIT OBLIGATIONS AS OF JANUARY 1	8,965	8,973
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)
DEFINED BENEFIT OBLIGATIONS AS OF DECEMBER 31	10,940	8,965
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
NET DEFINED BENEFIT LIABILITY (ASSET)	8,004	56	292	95

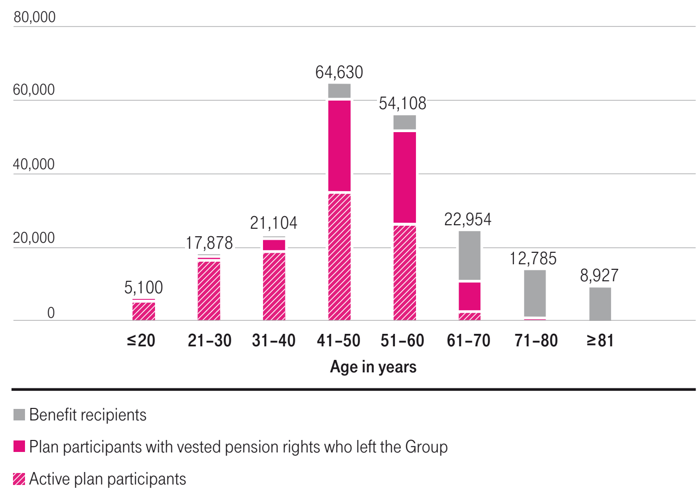
The following analyses in terms of age structure and sensitivity analysis, as well as descriptions of plans and the risks associated with them relate to Germany, Switzerland, and Greece (OTE S.A.).

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[a]



[a] 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).

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 Dependants' 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
PLAN ASSETS AT FAIR VALUE AS OF JANUARY 1	**1,973**	**1,680**
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)
PLAN ASSETS AT FAIR VALUE AS OF DECEMBER 31	**2,498**	**1,973**

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
PLAN ASSETS AT FAIR VALUE	**2,498**	**2,456**	**42**

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
PLAN ASSETS AT FAIR VALUE	**1,973**	**1,940**	**33**

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
EFFECT OF ASSET CEILING AS OF JANUARY 1	**0**	**2**
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
EFFECT OF ASSET CEILING AS OF DECEMBER 31	**5**	**0**

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[a]	228	219	185
Past service cost (due to plan amendments)	Functional costs[a]	(3)	(64)	16
Past service cost (due to curtailments)	Functional costs[a]	(8)	(8)	(6)
Settlements	Functional costs[a]	3	13	2
SERVICE COST		**220**	**160**	**197**
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
NET INTEREST EXPENSE (INCOME) ON NET DEFINED BENEFIT LIABILITY (ASSET)		**225**	**228**	**313**
DEFINED BENEFIT COST		**445**	**388**	**510**
Administration costs actually incurred (paid from plan assets)	General and administrative expenses	0	0	0
TOTAL AMOUNTS RECOGNIZED IN PROFIT OR LOSS		**445**	**388**	**510**

[a] Including other operating expenses.

The consolidated statement of comprehensive income contains the following amounts:

T 113

millions of €

	2014	2013	2012
REMEASUREMENT ((GAIN) LOSS RECOGNIZED IN OTHER COMPREHENSIVE INCOME IN THE FINANCIAL YEAR)	**1,581**	**(48)**	**1,822**
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)

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
TOTAL BENEFITS EXPECTED	**343**	**390**	**416**	**394**	**444**

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[a]
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)
DEFINED BENEFIT OBLIGATIONS IN EXCESS OF PLAN ASSETS	**8,442**	**6,992**	**7,293**	**6,106**	**6,388**

[a] 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[a]
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

[a] 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
AT DECEMBER 31, 2012	**78**	**1,871**	**1,035**	**342**	**448**	**968**	**4,742**
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)
AT DECEMBER 31, 2013	**282**	**1,981**	**1,247**	**289**	**367**	**1,025**	**5,191**
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)
AT DECEMBER 31, 2014	**183**	**2,112**	**1,378**	**415**	**422**	**1,380**	**5,890**
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
	415	**361**	**(367)**	**(7)**	**(43)**	**359**
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.

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
	8,037	**4,160**	**7,693**	**3,805**

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 [a]	226,636	
	4,535,571	**100.0**

[a] 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[a]	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

[a] 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
Changes in the composition of the Group	**0**	**1**	**1**
Other effects	0	1	1
Transactions with owners	**(506)**	**(324)**	**(830)**
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
	62,658	**60,132**	**58,169**

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.

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
	38,539	**36,255**	**34,256**

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
	13,898	**13,797**	**14,075**

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
	4,721	**4,518**	**4,855**

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
	3,231	**1,326**	**2,968**

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
	143	**838**	**11,108**
Losses on the disposal of non-current assets	138	251	177
Losses from divestitures	41	53	–
Miscellaneous other operating expenses	1,162	816	628
	1,341	**1,120**	**805**
	1,484	**1,958**	**11,913**

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)
	(2,340)	**(2,162)**	**(2,033)**
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)[a]	(2,290)	(2,160)	(2,036)

[a] Interest expense calculated according to the effective interest method and adjusted for accrued interest from derivatives recognized in the reporting period that were used as hedging instruments against interest rate-based changes in the fair values of financial liabilities measured at amortized cost in the reporting period for hedge accounting in accordance with IAS 39 (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.

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)
	(198)	**(71)**	**(154)**

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)
	(359)	**(569)**	**(225)**

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
CURRENT TAXES	**599**	**487**	**596**
Germany	234	56	172
International	365	431	424
DEFERRED TAXES	**507**	**437**	**(2,112)**
Germany	587	(41)	81
International	(80)	478	(2,193)
	1,106	**924**	**(1,516)**

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
PROFIT (LOSS) BEFORE INCOME TAXES	**4,350**	**2,128**	**(6,374)**
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)
ADJUSTMENTS TO EXPECTED TAX EXPENSE (BENEFIT)			
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
INCOME TAX EXPENSE (BENEFIT) ACCORDING TO THE CONSOLIDATED INCOME STATEMENT	**1,106**	**924**	**(1,516)**
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
CURRENT INCOME TAXES	**599**	**487**	**596**
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
DEFERRED TAX EXPENSE (BENEFIT)	**507**	**437**	**(2,112)**
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)
	(2,543)	**(1,956)**
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	–	–
RECOGNIZED IN OTHER COMPREHENSIVE INCOME BEFORE NON-CONTROLLING INTERESTS	**990**	**517**
Non-controlling interests	(6)	(13)
	984	**504**

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
CURRENT ASSETS	**1,529**	**(270)**	**1,147**	**(488)**
Trade and other receivables	551	–	368	(8)
Inventories	130	–	108	–
Other assets	848	(270)	671	(480)
NON-CURRENT ASSETS	**2,828**	**(12,347)**	**2,738**	**(10,807)**
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)
CURRENT LIABILITIES	**711**	**(847)**	**699**	**(625)**
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)
NON-CURRENT LIABILITIES	**5,159**	**(1,303)**	**4,069**	**(1,256)**
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)
TAX CREDITS	**296**	**–**	**237**	**–**
LOSS CARRYFORWARDS	**3,288**	**–**	**3,786**	**–**
INTEREST CARRYFORWARDS	**55**	**–**	**43**	**–**
TOTAL	**13,866**	**(14,767)**	**12,719**	**(13,176)**
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
RECOGNITION	**5,169**	**(7,712)**	**4,960**	**(6,916)**

The allowances relate primarily to loss carryforwards.

The loss carryforwards amount to:

T 141

millions of €

	Dec. 31, 2014	Dec. 31, 2013
LOSS CARRYFORWARDS FOR CORPORATE INCOME TAX PURPOSES	**8,208**	**9,991**
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
LOSS CARRYFORWARDS FOR CORPORATE INCOME TAX PURPOSES	**2,420**	**2,369**
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
TEMPORARY DIFFERENCES IN CORPORATE INCOME TAX	**424**	**406**

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.

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
Items not reclassified to the income statement retrospectively									
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
	(1,610)	**477**	**(1,133)**	**31**	**(16)**	**15**	**(1,822)**	**556**	**(1,266)**
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)	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
	1,883	**3**	**1,886**	**(926)**	**(5)**	**(931)**	**(60)**	**77**	**17**
OTHER COMPREHENSIVE INCOME	**273**	**480**	**753**	**(895)**	**(21)**	**(916)**	**(1,882)**	**633**	**(1,249)**
Profit (loss)			3,244			1,204			(4,858)
TOTAL COMPREHENSIVE INCOME			**3,997**			**288**			**(6,107)**

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
	320	**274**	**495**

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		–	–	–
ADJUSTED BASIC/DILUTED NET PROFIT (LOSS)		**2,924**	**930**	**(5,353)**
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)
ADJUSTED WEIGHTED AVERAGE NUMBER OF ORDINARY SHARES OUTSTANDING (BASIC/DILUTED)	millions	**4,476**	**4,370**	**4,300**
BASIC/DILUTED EARNINGS PER SHARE	€	**0.65**	**0.21**	**(1.24)**

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
GROUP (TOTAL)		**228,248**	**229,704**	**232,342**
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
PERSONNEL COSTS	millions of €	**14,683**	**15,144**	**14,726**

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.

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
AMORTIZATION AND IMPAIRMENT OF INTANGIBLE ASSETS	3,863	4,176	12,259
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
DEPRECIATION AND IMPAIRMENT OF PROPERTY, PLANT AND EQUIPMENT	6,711	6,728	9,698
Of which: Impairment losses recognized on property, plant and equipment	78	117	2,020
	10,574	10,904	21,957

Impairment losses break down as follows:

T 148

millions of €

	2014	2013	2012
INTANGIBLE ASSETS	65	721	9,088
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
PROPERTY, PLANT AND EQUIPMENT	78	117	2,020
Of which: From the year-end impairment test	–	–	–
In connection with the business combination of T-Mobile USA and MetroPCS	–	–	1,890
	143	838	11,108

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
Cash capex			
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
	(11,844)	**(11,068)**	**(8,432)**
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 [a]	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)
	(10,761)	**(9,896)**	**(6,671)**

[a] 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)
	(3,434)	**1,022**	**(6,601)**

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:

T 151

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)
TOTAL	**2014**	**62,658**	**6,096**	**68,754**	**7,241**	**955**	**(3,318)**	**(198)**	**(1,097)**
	2013	**60,132**	**6,480**	**66,612**	**4,935**	**1,666**	**(3,399)**	**(71)**	**(1,108)**
	2012	**58,169**	**6,765**	**64,934**	**(3,954)**	**1,683**	**(3,661)**	**(154)**	**1,510**
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
GROUP	**2014**	**62,658**	**–**	**62,658**	**7,247**	**325**	**(2,665)**	**(198)**	**(1,106)**
	2013	**60,132**	**–**	**60,132**	**4,930**	**228**	**(2,390)**	**(71)**	**(924)**
	2012	**58,169**	**–**	**58,169**	**(3,962)**	**306**	**(2,339)**	**(154)**	**1,516**

T 152

millions of €

		Segment assets[a]	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
TOTAL	**2014**	**200,975**	**125,695**	**15,900**	**617**	**(10,574)**	**(143)**	**228,249**
	2013	**191,568**	**119,281**	**14,112**	**6,167**	**(10,113)**	**(841)**	**229,704**
	2012	**185,573**	**115,651**	**13,966**	**6,726**	**(10,843)**	**(11,109)**	**232,342**
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)	–	–
GROUP	**2014**	**129,360**	**95,294**	**15,081**	**617**	**(10,431)**	**(143)**	**228,248**
	2013	**118,148**	**86,085**	**13,360**	**6,167**	**(10,066)**	**(838)**	**229,704**
	2012	**107,942**	**77,411**	**10,549**	**6,726**	**(10,848)**	**(11,109)**	**232,342**

[a] 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).

T 153

millions of €

		Net cash from operating activities	Net cash (used in) from investing activities	Of which: cash capex[a]	Net cash (used in) from financing activities[b]
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)
TOTAL	**2014**	**18,774**	**(11,712)**	**(12,532)**	**(7,861)**
	2013	**19,149**	**(4,502)**	**(11,828)**	**(10,505)**
	2012	**18,916**	**(1,980)**	**(9,267)**	**(16,609)**
Reconciliation	2014	(5,381)	951	688	4,427
	2013	(6,132)	(5,394)	760	11,527
	2012	(5,339)	(4,691)	835	10,008
GROUP	**2014**	**13,393**	**(10,761)**	**(11,844)**	**(3,434)**
	2013	**13,017**	**(9,896)**	**(11,068)**	**1,022**
	2012	**13,577**	**(6,671)**	**(8,432)**	**(6,601)**

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

[b] 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.

T 154

millions of €

	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
GROUP	**92,109**	**89,863**	**86,310**	**62,658**	**60,132**	**58,169**

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

T 155

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
	62,658	**60,132**	**58,169**

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

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
NET CARRYING AMOUNTS OF LEASED ASSETS CAPITALIZED	**1,062**	**347**	**1,050**	**394**

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
DEC. 31, 2014						
MATURITY						
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
	2,187	**890**	**726**	**356**	**1,461**	**534**
DEC. 31, 2013						
MATURITY						
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
	2,212	**988**	**766**	**401**	**1,446**	**587**

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
MATURITY		
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
	18,909	17,440

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)
NET INVESTMENT (PRESENT VALUE OF THE MINIMUM LEASE PAYMENTS)	227	203

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
MATURITY				
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
	244	227	218	203

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
MATURITY		
Within 1 year	314	275
In 1 to 3 years	380	382
In 3 to 5 years	289	302
After 5 years	507	603
	1,490	1,562

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
	23,305	**10,847**	**8,987**	**3,471**

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
Non-vested as of January 1, 2014	**22,949,165**	**22.14**
Granted	5,199,290	28.52
Vested	(6,296,107)	21.21
Forfeited	(1,900,259)	21.53
Non-vested as of December 31, 2014	**19,952,089**	**24.15**

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
Stock options outstanding/ exercisable at January 1, 2014	**6,333,020**	**24.64**	
Exercised	(1,496,365)	17.95	
Forfeited	(487,743)	42.41	
Stock options outstanding/ exercisable at December 31, 2014	**4,348,912**	**24.96**	**3.7**

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
ASSETS						
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[a]	AfS	683		122	561	
Derivative financial assets[b]						
Derivatives without a hedging relationship	FAHfT	835				835
Of which: termination rights embedded in bonds issued and conversion rights	FAHfT	183				183
Derivatives with a hedging relationship	n. a.	508			286	222
LIABILITIES AND SHAREHOLDERS' EQUITY[c]						
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[b]						
Derivatives without a hedging relationship	FLHfT	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[a]	AfS	683		122	561	
Financial assets held for trading	FAHfT	835				835
Financial liabilities measured at amortized cost	FLAC	62,302	62,302			
Financial liabilities held for trading	FLHfT	664				664

[a] For details, please refer to Note 8 "Other financial assets," PAGE 214.
[b] For details, please refer to TABLE 171 on derivatives in this Note, PAGE 257.
[c] For financial guarantees and loan commitments existing at the reporting date, please refer to the additional information provided in this Note, PAGE 256.
[d] 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.

Amounts recognized in the statement of financial position according to IAS 17	Fair value Dec. 31, 2014[d]	Category in accordance with IAS 39	Carrying amounts Dec. 31, 2013	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[d]
				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[a]	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
ASSETS								
Originated loans and receivables		3,256		**3,256**				**–**
LIABILITIES AND SHAREHOLDERS' EQUITY								
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**

[a] 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
ASSETS								
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**
LIABILITIES AND SHAREHOLDERS' EQUITY								
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

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
Carrying amount as of January 1, 2014	**0**	**0**	**0**
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
CARRYING AMOUNT AS OF DECEMBER 31, 2014	**208**	**183**	**0**

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	Recognized in profit or loss from derecognition	Net gain (loss)
		At fair value	Currency translation	Impairments/ allowances	At fair value		2014
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)**
	(2,423)	**435**	**(390)**	**(734)**	**41**	**49**	**(3,022)**

millions of €

	Recognized in profit or loss from interest, dividends	Recognized in profit or loss from subsequent measurement			Recognized directly in equity from subsequent measurement	Recognized in profit or loss from derecognition	Net gain (loss)
		At fair value	Currency translation	Impairments/ allowances	At fair value		2013
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)**
	(2,217)	**(451)**	**169**	**(602)**	**(4)**	**30**	**(3,075)**

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.

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)	–	–
Net amounts presented in the statement of financial position	**199**	**245**	**1,160**	**1,095**
Amounts subject to enforceable master netting arrangements or similar agreements and not meeting all offsetting requirements in accordance with IAS 32.42	**(11)**	**(11)**	**(1,108)**	**(1,091)**
Of which: amounts related to recognized financial instruments	(11)	(11)	(624)	(624)
Of which: amounts related to financial collateral (including cash collateral)	–	–	(484)	(467)
NET AMOUNTS	**188**	**234**	**52**	**4**

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)	–	–
Net amounts presented in the statement of financial position	**233**	**185**	**613**	**1,583**
Amounts subject to enforceable master netting arrangements or similar agreements and not meeting all offsetting requirements in accordance with IAS 32.42	**(18)**	**(18)**	**(610)**	**(1,514)**
Of which: amounts related to recognized financial instruments	(18)	(18)	(574)	(574)
Of which: amounts related to financial collateral (including cash collateral)	–	–	(36)	(940)
NET AMOUNTS	**215**	**167**	**3**	**69**

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

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
ASSETS		
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
LIABILITIES AND SHAREHOLDERS' EQUITY		
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

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
FINANCIAL LIABILITIES	**55,227**	**51,599**
Accrued interest	(1,097)	(1,091)
Other	(1,038)	(881)
GROSS DEBT	**53,092**	**49,627**
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
NET DEBT	**42,500**	**39,093**
SHAREHOLDERS' EQUITY	**34,066**	**32,063**

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.

Related individuals.[1] 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.

[1] The prior-year figures also include the then Member of the Board of Management René Obermann.

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

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 [a]	550,000

[a] 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.

T 174

	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.

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:

T 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:

T 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[a]	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[b]	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[c]	**4,971,855**	**204,275**	**4,275,592**	**1,605,938**	**1,000,843**	**12,058,503**

[a] 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.

[b] 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 variable 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.

[c] Remuneration relating to Board of Management members who left the Company in the course of 2013 is no longer included in the table.

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

T 177

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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 [a]	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 [b]	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 [c]	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) [d]	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
	2,342,916.65	**284,000.00**	**533,875.00**	**3,160,791.65**

[a] 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).

[b] 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).

[c] 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).

[d] 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).

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

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

42 EVENTS AFTER THE REPORTING PERIOD

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:

T 178

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

The following auditor's report (*Bestätigungsvermerk*) has been issued in accordance with Section 322 of the German Commercial Code (*Handelsgesetzbuch*) on the consolidated financial statements and group management report (*Konzernlagebericht*) of Deutsche Telekom Aktiengesellschaft as of and for the financial year ended December 31, 2014. The list of shareholdings in accordance with Section 313 of the German Commercial Code (*Handelsgesetzbuch*) of Deutsche Telekom AG as of December 31, 2014, which is an integral part of the consolidated financial statements of Deutsche Telekom AG, and the group management report are neither included nor incorporate by reference in this offering memorandum.

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	Verena Heineke
Wirtschaftsprüfer	Wirtschaftsprüferin

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Deutsche Telekom International Finance B.V.

$850,000,000 2.225% Notes due January 17, 2020
$1,000,000,000 2.820% Notes due January 19, 2022
$1,250,000,000 3.600% Notes due January 19, 2027
$400,000,000 Floating Rate Notes due January 17, 2020

Guaranteed as to Payment
of Principal and Interest by

Deutsche Telekom AG

Citigroup
Deutsche Bank Securities
Morgan Stanley

Credit Suisse
MUFG
Santander