

JANUARY 1 TO MARCH 31, 2016

# INTERIM GROUP REPORT



LIFE IS FOR SHARING.

## SELECTED FINANCIAL DATA OF THE GROUP

millions of €

	Q1 2016	Q1 2015	Change %	FY 2015
<b>REVENUE AND EARNINGS</b>				
Net revenue	17,630	16,842	4.7%	69,228
Of which: domestic	34.5	37.0		36.2
Of which: international	65.5	63.0		63.8
Profit from operations (EBIT)	4,525	1,466	n. a.	7,028
Net profit (loss)	3,125	787	n. a.	3,254
Net profit (loss) (adjusted for special factors)	1,047	1,036	1.1%	4,113
EBITDA	7,667	4,160	84.3%	18,388
EBITDA (adjusted for special factors)	5,163	4,574	12.9%	19,908
EBITDA margin (adjusted for special factors)	29.3	27.2		28.8
Earnings per share basic/diluted	€ 0.68	0.17	n. a.	0.71
<b>STATEMENT OF FINANCIAL POSITION</b>				
Total assets	143,605	137,461	4.5%	143,920
Shareholders' equity	38,444	36,996	3.9%	38,150
Equity ratio	26.8	26.9		26.5
Net debt	47,603	46,310	2.8%	47,570
<b>CASH FLOWS</b>				
Net cash from operating activities	3,496	3,308	5.7%	14,997
Cash capex	(3,896)	(4,429)	12.0%	(14,613)
Free cash flow (before dividend payments and spectrum investment)	822	865	(5.0)%	4,546
Net cash used in investing activities	(3,738)	(2,937)	(27.3)%	(15,015)
Net cash from (used in) financing activities	828	(3,136)	n. a.	(876)

## NUMBER OF FIXED-NETWORK AND MOBILE CUSTOMERS

millions

	Mar. 31, 2016	Dec. 31, 2015	Change Mar. 31, 2016/ Dec. 31, 2015 %	Mar. 31, 2015	Change Mar. 31, 2016/ Mar. 31, 2015 %
Mobile customers	158.4	156.4	1.3%	152.4	3.9%
Fixed-network lines	28.8	29.0	(0.7)%	29.5	(2.4)%
Broadband lines <sup>a</sup>	18.0	17.8	1.1%	17.5	2.9%

<sup>a</sup> Excluding wholesale.

The key parameters used by Deutsche Telekom are defined in the glossary of the 2015 Annual Report (page 251 et seq.).

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# TO OUR SHAREHOLDERS

## DEVELOPMENTS IN THE GROUP

### NET REVENUE

- We continued on our course of growth: In the first three months of the year, net revenue increased by EUR 0.8 billion to EUR 17.6 billion, an increase of 4.7 percent. This development was primarily driven by our United States operating segment, which grew by 13.2 percent compared with the prior-year quarter.
- Our Systems Solutions operating segment recorded revenue growth of 6.1 percent.
- In our home market of Germany, we saw a decrease of 2.5 percent, mainly due to lower terminal equipment sales and a slight decline in service revenues.
- Revenue in our Europe operating segment was down 2.4 percent compared with the prior-year period owing to regulation and competition.
- On a like-for-like basis, too, i.e., excluding exchange rate effects and effects from changes in the composition of the Group, net revenue increased by EUR 0.8 billion.

### ADJUSTED EBITDA

- Adjusted EBITDA also grew substantially by EUR 0.6 billion or 12.9 percent.
- The biggest driver of this development was our United States operating segment, which recorded an increase of EUR 0.7 billion, mainly as a result of the continued success of the Un-carrier initiatives. The adjusted EBITDA margin improved from 17.7 to 24.4 percent.
- At 29.3 percent, the Group's adjusted EBITDA margin increased against the prior-year level of 27.2 percent. The operating segments with the strongest margins are still Germany with 40.0 percent and Europe with 32.0 percent.

### EBIT

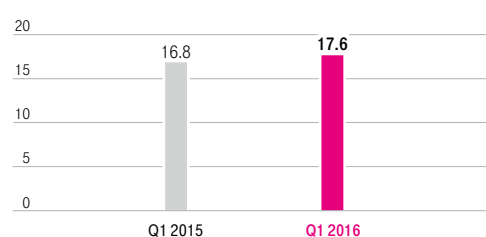
- EBIT increased substantially from EUR 1.5 billion to EUR 4.5 billion.
- The trend in the first quarter of 2016 was driven by two positive special factors: Income of some EUR 2.5 billion from the completed sale of our stake in the EE joint venture; and income of EUR 0.4 billion from an exchange of spectrum licenses between T-Mobile US and AT&T completed in March 2016.
- EBIT also benefited from the positive business performance of our United States operating segment.
- By contrast depreciation, amortization and impairment losses increased by EUR 0.4 billion year-on-year 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.

### NET PROFIT

- Net profit also increased substantially by EUR 2.3 billion to EUR 3.1 billion as a result of the aforementioned effects.
- Loss from financial activities improved by EUR 0.2 billion, mainly as a result of remeasurement effects from the subsequent measurement of embedded derivatives on T-Mobile US bonds.
- Due to a higher profit before income taxes, tax expense increased year-on-year by EUR 0.7 billion.

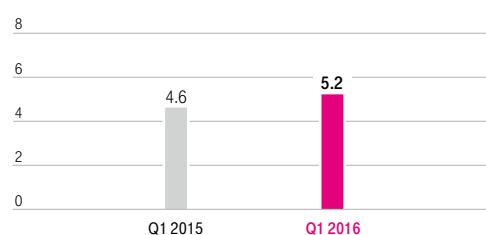
#### Net revenue

billions of €



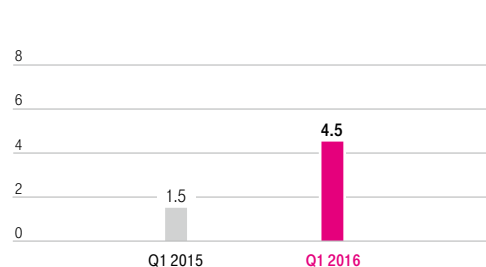
#### Adjusted EBITDA

billions of €



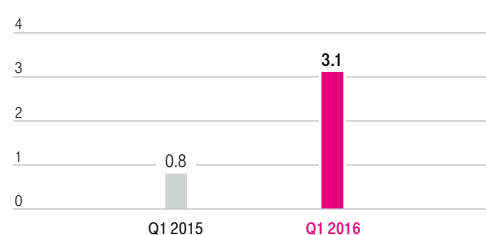
#### EBIT

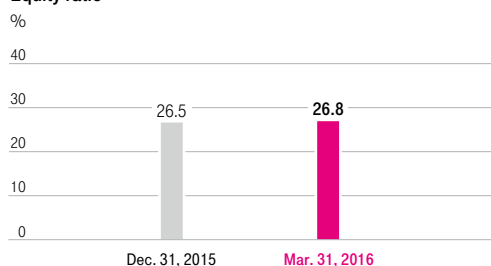
billions of €



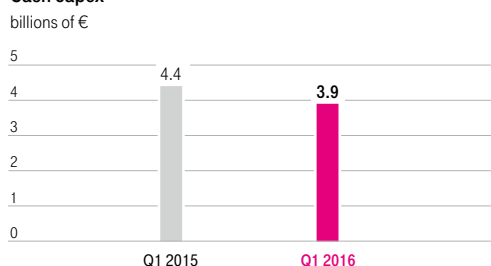
#### Net profit

billions of €

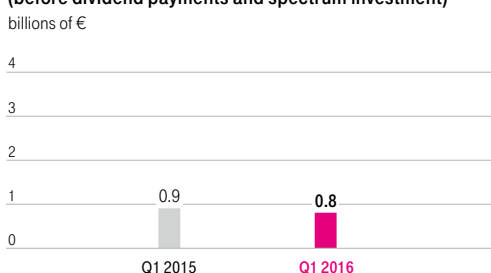


**Equity ratio****EQUITY RATIO**

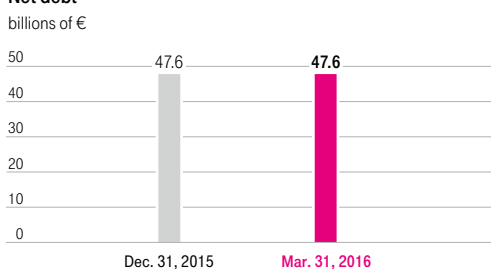
- The equity ratio increased by 0.3 percentage points to 26.8 percent.
- Total assets decreased only slightly by EUR 0.3 billion compared with the end of 2015 to EUR 143.6 billion.
- Shareholders' equity increased by EUR 0.3 billion compared with December 31, 2015 to EUR 38.4 billion primarily due to profit after taxes of EUR 3.4 billion. This was offset primarily by currency translation effects recognized directly in equity (EUR 2.1 billion), losses from the remeasurement of available-for-sale financial assets (EUR 0.5 billion) and the recognition of actuarial losses (after taxes) (EUR 0.4 billion).

**Cash capex****CASH CAPEX**

- Cash capex (including spectrum investment) decreased by EUR 0.5 billion to EUR 3.9 billion.
- In the reporting period, mobile spectrum licenses were acquired for a total of EUR 1.1 billion, primarily in the United States and Europe operating segments. In the prior-year period, the United States and Europe operating segments had acquired mobile spectrum licenses for EUR 1.9 billion.
- Adjusted for the effects of spectrum acquisitions, cash capex increased by EUR 0.3 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.

**Free cash flow****(before dividend payments and spectrum investment)****FREE CASH FLOW (BEFORE DIVIDEND PAYMENTS AND SPECTRUM INVESTMENT)**

- Free cash flow decreased only slightly to EUR 0.8 billion.
- The year-on-year increase of EUR 0.2 billion in net cash from operating activities, driven mainly by the positive business development of the United States operating segment, had a positive effect.
- The year-on-year increase of EUR 0.3 billion in cash capex (before spectrum investment) and the EUR 0.1 billion lower dividend payment from the EE joint venture reduced free cash flow.

**Net debt****NET DEBT**

- Net debt remained unchanged compared with the end of 2015, at EUR 47.6 billion.
- The acquisition of mobile spectrum (EUR 1.1 billion) and payments to external pension funds (allocation under contractual trust agreement: EUR 0.3 billion) increased net debt.
- Free cash flow (EUR 0.8 billion) and exchange rate effects (EUR 0.7 billion) reduced net debt.

For a more detailed explanation, please refer to the section "Development of business in the Group," page 12 et seq.

## DEUTSCHE TELEKOM AT A GLANCE

Deutsche Telekom remained on a course of growth in the first three months of the 2016 financial year. Net revenue in the Group increased by 4.7 percent to EUR 17.6 billion, once again driven mainly by the strong U.S. business, which increased by 13.2 percent thanks to consistently strong customer growth. In the Germany operating segment, a decrease in terminal equipment revenue and a slight decline in service revenues led to revenue losses of 2.5 percent, while in the Europe operating segment, revenue trends improved slightly, although continuing to decline overall. In the Systems Solutions operating segment, revenue increased significantly by some 6.1 percent, mainly due to the completion of the set-up phase of the toll collection system in Belgium.

This revenue increase was also the basis for the growth in adjusted EBITDA, which rose by 12.9 percent to EUR 5.2 billion. The growth in the United States of EUR 0.7 billion was another key driver. Excluding the United States operating segment, net adjusted EBITDA declined by some EUR 0.1 billion overall, mainly due to the decline in earnings generated by the Group Headquarters & Group Services segment, which had benefited from a one-time effect in the prior-year quarter.

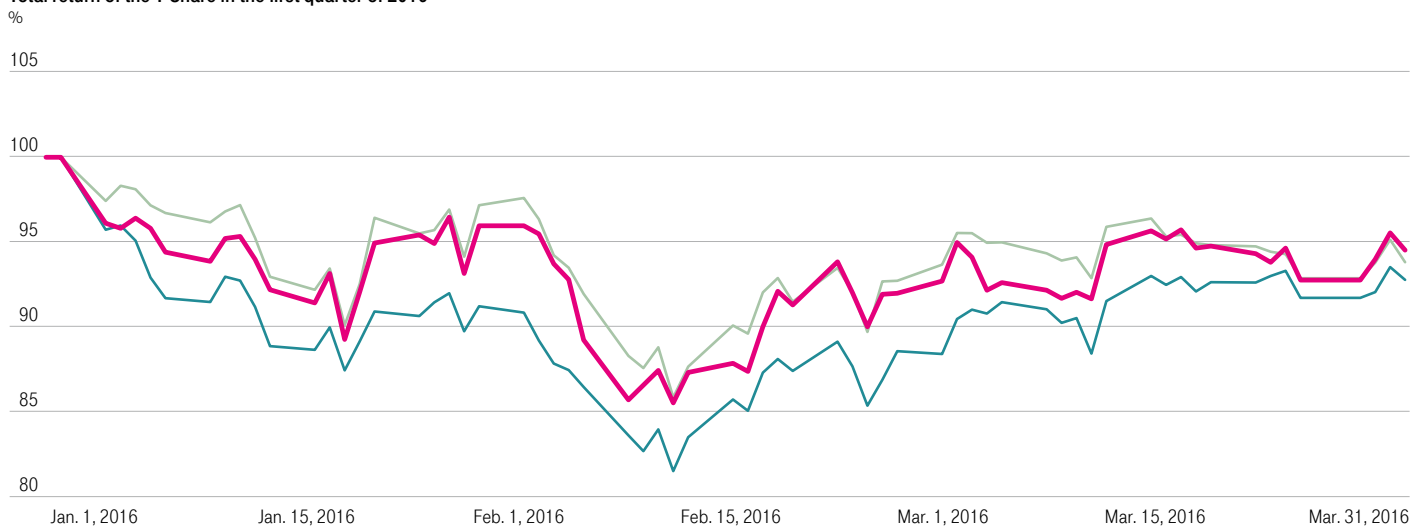
In terms of cash outflows for investments in intangible assets and property, plant and equipment – cash capex – we continue to differentiate ourselves through high network quality. Although at first glance, cash capex decreased from EUR 4.4 billion to EUR 3.9 billion, this decrease was entirely attributable to lower payments for the acquisition of mobile spectrum licenses: While EUR 1.9 billion was paid in the prior-year quarter, the payments totaled EUR 1.1 billion in the first quarter of 2016. Excluding the effects from spectrum acquisitions, cash capex increased by around EUR 0.3 billion. This increase is mainly attributable to investments in the mobile network in the United States.

In the first quarter of 2016, EBIT and net profit benefited from two special factors: Firstly, non-cash income of EUR 2.5 billion from the sale of our stake in the EE joint venture to BT and, secondly, the book gain of EUR 0.4 billion from the exchange of spectrum licenses in the United States. As a result, EBIT increased substantially from EUR 1.5 billion to EUR 4.5 billion, while net profit increased by EUR 2.3 billion to EUR 3.1 billion. Adjusted for special factors, net profit remained stable at some EUR 1.0 billion.

In light of the business development in the first three months of financial year 2016, we can confirm our guidance for the full year.

## THE T-SHARE

Total return of the T-Share in the first quarter of 2016



■ Total return of the T-Share (dividend reinvested) ■ DAX 30 ■ Dow Jones Europe STOXX 600 Telecommunications®

**T-Share performance**

		Q1 2016	Q1 2015	FY 2015
<b>XETRA CLOSING PRICES</b>				
Share price on the last trading day	€	15.78	17.05	16.69
Year high	€	16.69	17.32	17.60
Year low	€	14.27	12.63	12.63
<b>WEIGHTING OF THE T-SHARE IN MAJOR STOCK INDEXES</b>				
DAX 30	%	6.0	5.4	5.9
Dow Jones Euro STOXX 50®	%	2.5	2.2	2.5
Dow Jones Europe STOXX 600 Telecommunications®	%	14.2	13.9	14.4
Market capitalization	billions of €	72.7	77.3	76.9
Number of shares issued	millions	4,607	4,536	4,607

**Historical performance of the T-Share as of March 31, 2016**

	Since the beginning of the year	1 year	3 years	5 years
Total return of the T-Share (dividend reinvested)	(5.5)	(4.6)	120.6	93.9
DAX 30	(7.2)	(16.7)	27.8	41.5
Dow Jones Europe STOXX 600 Telecommunications®	(6.2)	(8.2)	52.4	47.5

The international stock exchanges got off to a far from promising start to 2016. By mid-February, all the key stock market indexes had fallen significantly, at peak by as much as 15 percent. This was due to the global economic situation, which remains critical – especially the situation in China – as well as the ongoing weakness in the oil price. Both the DAX 30 and the Dow Jones Euro STOXX 50® lost more than 7 percent below the line in the first quarter of 2016, while the Nikkei dropped by as much as 11 percent. Only the Dow Jones recorded a slight increase of 2.2 percent.

The telecommunications market in Europe was unable to escape this trend, recording a similar decline of 6.2 percent.

The Deutsche Telekom share also followed suit, but fell less sharply than the sector, decreasing by 5.5 percent on a total return basis.

**HIGHLIGHTS IN THE FIRST QUARTER OF 2016****CORPORATE TRANSACTIONS**

**Sale of our 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, we 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 our stake in the EE joint venture, we received a financial stake of 12.0 percent in BT and a cash payment of GBP 25.7 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 EE joint venture, in which we participated with the capital share we had at that date of 50 percent.

**BOND ISSUANCES**

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: a four-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 seven-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. The issuance forms part of our general corporate financing. It did not increase the level of our net debt.

**INVESTMENTS IN NETWORKS AND SPECTRUM**

**Acquisition and exchange of mobile spectrum licenses 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 EUR 0.5 billion. In addition, T-Mobile US entered into agreements with third parties in January 2016 for the exchange and acquisition of spectrum licenses covering approximately 48 million people, for around EUR 0.6 billion. In the first quarter of 2016, spectrum licenses to be exchanged in the value of EUR 0.3 billion were therefore 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. In March 2016, T-Mobile US and AT&T completed the exchange of spectrum licenses agreed in the third quarter of 2015, giving rise to a non-cash gain of EUR 0.4 billion.

**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 beginning of February 2016. We are 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. The reassignment of the frequencies is still being clarified. The final assignment is expected to be completed by the end of the second quarter of 2016.

### PARTNERSHIPS

**Exclusive partnership with i.am+.** At the Mobile World Congress in Barcelona, we announced our long-term partnership with the innovation company i.am+, founded by entrepreneur and musician will.i.am. The collaboration focuses on the exclusive marketing of the product “dial” – a watch and smartphone in one, which is distinctive from other wearables that have been marketed to date thanks to a large number of innovative applications. It is operated with the sophisticated voice control AneedA. Apart from delivering music and information, it has a personal artificial intelligence. “dial” will be made available in the first Deutsche Telekom footprint markets in Europe in the course of the year. We have also invested in the innovation company i.am+ through Telekom Innovation Pool, our strategic investment fund.

**Innovative technology partnership agreed with SK Telecom.** At the end of February 2016, we entered into a strategic partnership with South Korea's largest telecommunications company, SK Telecom, with the shared aim of further expanding our own market-, customer-, and technology-specific performance potential as industry leaders, so as to create additional benefits for customers. We plan a close collaboration in the areas of services, the Internet of Things (IoT), and the related research fields. We also agreed as part of the collaboration to market SK Telecom's innovative Pico projector, first in Germany, then throughout Europe in the second quarter of 2016. In return, SK Telecom plans to launch our In-Car WiFi solution on the South Korean market.

**Sales partnership entered into with Akamai.** At CeBIT, we signed an extensive partner agreement with Akamai, the world's leading provider of content delivery network (CDN) services. This will allow us to further expand our international offering for corporate customers and to offer Akamai's entire solution portfolio. Akamai's services accelerate websites and cloud applications on devices and ensure that digital content is available quickly, reliably and securely. The partnership with Akamai is in line with our strategy of further expanding our leading market position with business customers.

### INNOVATIONS

**Records in 5G demonstrations.** In a world first, at the Mobile World Congress in Barcelona, we showcased a complete end-to-end 5G system. We measured a latency of less than a millisecond. That is a technical record and a major step towards achieving genuine real-time applications such as self-driving cars or remote medical surgery. We were also able to demonstrate our technological lead in terms of bandwidths: Together with partners, we increased the data speed on a mobile connection to a smartphone prototype to more than 1.5 Gbit/s. In the future, such data rates will primarily be needed for applications with high-resolution images or films. A few days before the Mobile World Congress, our innovation laboratory, 5G:haus – established in March 2015 together with leading industry partners to develop and standardize new technologies – and our partner Huawei achieved a data transmission record: In a live experiment with millimeter wave technology, multi-user connection rates of up to 70 Gbit/s were achieved.

**Fiber-optic speed achieved with copper.** In cooperation with Nokia, we showed in laboratory conditions how data transmission speeds of more than 10 Gbit/s can be achieved on copper cable using the new ultra-broadband access technology XG-FAST. XG-FAST uses the last section of the existing copper network to achieve transmission speeds similar to that of optical fiber. The technology is still in the early stages of development, but shows that other new possibilities are opening up for providing high transmission rates.

### NEW DEALS WITH CORPORATE CUSTOMERS

T-Systems will continue to operate the mainframe platform for a car manufacturer for another five years. Together with this car manufacturer, we will drive forward digitization in the automotive industry, modernize the related platforms, and make them more flexible. In addition to traditional IT business, we will also work together in the future on the topic of the connected car.



## NEW PRODUCTS AND RATE PLANS

At the start of this year's CeBIT, we unveiled our **Open Telekom Cloud**. Our public cloud offering is a secure, online solution for business customers to purchase infrastructure, software and applications as required, in addition to tailored private cloud solutions, at reasonable prices. The hardware and the solution concept will be operated by our technology partner Huawei. Our networks ensure reliable availability and our certified German cloud data centers provided by T-Systems enable the highest possible quality and security. The Open Telekom Cloud is a core component in the expansion of our cloud ecosystem.

We also presented new products for **security solutions** at CeBIT: With Internet Protect Pro, we offer business customers complete, one-source protection against threats from cyberspace. Internet Protect Pro is offered from the Deutsche Telekom cloud in cooperation with the U.S. Internet security specialist Zscaler and provides real-time protection against malicious codes, cyber attacks, and data theft. With Mobile Protect Pro, we offer companies all-round protection for mobile devices like smartphones and tablets.

The solution, which was developed by Zimperum, the leading provider of mobile communications security products, is based among other things on machine-learning algorithms that can identify even previously unknown risks. These two security products are the first solutions to come out of our new Telekom Security unit, where we have pooled all of the Group's security units.

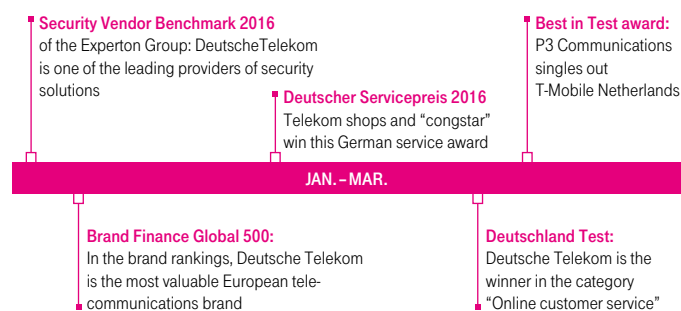
**MagentaOne** has been available to consumers in all our European integrated markets since March 2016: Following Slovakia, Romania, Hungary, the F.Y.R.O. Macedonia, Greece, and Montenegro, now Croatia has signed up to the concept of the convergent product portfolio. This international marketing concept has been adapted to the respective local market and its requirements and makes the Internet, telephony, and entertainment accessible anytime, anywhere, and on any device.

The new **MagentaMobil Happy** rate plans provide our MagentaEins customers in Germany with a new top smartphone or tablet every 12 months in return for a monthly charge. Happy, which has been available since March 2016, marked the launch of MagentaEins 5.0, adding another attractive offer to our MagentaEins portfolio. As of mid-April 2016, we also offer our new **MagentaMobil** rate plans for consumers and business customers. The MagentaMobil rate plans S, M, and L offer even more features: In addition to increasing the high-speed data volumes, the rate plans include an integrated HotSpot flat rate and a free-of-charge EU roaming package for calls, text messages, and mobile data usage in European countries outside of Germany.

## AWARDS

The illustration below shows the main awards received in the first quarter of 2016. For details on more awards, please go to [www.telekom.com/media](http://www.telekom.com/media).

### Major awards in the first quarter of 2016



# INTERIM GROUP MANAGEMENT REPORT

## GROUP STRUCTURE, STRATEGY, AND MANAGEMENT

With regard to our **Group structure, strategy, and management**, please refer to the notes in the 2015 combined management report (2015 Annual Report, page 58 et seq.). No significant changes were recorded in this area from the Group's point of view.

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. The operations were bundled to improve the way in which the company can be managed. Comparative figures have been adjusted retrospectively.

For more information, please refer to the disclosures under segment reporting in the interim consolidated financial statements (pages 44 and 45).

## THE ECONOMIC ENVIRONMENT

This section provides additional information on and explains recent changes to the economic situation as described in the combined management report for the 2015 financial year, focusing on macroeconomic developments in the first three months of 2016, the outlook, the currently prevailing economic risks, the telecommunications market, and the regulatory environment. The overall economic outlook is subject to the precondition that there are no major unexpected occurrences in the forecast period.

### MACROECONOMIC DEVELOPMENT

The global economy slowed slightly year-on-year in the first quarter of 2016. In April 2016, the International Monetary Fund (IMF) revised downwards slightly its growth forecast for global economic development for 2016 and 2017. This restrained growth is primarily attributable to weak economic development in the emerging economies. According to the adjusted IMF forecasts, emerging and developing economies will grow by 4.1 percent in 2016, industrial countries by 1.9 percent.

In our core markets, economic growth rates recorded largely positive trends in the first quarter of 2016. Gross domestic product (GDP) in Germany grew by 1.4 percent compared with the prior-year quarter, supported primarily by private consumption. Unemployment also remained low at an average 6.2 percent. The U.S. economy grew by 2.2 percent in the first quarter of 2016 as it continued to profit from a robust labor market, with unemployment standing at 4.9 percent in the first three months of the year. Almost all countries of our Europe operating segment recorded positive trends in GDP growth and employment at the start of 2016. The economies profited mainly

from rising domestic consumption and low energy prices. Greece continues to experience difficulties in emulating the growth seen in Europe as a whole.

### OUTLOOK

We continue to expect a stable economic trend in our core markets. In Germany, the United States, and the countries of our Europe operating segment – with the exception of Greece – macroeconomic growth is robust, bolstered primarily by the positive trends in consumer spending and low oil and energy prices. The Greek economy is expected to begin its recovery in 2017.

### OVERALL ECONOMIC RISKS

It is clear from the economic and political developments of the last few months that uncertainties have grown for the development of the global economy and for our footprint countries. Geopolitical crises, resulting for example from the increased terror threat or large numbers of refugees can have an adverse effect on the economies of the countries in which we operate. In addition, persistent economic weakness, especially in the emerging economies, could negatively impact on global trade and thus the markets of our operating segments. The ongoing discussion about possible exits from the European Union can also negatively affect economic development in Europe. The political and economic situation in Greece has essentially stabilized. However, risk factors remain, such as the marginal parliamentary majority of the governing coalition and potentially growing resistance to austerity measures, which could jeopardize negotiations with international creditors. As such, a renewed escalation towards crisis in the political situation cannot be entirely ruled out.

### TELECOMMUNICATIONS MARKET

Consolidation pressure remains high in the European telecommunications industry, primarily as a result of declining revenues due to growing competition. At the same time, high investments are needed for the network build-out, for innovation, and the acquisition of spectrum. In light of this, the failed consolidation plan in Denmark has given rise to uncertainty in the industry: Back in September 2015, Telenor and TeliaSonera canceled their merger plans after the companies were unable to agree suitable terms with the EU Commission. It still remains to be seen what signal effect this decision will have on current and future consolidation plans in the European Union. The British Competition and Markets Authority approved the acquisition of EE by BT unconditionally and without remedies in January 2016. On the other hand, the EU Commission is still reviewing the planned merger between Hutchison and Telefónica in the United Kingdom and approved the merger of Liberty Global and BASE in Belgium only under strict conditions. Moves towards consolidation can also be seen in other countries: For example, Vodafone and Liberty Global are planning to merge their operations in the Netherlands and, in Italy, Hutchison and VimpelCom want to join forces.

**European General Data Protection Regulation.** Part of the digital single market strategy is the reform of data protection through the General Data

Protection Regulation negotiated between the European Commission, the EU Council, and the European Parliament in December 2015. Following its adoption in the European Parliament on April 14, 2016, the Regulation will enter into force 20 days after its publication in the EU's official journal between May and June 2016 and will be applicable in 2018 after a transition period of two years. The new data protection law closes a large gap in the regulation of service providers outside of the EU and imposes the same rules for all market players operating in the EU. The Regulation assures Europe of a high level of data protection and, at the same time, will pave the way for new digital business models. The General Data Protection Regulation applies directly in the member states and does not need to be transposed into national law. Contrary or redundant German law must be repealed by way of a specific act (Rechtsbereinigungsgesetz). Since the Bundestag election is due in 2017, a draft bill is expected to be submitted as early as in the second half of 2016.

**Safe Harbor.** Following the judgment of the European Court of Justice (ECJ) dated October 6, 2015, declaring the European Commission's Safe Harbor Decision to be void, the Commission put forward a successor agreement (EU-U.S. 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 processed in the United States. However, considerable doubts remain about whether the deficiencies identified in the judgment (for example, inadequate protection of personal data in the United States, insufficient protection from unrestricted access by U.S. security agencies, no guarantee of effective legal protection) have been rectified. Consequently, in an official statement on April 13, 2016, the Article 29 Working Party, comprising representatives from national data protection authorities in Europe, recommended further improvements. These relate primarily to the further restriction of criteria for mass surveillance, clear guarantees, powers for the new Ombudsperson to be set up, and access to the U.S. courts for EU citizens. Furthermore, the agreement is to be reviewed when the EU General Data Protection Regulation enters into force in two years. The alternative transfer methods (binding corporate rules, standard contractual clauses) are to remain valid for the time being. The EU Commission currently plans to ratify the agreement in June 2016. However, this will depend on whether all EU member states first approve the draft.

**IT security legislation.** Within the scope of the German IT Security Act (IT-Sicherheitsgesetz – IT-SiG), a draft ordinance (KRITIS VO) was drawn up in the first quarter of 2016, which sets out the criteria that enable operators of critical infrastructure (KRITIS) from the information technology and telecommunications, water, energy, and food sectors to identify whether they are subject to the provisions of the IT-SiG. The ordinance is expected to enter into force in May 2016.

Final approval of the EU Network and Information Security Directive is expected for the second quarter of 2016, following which, in addition to the provisions of the IT-SiG, online marketplaces, search engine operators, and cloud service providers must ensure compliance with minimum requirements for the security of their infrastructure and to report incidents. This may give rise to a need for the German legislature to amend the IT-SiG accordingly. It remains to be seen whether such an amendment would also remedy the previous deficiency of the IT-SiG regarding the non-consideration of hardware and software vendors.

## REGULATION

**Application for further vectoring roll-out.** On April 7, 2016, the Federal Network Agency notified the EU Commission in Brussels of a draft decision regarding our application for vectoring roll-out. As in the previous draft consultation, this will grant us largely exclusive rights to roll out vectoring near local exchanges. However, in contrast to the first draft decision, competitors will be able to roll out vectoring in areas near local exchanges. The European Commission has until mid-May 2016 to comment on the draft. Provided the Commission does not express any serious concerns, the regulatory process is expected to be completed in the second quarter of 2016. However, the regulatory requirements for actual implementation will not be met until the reference offer has been adjusted, which is expected to be completed in the fourth quarter of 2016.

On October 28, 2015, the Federal Network Agency issued the **regulatory order for the bitstream market**. In addition to the current ex-post regulation for Layer 3 bitstream access products (BSA), this order requires an ex-ante license for Layer 2 bitstream access products, although it does not require cost-based regulation of charges. The Federal Network Agency also regulates the offer terms and conditions for Layer 2 bitstream access products in a "reference offer procedure." It issued a provisional ruling in this regard at the start of April 2016. A final decision is expected in June 2016. In the first quarter of 2016, we submitted a rates proposal for the new Layer 2 BSA to the Federal Network Agency. The main rates applied for were the monthly charges for a VDSL end customer line and for the handover points on the Broadband Network Gateway (BNG). A preliminary decision in the rates approval proceedings is expected in the middle of the second quarter of 2016. This will then be followed by national and EU consultations, such that final approval of the rates can be expected as of July 1, 2016.

**Federal Network Agency proceedings on MagentaZuhause Hybrid.** Since the start of 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 on the basis of innovative network technology. In 2015, the Federal Network Agency already rejected an application by 1&1 Telecom GmbH for us to provide a corresponding wholesale product. In January 2016, the Federal Network Agency began preliminary investigations in relation to the prices of MagentaZuhause Hybrid due to accusations made by 1&1, NetCologne and M-net that the prices were allegedly too low. However, since the Agency found no basis for objection, these investigations were discontinued on March 10, 2016.

**Applications for ULL monthly charges.** On February 5, 2016, we submitted rate applications for monthly charges for unbundled local loop lines (ULLs) and for passive infrastructure access products. On April 20, 2016, the Federal Network Agency published its draft consultations for the rate rulings, under which the charges for the most important option, access to unbundled local loop lines up to the main distribution frame, will be reduced by 1.7 percent from EUR 10.19/month to EUR 10.02/month. The drafts will first be put out for consultation at national and then at international level. Provided the European Commission does not express any serious concerns, we expect the final ruling at the end of June 2016. The new rates will apply from July 1, 2016.

**Additional special taxes affecting our international subsidiaries.** In addition to the already known special taxes, e.g., in Greece, Hungary, Romania, and Croatia, a tax on mobile masts was discussed in Austria, but was ultimately rejected.

## AWARDING OF FREQUENCIES

The table below provides an overview of the main spectrum awards and auctions as well as license extensions in 2016 in Germany and at our international subsidiaries. It also indicates spectrum to be awarded in the near future in various countries.

### Main spectrum awards

	Start of award	End of award	Frequency ranges (MHz)	Award process	Acquired spectrum (MHz)	Spectrum investment
Albania	Q3/2016	Q4/2016	3,500/3,700	Sealed bid <sup>a</sup> Sequential	tbd	tbd
Greece	Q3/2016	Q4/2016	1,800	Details tbd	tbd	tbd
United Kingdom	Q3/2016	Q4/2016	2,300/3,500	Auction (SMRA <sup>b</sup> ) (expected)	tbd	tbd
Montenegro	Q2/2016	Q3/2016	800/900/ 1,800/2,100/2,600	Auction (CCA <sup>c</sup> ) License extended until 2020	tbd	tbd
Netherlands	Q2/2014	Q1/2016	2,100	Auction (SMRA <sup>b</sup> )/ Sealed bid <sup>a</sup>	2x20	€ 24 million
Poland	Q1/2015	Q2/2016	800/2,600	Auction (SMRA <sup>b</sup> )	2x5/2x15	PLN 2.1 billion (around € 0.5 billion <sup>d</sup> )
Slovakia	Q2/2016	Q3/2016	1,800	Auction (SMRA <sup>b</sup> )	tbd	tbd
Czech Republic	Q2/2016	Q3/2016	1,800/2,600	Auction (SMRA <sup>b</sup> )	tbd	tbd
Czech Republic	Q3/2016	Q4/2016	3,700	Auction (SMRA <sup>b</sup> ) (expected)	tbd	tbd
Hungary	Q2/2016	Q2/2016	3,500/3,700	Sealed bid <sup>a</sup>	tbd	tbd
United States	Q2/2016	Q3/2016	600	Incentive auction <sup>e</sup>	tbd	tbd

<sup>a</sup> Submission of an individual bid in a sealed envelope, in some cases sequential, in several awards.

<sup>b</sup> Simultaneous electronic multi-round auction with ascending, parallel bids for all ranges.

<sup>c</sup> Combinatorial Clock Auction, three-stage, multi-round auction for spectrum from all frequency ranges.

<sup>d</sup> Total of final bids. Possible acquisition of an additional frequency block still being clarified. Allocation of spectrum expected for Q2 2016.

<sup>e</sup> Quantity and prices of spectrum to be traded depends on spectrum surrendered by radio broadcasters.

## DEVELOPMENT OF BUSINESS IN THE GROUP

### RESULTS OF OPERATIONS OF THE GROUP

#### NET REVENUE

In the first three months of the 2016 financial year, we generated net revenue of EUR 17.6 billion, an increase of EUR 0.8 billion or 4.7 percent compared with the same period in the prior year. The business development of our United States operating segment contributed substantially to this positive trend: T-Mobile US' successful Un-carrier initiatives gave a strong boost to the number of new customers and thus also to service revenues. By contrast, terminal equipment revenue was adversely affected. In connection with the JUMP! On Demand business model introduced by T-Mobile US in June 2015, customers are increasingly choosing to lease high-value terminal equipment. In our home market of Germany, revenue declined by 2.5 percent. This is primarily attributable to lower terminal equipment sales as well as a slight decline in mobile service revenues. In our Europe operating segment, we recorded a revenue decline of 2.4 percent. Decisions by regulatory authorities continued to impact on the development of our revenue. In addition, revenue

continued to come under pressure from persistently intense competition in the telecommunications markets in our national companies. Revenue in our Systems Solutions operating segment was up 6.1 percent compared with the prior-year quarter, primarily due to the completion of the set-up phase of the toll collection system in Belgium. In our Group Headquarters & Group Services segment, revenue declined year-on-year, 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 and the realignment of the Group Innovation<sup>+</sup> unit.

Excluding the positive exchange rate effects of EUR 0.1 billion in total – in particular from the translation of U.S. dollars into euros – and negative effects of changes in the composition of the Group of EUR 0.1 billion, revenue increased by EUR 0.8 billion or 4.5 percent. For details on the revenue trends in our Germany, United States, Europe, and Systems Solutions operating segments as well as in the Group Headquarters & Group Services segment, please refer to the section "Development of business in the operating segments," page 17 et seq.

**Contribution of the segments to net revenue**

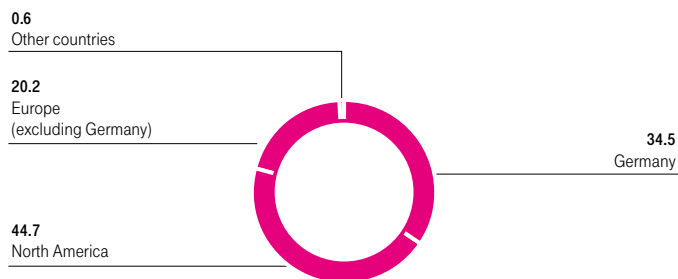
millions of €

	Q1 2016	Q1 2015	Change	Change %	FY 2015
<b>NET REVENUE</b>	<b>17,630</b>	<b>16,842</b>	<b>788</b>	<b>4.7%</b>	<b>69,228</b>
Germany	5,452	5,589	(137)	(2.5)%	22,421
United States	7,816	6,905	911	13.2%	28,925
Europe <sup>a</sup>	3,080	3,157	(77)	(2.4)%	13,024
Systems Solutions <sup>a</sup>	2,045	1,927	118	6.1%	8,194
Group Headquarters & Group Services	513	565	(52)	(9.2)%	2,275
Intersegment revenue	(1,276)	(1,301)	25	1.9%	(5,611)

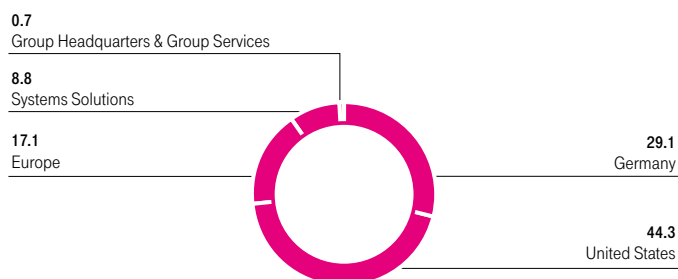
<sup>a</sup> Business customer operations at Magyar Telekom in Hungary, which had previously been organizationally assigned to the Systems Solutions operating segment, have been bundled and reported under the Europe operating segment since January 1, 2016. Comparative figures have been adjusted retrospectively. For more information, please refer to the disclosures under segment reporting in the interim consolidated financial statements, pages 44 and 45.

**Breakdown of revenue by regions**

%

**Contribution of the segments to net revenue<sup>a</sup>**

%



<sup>a</sup> For more information on net revenue, please refer to the disclosures under segment reporting in the interim consolidated financial statements, pages 44 and 45.

At 44.3 percent, our United States operating segment again provided the largest contribution to net revenue of the Group. This was an increase of 3.3 percentage points compared with the prior-year period, due in particular to ongoing strong customer additions. By contrast, the contribution by our Germany and Europe operating segments and the Group Headquarters & Group Services segment decreased. The contribution of our Systems Solutions operating segment remained stable at 8.8 percent. The proportion of net revenue generated internationally rose from 63.0 percent in the prior-year period to 65.5 percent.

**EBITDA, ADJUSTED EBITDA**

Excluding special factors, adjusted EBITDA increased year-on-year by EUR 0.6 billion to EUR 5.2 billion in the first quarter of 2016. This development was primarily driven by our United States operating segment, which recorded an increase in its adjusted EBITDA contribution of EUR 0.7 billion, 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 and effects from changes in the composition of the Group had only a minor impact on the development of adjusted EBITDA.

EBITDA increased substantially by EUR 3.5 billion year-on-year to EUR 7.7 billion; this included positive net special factors of EUR 2.5 billion, relating primarily to income of some EUR 2.5 billion from the sale of our stake in the EE joint venture on January 29, 2016. Income of EUR 0.4 billion was generated from an exchange of spectrum licenses between T-Mobile US and AT&T in March 2016. At EUR 0.3 billion in total, expenses in connection with staff-related measures and non-staff-related restructuring expenses remained at the prior-year level. For detailed information on the development of EBITDA/adjusted EBITDA in our segments, please refer to the section "Development of business in the operating segments," page 17 et seq.

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

millions of €

	Q1 2016	Q1 2015	Change	Change %	FY 2015
<b>EBITDA (ADJUSTED FOR SPECIAL FACTORS) IN THE GROUP</b>	<b>5,163</b>	<b>4,574</b>	<b>589</b>	<b>12.9 %</b>	<b>19,908</b>
Germany	2,180	2,211	(31)	(1.4) %	8,790
United States	1,908	1,225	683	55.8 %	6,654
Europe <sup>a</sup>	986	1,016	(30)	(3.0) %	4,329
Systems Solutions <sup>a</sup>	206	145	61	42.1 %	740
Group Headquarters & Group Services	(117)	(22)	(95)	n. a.	(552)
Reconciliation	-	(1)	1	n. a.	(53)

<sup>a</sup> 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. Comparative figures have been adjusted retrospectively. For more information, please refer to the disclosures under segment reporting in the interim consolidated financial statements, pages 44 and 45.

**EBIT**

Group EBIT stood at EUR 4.5 billion, up EUR 3.1 billion against the prior-year period. This increase is due to the positive effects described under EBITDA, as well as an increase of EUR 0.4 billion in depreciation and amortization compared with the prior-year quarter, attributable to the build-out of the 4G/LTE network and the launch of the JUMP! On Demand program in our United States operating segment in June 2015.

**PROFIT BEFORE INCOME TAXES**

Profit before income taxes also increased substantially year-on-year by EUR 3.3 billion to EUR 4.3 billion. In addition to the aforementioned effects, the reason for this increase is the EUR 0.2 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 around EUR 0.2 billion in connection with the sale of our stake in the EE joint venture; in the prior-year quarter we recognized a dividend payment of EUR 0.3 billion.

**NET PROFIT**

Net profit increased by EUR 2.3 billion to EUR 3.1 billion. The tax expense for the current financial year amounted to EUR 0.9 billion, up EUR 0.7 billion compared with the same period in the prior year. For further information, please refer to the interim consolidated financial statements, page 43. Profit attributable to non-controlling interests increased compared with the prior-year period by EUR 0.3 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 in particular by the aforementioned remeasurement effect in profit/loss from financial activities.

**Number of employees (at the reporting date)**

	Mar. 31, 2016	Dec. 31, 2015
Germany	69,217	68,638
United States	43,445	44,229
Europe <sup>a</sup>	50,098	51,125
Systems Solutions <sup>a</sup>	43,940	44,504
Group Headquarters & Group Services	16,621	16,747
<b>NUMBER OF EMPLOYEES IN THE GROUP</b>	<b>223,320</b>	<b>225,243</b>
Of which: civil servants (in Germany, with an active service relationship) <sup>b</sup>	18,810	18,483

<sup>a</sup> 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. Comparative figures have been adjusted retrospectively. For more information, please refer to the disclosures under segment reporting in the interim consolidated financial statements, pages 44 and 45.

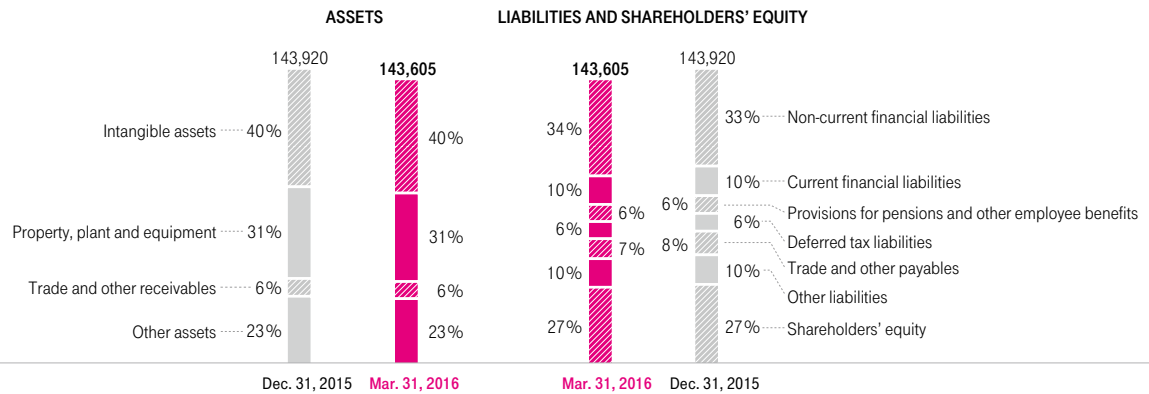
<sup>b</sup> Includes employees returning from deconsolidated Group companies.

The Group's headcount decreased by 0.9 percent compared with the end of 2015. The headcount in the Germany operating segment increased slightly by 0.8 percent, mainly due to the relocation of 480 employees from the Systems Solutions operating segment to the Germany operating segment. This effect more than offset the staff cuts. The total number of employees in our United States operating segment fell by 1.8 percent. However, the reduction in the number of staff employed for customer acquisition was partially offset by the increase in employees for the network build-out and administrative employees. In our Europe operating segment, staff levels decreased by 2.0 percent compared with December 31, 2015, mainly due to efficiency enhancement measures in several countries of our operating segment. The headcount in our Systems Solutions operating segment declined by 1.3 percent, largely due to staff restructuring measures in Germany and abroad, and the relocation of 480 employees to the Germany operating segment. The number of employees in the Group Headquarters & Group Services segment was down slightly by 0.8 percent compared with the end of 2015, mainly due to the continued staff restructuring.

## FINANCIAL POSITION OF THE GROUP

### Structure of the consolidated statement of financial position

millions of €



**Total assets** amounted to EUR 143.6 billion, down only slightly against December 31, 2015.

**Intangible assets** increased by EUR 0.4 billion to EUR 57.4 billion, mainly due to additions totaling EUR 3.0 billion. This includes among other factors EUR 1.1 billion for the purchase of spectrum licenses by T-Mobile US, in particular from the exchange of spectrum licenses with AT&T that was completed in March 2016. Furthermore, there were additions from the acquisition of spectrum licenses by T-Mobile US in January 2016 for around EUR 0.5 billion and by T-Mobile Polska for around EUR 0.5 billion. Negative exchange rate effects, primarily from the translation of U.S. dollars into euros, reduced the carrying amount by EUR 1.3 billion. Amortization of EUR 1.0 billion as well as the reclassification of assets worth EUR 0.3 billion to non-current assets and disposal groups held for sale also lowered the carrying amount.

**Property, plant and equipment** decreased by EUR 0.2 billion compared with December 31, 2015 to EUR 44.4 billion. Additions of EUR 2.8 billion primarily in the United States and Germany operating segments increased the carrying amount. This also included EUR 0.7 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 0.6 billion. Depreciation charges of EUR 2.1 billion had a decreasing effect on the carrying amount, as did disposals of EUR 0.2 billion.

**Trade and other receivables** decreased by EUR 0.3 billion to EUR 8.9 billion. The business model JUMP! On Demand introduced at T-Mobile US in June 2015, 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 only the monthly lease installment for the device. Exchange rate effects, mainly from the translation of U.S. dollars into euros, likewise had a reducing effect. Factoring agreements concluded in the reporting period concerning monthly revolving sales of current trade receivables also resulted in a reduction in receivables.

As of March 31, 2016, **other assets** included the following significant effects: The decrease of EUR 6.5 billion in the carrying amounts of **assets and disposal groups held for sale** to EUR 0.4 billion mainly resulted from the sale of our stake in the EE joint venture, which was completed on January 29, 2016 and reduced the carrying amount by EUR 5.8 billion. In addition, in March 2016, a transaction was concluded between T-Mobile US and AT&T for the exchange of mobile spectrum licenses. This also lowered the carrying amount by EUR 0.7 billion. By contrast, a transaction agreed between T-Mobile US and Sprint in the first quarter of 2016 for the exchange of spectrum licenses increased the carrying amount by EUR 0.3 billion. Current and non-current **other financial assets** increased by EUR 5.4 billion compared with December 31, 2015 to EUR 14.7 billion. In return for our stake in the EE joint venture, we received a cash payment as well as a financial 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 as of March 31, 2016 of EUR 6.7 billion. **Inventories** increased by EUR 0.2 billion, mainly due to increased stock levels of terminal equipment. This was attributable in part to the market launch of higher-priced smartphones at T-Mobile US in the first quarter of 2016.

Our current and non-current **financial liabilities** decreased by EUR 0.3 billion compared with the end of 2015 to EUR 62.1 billion in total. 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 our debt issuance program: a four-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 seven-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. Repayments of a U.S. dollar bond in the amount of USD 1.0 billion (around EUR 0.9 billion), commercial paper in the amount of EUR 1.6 billion, and promissory notes in the amount of EUR 0.4 billion in the first quarter of 2016 had an offsetting effect. In addition, exchange rate effects from the translation of U.S. dollars into euros reduced financial liabilities by around EUR 1.3 billion. For the other main effects on financial liabilities, please refer to net cash from/used in financing activities on pages 43 and 44 of the interim consolidated financial statements.

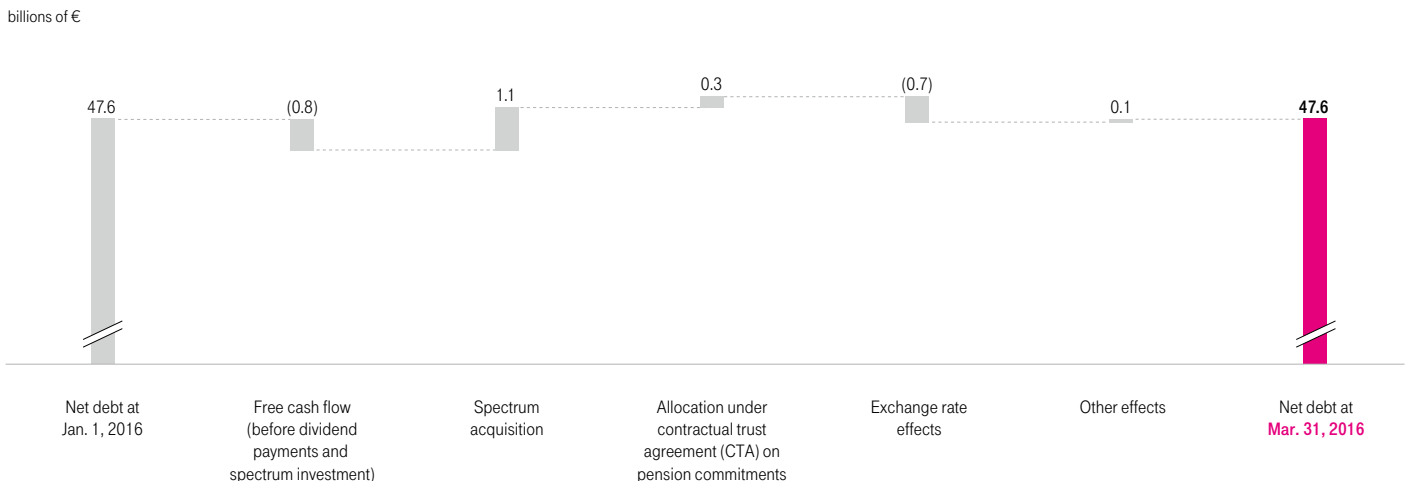
On March 6, 2016, Deutsche Telekom AG issued an irrevocable and temporary loan commitment to T-Mobile US for USD 2 billion (approximately EUR 1.8 billion) with no effect on financial liabilities. Under this commitment, Deutsche Telekom AG undertakes to purchase Senior Notes from T-Mobile US for a nominal value of USD 2 billion at a fixed-interest rate of 5.3 percent p. a. with a term running until March 15, 2021. T-Mobile US was granted the right to make use of this loan commitment up to December 7, 2016.

The EUR 0.3 billion increase in **provisions for pensions and other employee benefits** to EUR 8.4 billion was mainly due to interest rate adjustments which resulted in an actuarial loss to be recognized directly in equity of EUR 0.6 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.

**Trade and other payables** decreased by EUR 1.2 billion compared with the end of 2015 to EUR 9.9 billion. Apart from the reduction in the portfolio of liabilities at the national companies in our Europe and Germany operating segments, this decrease is attributable to exchange rate effects from the translation of U.S. dollars into euros.

**Shareholders' equity** increased by EUR 0.3 billion compared with December 31, 2015 to EUR 38.4 billion, primarily due to profit after taxes of EUR 3.4 billion. This profit was partially offset by currency translation effects recognized directly in equity of EUR 2.1 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 0.5 billion from the remeasurement of available-for-sale financial assets due to the subsequent measurement of our financial stake in BT, and EUR 0.4 billion from the recognition of actuarial losses (after taxes). The measurement of hedging instruments directly in equity resulted in a loss of EUR 0.2 billion.

#### Changes in net debt



Other effects of EUR 0.1 billion include, among other factors, financing options under which the payments for trade payables 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. For more information on net debt, please refer to the disclosures on the reconciliation of the pro forma figures in the section "Additional information," page 54 et seq.



**Free cash flow (before dividend payments and spectrum investment)**

millions of €

	Q1 2016	Q1 2015	Change	Change %	FY 2015
<b>CASH GENERATED FROM OPERATIONS</b>	<b>4,497</b>	<b>4,288</b>	<b>209</b>	<b>4.9%</b>	<b>17,496</b>
Interest received (paid)	(1,001)	(980)	(21)	(2.1)%	(2,499)
<b>NET CASH FROM OPERATING ACTIVITIES</b>	<b>3,496</b>	<b>3,308</b>	<b>188</b>	<b>5.7%</b>	<b>14,997</b>
Cash outflows for investments in intangible assets (excluding goodwill and before spectrum investment) and property, plant and equipment <b>(CASH CAPEX)</b>	<b>(2,831)</b>	<b>(2,530)</b>	<b>(301)</b>	<b>(11.9)%</b>	<b>(10,818)</b>
Proceeds from disposal of intangible assets (excluding goodwill) and property, plant and equipment	157	87	70	80.5%	367
<b>FREE CASH FLOW (BEFORE DIVIDEND PAYMENTS AND SPECTRUM INVESTMENT)</b>	<b>822</b>	<b>865</b>	<b>(43)</b>	<b>(5.0)%</b>	<b>4,546</b>

**Free cash flow.** Free cash flow in the Group before dividend payments and spectrum investment decreased only slightly against the prior-year period to EUR 0.8 billion. On the one hand, net cash from operating activities increased by EUR 0.2 billion. On the other hand, cash outflows for investments in intangible assets (excluding goodwill and before spectrum investment) and property, plant and equipment also increased by EUR 0.3 billion.

The increase in net cash from operating activities was mainly attributable to 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. Compared with the prior-year period, factoring agreements resulted in positive effects of EUR 0.2 billion on net cash from operating activities in the first quarter of 2016.

This mainly relates to factoring agreements in the Germany operating segment. The lower dividend payment received from the former EE joint venture decreased net cash from operating activities year-on-year by EUR 0.1 billion.

The increase in cash capex (excluding goodwill and before spectrum investment) compared with the prior-year period was mainly attributable to the United States operating segment in connection with the network modernization, including the roll-out of the 4G/LTE network.

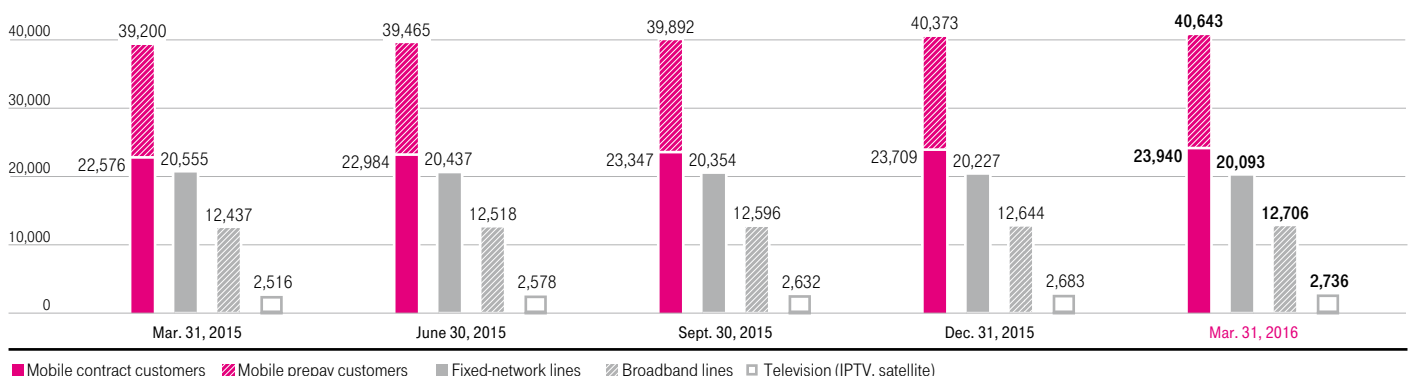
For further information on the statement of cash flows, please refer to the interim consolidated financial statements, pages 43 and 44.

## DEVELOPMENT OF BUSINESS IN THE OPERATING SEGMENTS

### GERMANY

#### CUSTOMER DEVELOPMENT

thousands



thousands

	Mar. 31, 2016	Dec. 31, 2015	Change Mar. 31, 2016/ Dec. 31, 2015 %	Mar. 31, 2015	Change Mar. 31, 2016/ Mar. 31, 2015 %
<b>TOTAL</b>					
Mobile customers	40,643	40,373	0.7%	39,200	3.7%
Contract customers	23,940	23,709	1.0%	22,576	6.0%
Prepay customers	16,703	16,665	0.2%	16,624	0.5%
Fixed-network lines	20,093	20,227	(0.7)%	20,555	(2.2)%
Of which: retail IP-based	7,470	6,887	8.5%	5,120	45.9%
Broadband lines	12,706	12,644	0.5%	12,437	2.2%
Of which: optical fiber	3,286	2,923	12.4%	2,094	56.9%
Television (IPTV, satellite)	2,736	2,683	2.0%	2,516	8.7%
Unbundled local loop lines (ULLs)	7,867	8,050	(2.3)%	8,619	(8.7)%
Wholesale unbundled lines	3,319	3,015	10.1%	2,353	41.1%
Of which: optical fiber	1,741	1,444	20.6%	886	96.5%
Wholesale bundled lines	206	227	(9.3)%	287	(28.2)%
<b>OF WHICH: CONSUMERS</b>					
Mobile customers	28,856	29,016	(0.6)%	28,945	(0.3)%
Contract customers	17,453	17,297	0.9%	16,303	7.1%
Prepay customers	11,403	11,719	(2.7)%	12,642	(9.8)%
Fixed-network lines	15,790	15,900	(0.7)%	16,158	(2.3)%
Of which: retail IP-based	6,521	6,076	7.3%	4,610	41.5%
Broadband lines	10,257	10,209	0.5%	10,012	2.4%
Of which: optical fiber	2,841	2,530	12.3%	1,806	57.3%
Television (IPTV, satellite)	2,546	2,492	2.2%	2,326	9.5%
<b>OF WHICH: BUSINESS CUSTOMERS</b>					
Mobile customers	11,787	11,358	3.8%	10,256	14.9%
Contract customers	6,487	6,412	1.2%	6,273	3.4%
Prepay customers (M2M)	5,300	4,946	7.2%	3,982	33.1%
Fixed-network lines	3,311	3,339	(0.8)%	3,375	(1.9)%
Of which: retail IP-based	897	773	16.0%	482	86.1%
Broadband lines	2,093	2,093	0.0%	2,090	0.1%
Of which: optical fiber	435	385	13.0%	283	53.7%
Television (IPTV, satellite)	189	190	(0.5)%	188	0.5%

## Total

In Germany, we remain market leader, both in the fixed-network and mobile businesses. This success is attributable to our high-performance networks. We offer best customer experience with multi-award-winning network quality – in the fixed network and in mobile communications – and with a broad product portfolio.

So far, we have won 2.2 million customers for our first integrated product, MagentaEins, comprising fixed-network and mobile components.

In mobile communications, we won another 270 thousand customers overall in the first quarter of 2016. Thanks to high demand for mobile rate plans with integrated data volumes, there was a positive development in the mobile contract customer base.

With our “network of the future,” we provide state-of-the-art connection technology. By the end of 2018, we want to convert our entire network to IP technology. By the end of the first quarter of 2016, we had migrated 10.4 million retail and wholesale lines to IP, which corresponds to a migration rate of 43 percent.

We continued to record strong demand for our fiber-optic products: The number of these lines rose by 660 thousand in the first quarter of 2016 to a total of 5.0 million. Thus in the last twelve months, we have connected 2 million German households with optical fiber. With the progress in fiber-optic roll-out and innovative vectoring technology, we successfully drove forward the marketing of substantially higher bandwidths – and will continue to do so more and more in the future. With our contingent model and its future refinement, we are creating incentives for the migration from traditional wholesale products – such as bundled wholesale lines or unbundled local loop lines (ULLs) – to higher-quality fiber-optic wholesale lines.

### Mobile communications

We are generating momentum with our excellent network quality and our broad product portfolio for high-value contract customers. Since the end of 2015, we have won a total of 231 thousand new contract customers. In our branded contract customer business, we recorded 138 thousand additions under the Deutsche Telekom and “congstar” brands. The reseller business (service providers) recorded 93 thousand net additions. The number of prepaid customers increased by 38 thousand since the end of 2015, with the growth in business customers compensating for the reduction in the number of consumers.

Smartphones accounted for 93.3 percent of mobile devices sold. They were primarily Android and iOS devices (iPhones), with high-priced devices in particular demand.

### Fixed network

Due to the persistently challenging development in the fixed-network market, primarily owing to aggressive pricing offers of competitors, we are pursuing new paths in marketing. Our focus here is on integrated offers as well as TV and fiber-optic lines. The success bears us out: The number of broadband lines increased by 62 thousand compared with the end of the prior year. In total, 21.5 percent of our broadband customers are TV customers: In the first quarter of 2016 alone, we won 53 thousand new TV customers. In the traditional fixed network, the number of lines decreased by 134 thousand. In terms of line losses per quarter, the overall trend is stable.

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 we launched this innovative product Germany-wide in March 2015, we have won 200 thousand customers, primarily in rural areas.

We have also connected around 157 thousand apartments to our network through our partnerships in the housing sector.

### Consumers

In the first quarter of 2016, the number of mobile customers decreased by 0.6 percent against the prior-year level. The number of prepaid customers decreased by 316 thousand, with some customers switching to our mobile contracts, for example to our cost-effective “congstar” rate plans. However, we added 156 thousand contract customers, with 62 thousand of these 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 contract customer growth. Reseller business (service providers) increased by 93 thousand from the start of the year.

In the fixed-network market, price and competitive pressure remain high. Nevertheless, we succeeded in keeping line losses at the same level as in the prior-year quarter. We migrated 445 thousand customers to IP-based lines in the first quarter of 2016. We won 54 thousand new television customers compared with the end of 2015. Of the 10.3 million broadband lines, around 2.8 million customers use fiber-optic lines – an increase of 311 thousand in the first quarter of 2016 alone.

### Business Customers

The positive trend in the Business Customers segment from the prior year continued: Since the beginning of the year, we have recorded 429 thousand mobile customer additions, 75 thousand of whom were high-value contract customers. In mobile Internet, customers are increasingly opting for plans with more bandwidth, in conjunction with higher-quality terminal equipment. We added 354 thousand new M2M SIM cards in a very aggressively priced market. This growth was due to the increased use of SIM cards, especially in the automotive and logistics industries. The number of fixed-network lines remained stable compared with the end of 2015 at 3.3 million. At 2.1 million, broadband lines also remained at the same level as at the end of 2015, with the number of fiber-optic lines increasing by 13.0 percent.

There was a positive trend in demand for IT cloud products, where we recorded revenue growth of 39 percent. We also recorded growth in new IP-based products from our DeutschlandLAN product range, such as IP Start and IP Voice/Data.

### Wholesale

At the end of the first quarter of 2016, fiber-optic lines accounted for 15.3 percent of all lines – 2.5 percentage points higher than at the end of 2015. The strong growth in our wholesale unbundled lines by 304 thousand or 10.1 percent compared with the end of 2015 was primarily attributable to the strong demand for our contingent model. By contrast, the number of bundled wholesale lines decreased by 21 thousand. This trend is likely to continue for the next few years due to the fact that our competitors are switching from bundled to unbundled wholesale products with more bandwidth, or to their own infrastructure. The number of unbundled local loop lines decreased by 183 thousand or 2.3 percent compared with year-end 2015. This is due first to the move to higher-quality fiber-optic wholesale lines, and second 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. The total number of lines in the wholesale sector increased slightly compared with the end of 2015 to 11.4 million.

## DEVELOPMENT OF OPERATIONS

millions of €

	Q1 2016	Q1 2015	Change	Change %	FY 2015
<b>TOTAL REVENUE</b>	5,452	5,589	(137)	(2.5)%	22,421
Consumers	2,922	3,037	(115)	(3.8)%	12,146
Business Customers	1,447	1,484	(37)	(2.5)%	5,942
Wholesale	933	912	21	2.3%	3,685
Other	150	156	(6)	(3.8)%	648
Profit from operations (EBIT)	1,074	1,190	(116)	(9.7)%	4,490
EBIT margin %	19.7	21.3			20.0
Depreciation, amortization and impairment losses	(948)	(935)	(13)	(1.4)%	(3,755)
EBITDA	2,022	2,125	(103)	(4.8)%	8,245
Special factors affecting EBITDA	(158)	(86)	(72)	(83.7)%	(545)
<b>EBITDA (ADJUSTED FOR SPECIAL FACTORS)</b>	2,180	2,211	(31)	(1.4)%	8,790
EBITDA margin (adjusted for special factors) %	40.0	39.6			39.2
<b>CASH CAPEX</b>	(908)	(949)	41	4.3%	(5,609)

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.

**Total revenue**

Revenue decreased by 2.5 percent compared with the prior-year quarter. This development was mainly driven by non-contract terminal equipment revenue in mobile business; revenue from mobile business decreased by 5.8 percent. Excluding this effect, revenue declined by 1.3 percent year-on-year. Increased TV and IT revenues had a positive impact on fixed-network revenue development. However, this was not sufficient to completely offset declines in other areas. As a result, revenue in the fixed-network business decreased by 1.0 percent.

Revenue from **Consumers** decreased by 3.8 percent year-on-year. Volume- and price-related revenue decreases continued to dominate traditional fixed-network business, which declined by 2.3 percent, mainly due to lower variable charges and voice revenue. By contrast, revenue from broadband business increased by 1.6 percent. Mobile revenues decreased by 6.3 percent, driven mainly by the decline in terminal equipment business. Our mobile service revenues declined only slightly against the prior-year quarter by 0.3 percent, 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 2.5 percent, mainly due to falling mobile revenues, which were down 4.9 percent. This decrease was primarily driven by service revenues. The decline in fixed-network revenue from traditional voice telephony could not be fully offset by the positive trend in IT revenues.

**Wholesale** revenue was up 2.3 percent on the prior-year level, primarily due to higher revenue from unbundled lines, mainly as a result of the contingent model.

**EBITDA, adjusted EBITDA**

EBITDA adjusted for special factors decreased by 1.4 percent year-on-year in the first quarter of 2016 to EUR 2.2 billion, mainly due to lower revenue. With an adjusted EBITDA margin of 40.0 percent, we are at our expected target level. EBITDA amounted to EUR 2.0 billion in the reporting period, a decline of 4.8 percent against the prior-year quarter, due in particular to higher special factors for expenses in connection with our staff restructuring.

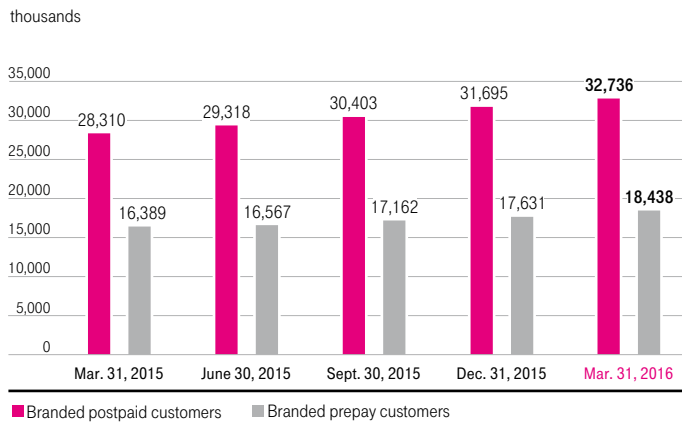
**EBIT**

Profit from operations decreased by 9.7 percent year-on-year to EUR 1.1 billion. This was mainly attributable to higher expenses incurred in connection with staff-related measures. EBIT was also reduced by a slight increase in depreciation, amortization and impairment losses.

**Cash capex**

Cash capex decreased year-on-year to EUR 0.9 billion in the reporting period due to seasonal effects. During the first quarter of 2016, 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.

## UNITED STATES CUSTOMER DEVELOPMENT



thousands

	Mar. 31, 2016	Dec. 31, 2015	Change Mar. 31, 2016/ Dec. 31, 2015 %	Mar. 31, 2015	Change Mar. 31, 2016/ Mar. 31, 2015 %
<b>UNITED STATES</b>					
Mobile customers	65,503	63,282	3.5%	56,836	15.2%
Branded customers	51,174	49,326	3.7%	44,699	14.5%
Branded postpaid	32,736	31,695	3.3%	28,310	15.6%
Branded prepay	18,438	17,631	4.6%	16,389	12.5%
Wholesale customers	14,329	13,956	2.7%	12,137	18.1%

At March 31, 2016, the United States operating segment (T-Mobile US) had 65.5 million customers compared to 63.3 million customers at December 31, 2015. Net customer additions were 2.2 million for the three months ended March 31, 2016, an increase from 1.8 million net customer additions for the three months ended March 31, 2015 due to the factors described below.

**Branded customers.** Branded postpaid net customer additions were 1,041 thousand for the three months ended March 31, 2016, compared to 1,125 thousand branded postpaid net customer additions for the three months ended March 31, 2015. Branded postpaid net customer additions remained strong for the three months ended March 31, 2016 driven by positive customer response to T-Mobile US' Un-carrier initiatives such as JUMP! On Demand, ongoing network improvements and promotional activities. Branded postpaid net customer additions for the three months ended March 31, 2016 were lower compared to the three months ended March 31, 2015, primarily attributable to higher deactivations resulting from a relatively consistent rate of branded postpaid churn being applied to a growing branded postpaid customer base and ongoing competitive activity. The decrease was partially offset by higher branded postpaid gross customer additions.

Branded prepay net customer additions were 807 thousand for the three months ended March 31, 2016, compared to 73 thousand branded prepay net customer additions for the three months ended March 31, 2015. The increase was primarily attributable to higher gross customer additions driven by the success of promotional activities and continued growth in new markets.

**Wholesale customers.** Wholesale net customer additions were 373 thousand for the three months ended March 31, 2016, compared to wholesale net customer additions of 620 thousand for the three months ended March 31, 2015. The decrease was primarily attributable to higher MVNO deactivations, partially offset by MVNO gross customer additions.

## DEVELOPMENT OF OPERATIONS

millions of €

	Q1 2016	Q1 2015	Change	Change %	FY 2015
<b>TOTAL REVENUE</b>	7,816	6,905	911	13.2%	28,925
Profit from operations (EBIT)	956	273	683	n.a.	2,454
EBIT margin %	12.2	4.0			8.5
Depreciation, amortization and impairment losses	(1,312)	(838)	(474)	(56.6)%	(3,775)
EBITDA	2,268	1,111	1,157	n.a.	6,229
Special factors affecting EBITDA	360	(114)	474	n.a.	(425)
<b>EBITDA (ADJUSTED FOR SPECIAL FACTORS)</b>	1,908	1,225	683	55.8%	6,654
EBITDA margin (adjusted for special factors) %	24.4	17.7			23.0
<b>CASH CAPEX</b>	(1,756)	(2,729)	973	35.7%	(6,381)

**Total revenue**

Total revenue for the United States operating segment of EUR 7.8 billion in the first quarter of 2016 increased by 13.2 percent compared to EUR 6.9 billion in the first quarter of 2015. In U.S. dollars, T-Mobile US' total revenues increased by 10.9 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' Un-carrier initiatives, the success of promotional activities and continued growth in new markets. Equipment revenues decreased due primarily to a decline in the number of devices sold and a lower average revenue per device sold under T-Mobile US' equipment installment plan program. This decrease was partially offset by higher lease revenues resulting from an increase in the number of devices leased under the JUMP! On Demand program, as well as a greater proportion of high-end devices being leased under the JUMP! On Demand program. With JUMP! On Demand, revenues associated with leased devices are recognized over the term of the lease rather than when the device is delivered to the customer.

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

Adjusted EBITDA increased by 55.8 percent to EUR 1.9 billion in the first quarter of 2016, compared to EUR 1.2 billion in the first quarter of 2015. In U.S. dollars, adjusted EBITDA increased by 53.5 percent in the first quarter of 2016, compared to the first quarter of 2015. Adjusted EBITDA was positively impacted by increased branded postpaid and prepay service revenues resulting from strong customer response to T-Mobile US' Un-carrier initiatives and ongoing success of promotional activities. Lower losses on equipment sales due primarily to 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 are capitalized and depreciated over the lease term and are excluded from adjusted EBITDA. Additionally, focused cost control and synergies realized from the decommissioning of the MetroPCS CDMA network contributed to the adjusted EBITDA increase during the first

quarter of 2016. These effects were partially offset by higher commissions from growth in T-Mobile US' branded gross customer additions and higher employee-related costs to support T-Mobile US' growing total customer base. The adjusted EBITDA margin increased to 24.4 percent in the first quarter of 2016, compared to 17.7 percent in the first quarter of 2015 due to the factors described above.

Adjusted EBITDA in the first quarter of 2016 excludes EUR 0.4 billion special factors primarily related to a non-cash gain from a spectrum license transaction with AT&T, partially offset by costs relating to the decommissioning of the MetroPCS CDMA network and stock-based compensation costs. Overall, EBITDA increased to EUR 2.3 billion in the first quarter of 2016, compared to EUR 1.1 billion in the first quarter of 2015 due to the factors described above, including the impact of special factors.

**EBIT**

EBIT increased to EUR 956 million in the first quarter of 2016, compared to EUR 273 million in the first quarter of 2015. This was driven by higher adjusted EBITDA, partially offset by higher depreciation expense. Depreciation related to devices leased under T-Mobile US' JUMP! On Demand program launched in the second quarter of 2015, as well as an increase from the build-out of T-Mobile US' 4G/LTE network, resulted in increased depreciation expense in the first quarter of 2016.

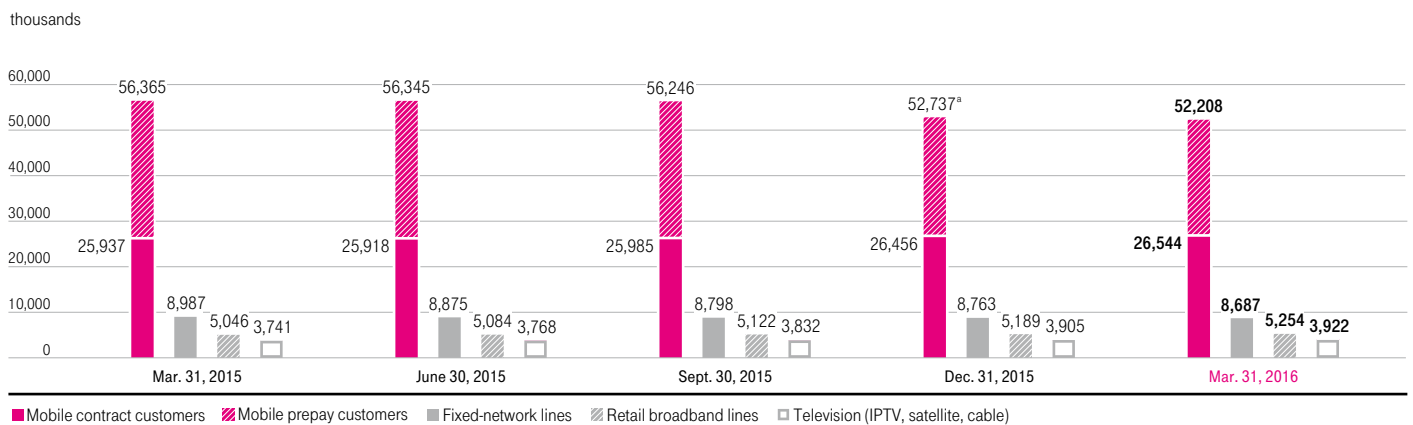
**Cash capex**

Cash capex decreased to EUR 1.8 billion in the first quarter of 2016, compared to EUR 2.7 billion in the first quarter of 2015, primarily to EUR 1.9 billion of spectrum licenses acquired through the U.S. FCC auction in January 2015 offset by payments of EUR 0.6 billion for the acquisition of spectrum licenses during the first quarter of 2016 as T-Mobile US continues to invest in network capex for the build-out of the 4G/LTE network.

## EUROPE

## CUSTOMER DEVELOPMENT

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. Comparative figures have been adjusted retrospectively. For more information, please refer to the disclosures under segment reporting in the interim consolidated financial statements (pages 44 and 45).



<sup>a</sup> In the fourth quarter of 2015, the number of mobile customers in Poland decreased by 3,838 thousand in connection with the deactivation of inactive prepaid SIM cards.

thousands

		Mar. 31, 2016	Dec. 31, 2015	Change Mar. 31, 2016/ Dec. 31, 2015 %	Mar. 31, 2015	Change Mar. 31, 2016/ Mar. 31, 2015 %
<b>EUROPE, TOTAL <sup>a</sup></b>	Mobile customers	52,208	52,737	(1.0)%	56,365	(7.4)%
	Fixed-network lines	8,687	8,763	(0.9)%	8,987	(3.3)%
	Of which: IP-based	4,261	4,132	3.1%	3,626	17.5%
	Retail broadband lines	5,254	5,189	1.3%	5,046	4.1%
	Television (IPTV, satellite, cable)	3,922	3,905	0.4%	3,741	4.8%
	Unbundled local loop lines (ULLs)/ wholesale PSTN	2,242	2,239	0.1%	2,279	(1.6)%
	Wholesale bundled lines	122	121	0.8%	136	(10.3)%
	Wholesale unbundled lines	215	199	8.0%	156	37.8%
<b>GREECE</b>	Mobile customers	7,477	7,399	1.1%	7,308	2.3%
	Fixed-network lines	2,583	2,586	(0.1)%	2,599	(0.6)%
	Broadband lines	1,574	1,531	2.8%	1,413	11.4%
<b>ROMANIA</b>	Mobile customers	5,934	5,992	(1.0)%	6,008	(1.2)%
	Fixed-network lines	2,055	2,091	(1.7)%	2,189	(6.1)%
	Broadband lines	1,204	1,186	1.5%	1,192	1.0%
<b>HUNGARY</b>	Mobile customers	5,372	5,504	(2.4)%	5,463	(1.7)%
	Fixed-network lines	1,659	1,674	(0.9)%	1,710	(3.0)%
	Broadband lines	1,028	1,023	0.5%	990	3.8%
<b>POLAND <sup>a</sup></b>	Mobile customers	11,821	12,056	(1.9)%	15,794	(25.2)%
	Fixed-network lines	18	18	0.0%	12	50.0%
	Broadband lines	17	15	13.3%	11	54.5%
<b>CZECH REPUBLIC</b>	Mobile customers	6,024	6,019	0.1%	5,993	0.5%
	Fixed-network lines	141	154	(8.4)%	155	(9.0)%
	Broadband lines	133	134	(0.7)%	145	(8.3)%
<b>CROATIA</b>	Mobile customers	2,206	2,233	(1.2)%	2,214	(0.4)%
	Fixed-network lines	1,012	1,004	0.8%	1,052	(3.8)%
	Broadband lines	749	741	1.1%	726	3.2%
<b>NETHERLANDS</b>	Mobile customers	3,668	3,677	(0.2)%	3,830	(4.2)%
<b>SLOVAKIA</b>	Mobile customers	2,231	2,235	(0.2)%	2,202	1.3%
	Fixed-network lines	851	855	(0.5)%	875	(2.7)%
	Broadband lines	609	599	1.7%	570	6.8%
<b>AUSTRIA</b>	Mobile customers	4,221	4,323	(2.4)%	3,956	6.7%
<b>OTHER <sup>b</sup></b>	Mobile customers	3,255	3,299	(1.3)%	3,596	(9.5)%
	Fixed-network lines	367	381	(3.7)%	395	(7.1)%
	Broadband lines	283	285	(0.7)%	293	(3.4)%

<sup>a</sup> In the fourth quarter of 2015, the number of mobile customers in Poland decreased by 3,838 thousand in connection with the deactivation of inactive prepaid SIM cards.

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

## Total

The national companies of our Europe operating segment once again had to face the challenge of a highly competitive market environment in the first quarter of 2016. We successfully introduced our convergence brand MagentaOne in seven countries where our subsidiaries pursue an integrated business model. By March 31, 2016, we had already won more than 1.0 million FMC customers – an increase of 13.9 percent in the first quarter of 2016 alone. One key success factor of our convergent product portfolio is the joint marketing of fixed network and mobile communications for a seamless telecommunications experience. TV business also performed well on the market. The key to this successful marketing is on the one hand, the wide variety of our TV services and, on the other, the provision of high bandwidths, which we achieve through a mix of technologies depending on the telecommunications infrastructure available in each country of our operating segment. For this reason, we are systematically driving forward the roll-out of fast, fiber-optic lines (FTTH,

FTTB and FTTC) in the fixed network. In mobile communications, we can already offer our customers in many countries transmission rates of up to 300 Mbit/s and sometimes even higher via LTE Advanced/4G+. As part of our pan-European network strategy, we also increased the number of IP lines – primarily thanks to the successful migration from traditional PSTN lines to IP technology.

We also aim to be the best integrated provider for our customers with regard to connecting machines worldwide. In machine-to-machine (M2M) communications, we are expanding our mobile and fixed-network product portfolio along the value chain offering customer-oriented solution components. In the process, we benefit from the solutions and integration expertise of T-Systems, a strong partner network, and the commencing implementation of our Smart Cities strategy.



## Mobile communications

**Mobile telephony and data services.** In the first quarter of 2016, we had 52.2 million mobile customers in total. This slight decline of 1.0 percent compared with the end of 2015 is mainly due to losses in prepay customers, driven primarily by intense competition in the prepay business in our European mobile markets due in particular to aggressive MVNO pricing. As a result of our strategy of focusing on high-value contract customers, there was a positive trend in this business, with the number of customers increasing slightly compared with the end of 2015 to 26.5 million. Many of our national companies contributed to this result, especially Austria, Romania, and the Netherlands. At the end of the first quarter of 2016, contract customers accounted for 50.8 percent of the total customer base.

This success is attributable to our high-performance networks. We are positioning ourselves in the relevant markets as a quality provider with the best service – and in many countries also as the provider with the best mobile network. This was demonstrated to impressive effect, for example, by the Best in Test award from P3 Communications for our national company in the Netherlands in the first quarter of 2016. Part of our network strategy is to continue rolling out 4G/LTE technology in our mobile networks in all countries of our operating segment, so as to increase transmission rates. Thanks to our investments in our 4G/LTE network, our customers enjoy better network coverage with fast mobile broadband. As of the end of the first quarter of 2016, we already covered 72 percent of the population in the countries of our operating segment with LTE, thus reaching more than 94 million people in total. By 2018, we want to achieve total network coverage of between 75 and 95 percent. Not only the high level of data consumption, but also the sales figures for mobile devices prove that our customers actually use these high bandwidths, with 80 percent of all devices sold being smartphones.

## Fixed network

**Telephony, Internet, and television.** Our TV and entertainment offerings have evolved into an important pillar of the consumer business, which is why we continuously invest in improving our entertainment services. This entails, on the one hand, a portfolio with an impressive selection of film, sports and television rights. However, we are also working hard on providing services that our customers can use in high quality – anywhere and on all devices. The number of TV customers increased slightly by 0.4 percent in the first quarter of 2016 to 3.9 million. Compared with the prior-year quarter this increase was as much as 4.8 percent. The majority of the 181 thousand net additions were customers in Greece, Romania, Hungary, and Slovakia.

As an integrated telecommunications provider, we want to drive forward the convergence of fixed-network and mobile technology (FMC) and are offering the concept of the convergence brand MagentaOne to customers in all our integrated countries with great success. As of March 31, 2016, we had won more than 1.0 million FMC customers, an increase of 13.9 percent. Greece and Romania in particular contributed to this growth. While our initial focus was only on the consumer segment, we are now also extending the MagentaOne offering to the business customer segment. We already offer MagentaOne Business to our business customers in Romania, the F.Y.R.O. Macedonia, and Croatia, and COSMOTE Business One to our business customers in 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. At segment level, IP-based lines accounted for 49.1 percent of all lines. As of March 31, 2016, we recorded 4.3 million IP-based lines – an increase of 3.1 percent compared with the end of 2015. The successful completion of IP migration in Slovakia and the F.Y.R.O. Macedonia in 2014 was followed by Montenegro and Croatia in 2015. For the current financial year, we plan to complete the IP migration in Hungary. As of the end of the reporting period, 8.7 million customers in our Europe operating segment were using a fixed-network line, 0.9 percent fewer than as of December 31, 2015. 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 1.3 percent to 5.3 million, and by as much as 4.1 percent compared with the prior-year quarter. This increase was mainly driven by DSL business, especially in Greece, where VDSL technology is enjoying dynamic growth. But the number of DSL-based broadband lines also grew in Romania, Hungary, and Slovakia. Household coverage with optical fiber reached 20 percent in the respective national companies at the reporting date, compared with 19 percent at the end of 2015. By 2018, we want 50 percent of households in our integrated national companies to have access to FTTx, i.e., transmission rates of up to 100 Mbit/s.

## DEVELOPMENT OF OPERATIONS

millions of €

	Q1 2016	Q1 2015	Change	Change %	FY 2015
<b>TOTAL REVENUE</b>	3,080	3,157	(77)	(2.4)%	13,024
Greece	685	692	(7)	(1.0)%	2,878
Romania	234	241	(7)	(2.9)%	984
Hungary	403	445	(42)	(9.4)%	1,848
Poland	378	382	(4)	(1.0)%	1,544
Czech Republic	229	226	3	1.3%	958
Croatia	220	211	9	4.3%	909
Netherlands	324	346	(22)	(6.4)%	1,394
Slovakia	187	187	0	0.0%	783
Austria	208	197	11	5.6%	829
Other <sup>a</sup>	270	279	(9)	(3.2)%	1,136
Profit from operations (EBIT)	326	326	0	0.0%	1,476
EBIT margin %	10.6	10.3			11.3
Depreciation, amortization and impairment losses	(636)	(636)	0	0.0%	(2,632)
EBITDA	962	962	0	0.0%	4,108
Special factors affecting EBITDA	(24)	(54)	30	55.6%	(221)
<b>EBITDA (ADJUSTED FOR SPECIAL FACTORS)</b>	986	1,016	(30)	(3.0)%	4,329
Greece	267	263	4	1.5%	1,118
Romania	38	55	(17)	(30.9)%	205
Hungary	126	115	11	9.6%	526
Poland	120	130	(10)	(7.7)%	580
Czech Republic	99	89	10	11.2%	390
Croatia	82	81	1	1.2%	367
Netherlands	88	133	(45)	(33.8)%	500
Slovakia	78	73	5	6.8%	296
Austria	69	65	4	6.2%	259
Other <sup>a</sup>	20	13	7	53.8%	88
EBITDA margin (adjusted for special factors) %	32.0	32.2			33.2
<b>CASH CAPEX</b>	(1,009)	(498)	(511)	n. a.	(1,667)

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

<sup>a</sup> Other: national companies of 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.

## Total revenue

Our Europe operating segment generated total revenue of EUR 3.1 billion in the first quarter of 2016, a year-on-year decrease of 2.4 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 remained more or less stable (down 0.4 percent). Excluding the development of business in the Netherlands, organic revenue in the Europe operating segment would in fact have increased slightly (up 0.4 percent).

Decisions by regulatory authorities continued to impact on the development of our revenue. For example, reduced mobile termination rates in Hungary resulted in the decrease in organic revenue. In addition, revenue continued to come under pressure from persistently intense competition in the telecommunications markets in our national companies. Wholesale business remained almost stable.

Since our national companies continue to focus successfully on strategic growth areas, we partially compensated the negative revenue effects at segment level with a revenue increase of 6.5 percent generated in these business areas. Thus the growth areas accounted for 30.4 percent of segment revenue.

Revenue from mobile data business increased by 6.3 percent compared with the prior-year quarter to EUR 26 million. Most countries of our operating segment made a contribution to this growth, especially the Czech Republic, Austria, and Greece. The largest share of revenue from mobile data business was attributable to consumers. Attractive rate plans combined with a broad portfolio of terminal equipment resulted in a substantial increase in the usage of data services, especially by contract customers. Thanks to innovative TV and program management, the TV business continued its upward trend of the past few quarters: As of the end of the first quarter of 2016, TV revenue increased by 11.2 percent and accounted for some 20 percent of the revenue generated in the growth areas. The B2B/ICT business with business customers also recorded year-on-year growth in revenue in the first quarter of the year, thanks to the expanded product and service portfolio, as well as to the acquisition of the GTS Central Europe group in 2014. Business with cloud services contributed too, by again growing significantly in an intensely competitive market. In addition to the growth areas, revenues from sales of mobile devices increased by 4.1 percent.

In terms of organic segment revenue by country, business in the Netherlands was hit hardest by absolute revenue declines in the first quarter of 2016, mainly due to price-driven decreases in voice telephony. Slight growth in sales of mobile terminal equipment had only a partially offsetting effect. Romania also recorded revenue losses in its declining fixed-network business, primarily due to lower revenue from voice telephony and the B2B/ICT business, which was only partially offset by growth in the mobile business. Higher revenue contributions from Hungary, Austria, and Poland in particular had a positive impact on organic segment revenue.

#### **EBITDA, adjusted EBITDA**

Our Europe operating segment generated adjusted EBITDA of EUR 986 million in the first quarter of 2016, a year-on-year decrease of 3.0 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 2.4 percent. Excluding the development of business in the Netherlands, organic adjusted EBITDA in the Europe operating segment would in fact have increased by 2.4 percent.

Adjusted EBITDA was impacted, on the one hand, by the overall decrease in revenue at segment level and, on the other, by the increase in direct costs, partly due to higher market investments. Changes in legislation, taxes and duties, national austerity programs, and regulatory decisions put additional pressure on our earnings. We were only partially able to offset these negative effects by reducing indirect costs. Savings in personnel costs in particular made a positive contribution.

Considering adjusted EBITDA by country, the decline was mainly attributable to the Netherlands, Romania, and the Greek mobile operations. By contrast, the adjusted EBITDA generated in Hungary and the Czech Republic in particular, as well as in the fixed-network business in Greece, increased.

At EUR 962 million, EBITDA remained at the prior-year level, thanks to two offsetting effects. In the prior-year quarter, EBITDA had been affected by higher negative special factors, mainly due to the expense to settle a claim for damages against Slovak Telekom. This effect was offset by the decrease in adjusted EBITDA in the first quarter of 2016.

#### **Development of operations in selected countries**

With the aim of becoming the leading European telecommunications provider, we are pursuing the strategy of developing the majority of our national companies into integrated all-IP players that provide the best customer experience – regardless of their respective market position. To this end, we are establishing a production model with the help of a pan-European, fully IP-based network infrastructure, the best network access, and optimized processes and customer interfaces. Most of our national companies already operate in both fixed-network and mobile communications in their respective markets. We present the following three national companies by way of example:

**Greece.** Revenue in Greece decreased slightly by 1.0 percent year-on-year to EUR 685 million. The still strained economic situation and the intensely competitive environment had a negative impact on mobile revenue overall: Revenues generated from voice telephony also declined as a result of restrained use of voice services. Revenue from sales of mobile terminal equipment decreased as well. This is contrasted by the positive trend in the data business, which recorded double-digit growth thanks to much higher data usage.

The revenue increase in the fixed-network business – largely driven by the TV business – partially offset the decline in revenue from the mobile business. The TV business increased significantly compared to the prior-year quarter, with revenue growth of more than 50 percent as a result of particularly high demand (some 90 thousand net additions year-on-year) for our offering, with its wide variety of TV services and TV content. The successful launch of the FMC product CosmoteOne also contributed to this growth. We also recorded brisk customer growth with a positive effect on our broadband revenue in connection with the roll-out of broadband lines based on DSL technology. The B2B/ICT business with business customers also made a positive contribution. Overall, we managed to offset the decline in revenue from voice telephony.

In the first quarter of 2016, adjusted EBITDA in Greece stood at EUR 267 million, up 1.5 percent against the prior-year period. The overall decrease in revenue was compensated in full by savings in both direct and indirect costs. Savings in indirect costs mainly relate to lower personnel costs. EBITDA was also affected – to a smaller extent – by special factors, primarily in connection with expenses for staff-related measures.

**Hungary.** In Hungary, revenue decreased by 9.4 percent compared with the first quarter of the prior year to EUR 403 million; excluding the spin-off of the energy resale business and assuming constant exchange rates, we even recorded an organic increase in revenue of 4.1 percent. This growth is largely attributable to the positive trend in fixed-network business, especially due to the increase in revenue from broadband and TV business. Broadband and TV business accounted for 48 percent of total fixed-network revenue in the first quarter of 2016. In line with our strategy of rolling out a pan-European network in our integrated national companies, we stepped up our marketing of IP-based broadband lines in order to migrate entirely to IP by the end of the year as planned. Accordingly, the number of broadband lines increased compared with the prior-year quarter. Our TV business also profited from this, attracting customers with its innovative services across all screens. Furthermore, the successful start of MagentaOne last year made a positive contribution. The B2B/ICT business with business customers also substantially contributed to revenue, enabling us to more than offset the overall decline in voice revenue in traditional telephony.

In mobile business, service revenues in particular decreased compared with the prior-year period, due entirely to lower termination charges as a result of mobile regulation. The positive trend in business with mobile data revenue continued in the first quarter of 2016 with an increase of 10.7 percent. This positive development is, among other factors, the result of our high-speed mobile network and the huge reach. 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.

Adjusted EBITDA amounted to EUR 126 million in the first quarter of 2016, representing a year-on-year increase of 9.6 percent. In organic terms, adjusted EBITDA grew by as much as 12.5 percent.

**Austria.** In Austria, we generated revenue of EUR 208 million in the first quarter of 2016, up 5.6 percent compared with the same quarter of the prior year. This increase is largely attributable to higher revenue from mobile data business. Thanks to continued strong growth in the number of contract customers, the proportion of total revenues accounted for by data revenue also increased. In addition, slightly higher revenue from voice telephony made a positive contribution to revenue. This increase was mainly due to the successful launch of the new rate plan model last year, as well as to sustained high demand for smartphones. Both factors resulted in a sharp increase in the usage of data services. These overall positive effects offset the slightly lower revenues from SMS business. In addition, business with the sale of mobile terminal equipment made a positive contribution to revenue performance.

Adjusted EBITDA rose by 6.2 percent year-on-year in the first quarter of 2016 to EUR 69 million, mainly due to increased revenue. This offset the increased market investments in terms of direct costs. Indirect costs were at the same level as in the prior year.

## EBIT

At EUR 326 million, EBIT in our Europe operating segment remained at the prior-year level in the first quarter of 2016, as did depreciation and amortization.

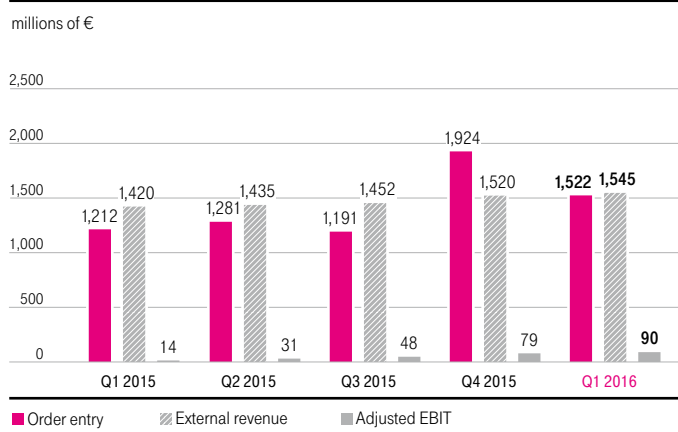
## Cash capex

In the first quarter of 2016, our Europe operating segment reported cash capex of EUR 1.0 billion. This increase of EUR 511 million compared with the prior-year quarter was primarily due to the acquisition of mobile spectrum in Poland and the frequency extension in the Netherlands in the first quarter of 2016.

## SYSTEMS SOLUTIONS

### SELECTED KPIS

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. Comparative figures have been adjusted retrospectively. For more information, please refer to the disclosures under segment reporting in the interim consolidated financial statements (pages 44 and 45).



	Mar. 31, 2016	Dec. 31, 2015	Change Mar. 31, 2016/ Dec. 31, 2015 %	Mar. 31, 2015	Change Mar. 31, 2016/ Mar. 31, 2015 %
<b>ORDER ENTRY</b> (millions of €)	1,522	5,608	n. a.	1,212	25.6%
<b>COMPUTING &amp; DESKTOP SERVICES</b>					
Number of servers managed and serviced (units)	63,255	62,590	1.1%	61,406	3.0%
Number of workstations managed and serviced (millions)	1.67	1.71	(2.3)%	1.62	3.1%
<b>SYSTEMS INTEGRATION</b>					
Hours billed (millions)	1.7	5.3	n. a.	1.4	21.4%
Utilization rate (%)	82.1	82.9	(0.8)% p	81.7	0.4% p

### Development of business

In the first quarter of 2016, our Systems Solutions operating segment performed well compared with the prior-year period, with the Market Unit also profiting from the completion of the set-up phase in connection with our corporate customer project to set up and operate an electronic toll collection system in Belgium. Strengthened by the realignment, our standard solutions from the growth area of cloud computing in particular won out over the competition and its aggressive pricing. As a result, order entry increased by 25.6 percent year-on-year. Another key component in the expansion of our cloud business is strategic partnerships. This means we offer our partners' services from our data centers in Germany in order to meet our customers' needs.

The aspects of security and high availability play a key role for T-Systems and our customers.

To meet the requirements from the new deals, we are continuously modernizing and consolidating our ICT resources. Against this background, the number of servers managed and serviced increased by 3.0 percent compared with the first quarter of 2015. 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. The number of workstations managed and serviced increased by 3.1 percent compared with the first quarter of 2015.

### DEVELOPMENT OF OPERATIONS

millions of €

	Q1 2016	Q1 2015	Change	Change %	FY 2015
<b>TOTAL REVENUE</b>	2,045	1,927	118	6.1%	8,194
Profit (loss) from operations (EBIT)	30	(70)	100	n. a.	(541)
Special factors affecting EBIT	(60)	(84)	24	28.6%	(713)
EBIT (adjusted for special factors)	90	14	76	n. a.	172
EBIT margin (adjusted for special factors) %	4.4	0.7			2.1
Depreciation, amortization and impairment losses	(116)	(141)	25	17.7%	(634)
EBITDA	146	71	75	n. a.	93
Special factors affecting EBITDA	(60)	(74)	14	18.9%	(647)
<b>EBITDA (ADJUSTED FOR SPECIAL FACTORS)</b>	206	145	61	42.1%	740
EBITDA margin (adjusted for special factors) %	10.1	7.5			9.0
<b>CASH CAPEX</b>	(237)	(248)	11	4.4%	(1,151)

### Total revenue

Total revenue in our Systems Solutions operating segment in the first quarter of 2016 amounted to EUR 2.0 billion, a year-on-year increase of 6.1 percent.

Revenue of the Market Unit, i.e., essentially business with external customers, was up 6.6 percent compared with the first quarter of 2015 to EUR 1.7 billion; with international revenue in particular increasing by 17.5 percent. This was mainly due to the completion of the set-up phase for the toll collection system in Belgium. There was also a positive trend in revenue from new contracts, especially in cloud business. By contrast, 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 was up 3.6 percent against the prior-year quarter, to EUR 317 million, on account of final settlement within the Group. Telekom IT's revenue is expected to decrease below the prior-year level over the course of the year due to planned further IT cost savings by the Group.

### EBITDA, adjusted EBITDA

Adjusted EBITDA in our Systems Solutions operating segment increased by EUR 61 million or 42.1 percent in the first quarter of 2016, due to a substantially higher contribution from the Market Unit, which was up 45.2 percent. The increase in the Market Unit's earnings was primarily attributable to the completion in the reporting period of the set-up phase for the toll collection system in Belgium. Adjusted EBITDA at Telekom IT was down slightly year-on-year. The adjusted EBITDA margin of our Systems Solutions operating segment increased from 7.5 percent in the prior-year period to 10.1 percent.

EBITDA also increased by EUR 75 million compared with the prior-year period to EUR 146 million, mainly due to the effects described under adjusted EBITDA and to a EUR 14 million decrease in special factors, primarily due to restructuring programs.

**EBIT, adjusted EBIT**

Adjusted EBIT increased by EUR 76 million compared with the prior-year period, due in particular to the one-time effect in the Market Unit described under EBITDA. As a result, the adjusted EBIT margin rose from 0.7 percent in the first quarter of 2015 to 4.4 percent. Decreases in depreciation and amortization due to the migration of IT platforms also impacted positively on adjusted EBIT.

**Cash capex**

Cash capex stood at EUR 237 million in the reporting period. Our level of investment remains high and is attributable to the increasing advancement of the digitization of enterprises. For this reason, we will invest in growth areas

such as connected car and healthcare, as well as in cutting-edge digital innovation areas like cloud computing and cyber security. Enhanced efficiency, for example as a result of the standardization of the ICT platforms and the consolidation of data centers, had an offsetting effect.

**GROUP HEADQUARTERS & GROUP SERVICES**

Group Headquarters & Group Services comprises all Group units that cannot be allocated directly to one of the operating segments. For more information, please refer to the section "Group structure" in the 2015 Annual Report, page 58 et seq.

millions of €					
	Q1 2016	Q1 2015	Change	Change %	FY 2015
<b>TOTAL REVENUE</b>	513	565	(52)	(9.2)%	2,275
Profit (loss) from operations <b>(EBIT)</b>	2,139	(252)	2,391	n. a.	(860)
Depreciation, amortization and impairment losses	(130)	(144)	14	9.7%	(627)
EBITDA	2,269	(108)	2,377	n. a.	(233)
Special factors affecting EBITDA	2,386	(86)	2,472	n. a.	319
<b>EBITDA (ADJUSTED FOR SPECIAL FACTORS)</b>	(117)	(22)	(95)	n. a.	(552)
<b>CASH CAPEX</b>	(60)	(96)	36	37.5%	(342)

**Total revenue**

Total revenue in our Group Headquarters & Group Services segment in the first quarter of 2016 decreased by 9.2 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<sup>+</sup> unit. In addition, intragroup revenue decreased due to the continued efforts to optimize the use of land and buildings.

**EBITDA, adjusted EBITDA**

Adjusted EBITDA in the Group Headquarters & Group Services segment decreased by EUR 95 million year-on-year in the reporting period, 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 anti-trust law. Excluding this one-time effect, adjusted EBITDA was up EUR 80 million against the first quarter of 2015, mainly due to higher income from real estate sales and lower personnel costs as a result of the continued staff restructuring at Vivento. Additional positive effects on adjusted EBITDA resulted from the realignment of the Group Innovation<sup>+</sup> unit. The loss of contributions in connection with the sale of t-online.de and InteractiveMedia as well as the continued efforts to optimize the use of land and buildings had a negative impact in the first quarter of 2016.

Overall, positive special factors of EUR 2.4 billion affected EBITDA in the first quarter of 2016. These factors resulted primarily from the sale of our EE joint venture to the UK company BT, which was completed on January 29, 2016. We generated income of some EUR 2.5 billion from this sale. Expenses – in particular for staff-related measures – remained on a par with the prior-year level at around EUR 0.1 billion.

**EBIT**

The year-on-year increase in EBIT by EUR 2.4 billion is primarily attributable to income from the disposal of our EE joint venture in the reporting period. Depreciation, amortization and impairment losses were down EUR 14 million on the prior-year level.

**Cash capex**

Cash capex decreased year-on-year by EUR 36 million, largely due to the purchase of fewer vehicles and licenses.

## EVENTS AFTER THE REPORTING PERIOD (MARCH 31, 2016)

For information on the draft decision of which the Federal Network Agency notified Brussels on April 7, 2016 regarding the **regulation of vectoring near local exchanges** and the Federal Network Agency's draft consultation published on April 20, 2016 regarding the **ULL monthly charges**, please refer to the section "The economic environment," page 10 et seq.

For information on developments in the legal proceedings regarding the **claim for compensation against OTE** and the concluded **claims for damages concerning the provision of subscriber data**, please refer to the section "Risks and opportunities," pages 31 and 32.

**Collective agreements for Group Headquarters and Telekom Deutschland.** On April 13, 2016, Deutsche Telekom and the ver.di union agreed the terms for a collective agreement for Group Headquarters and Telekom Deutschland. The new collective agreement provides for salaries to increase with retroactive effect by 2.2 percent as of April 1, 2016 and by a further 2.1 percent as of April 1, 2017. Lower salary bands increased at the higher rate of 2.6 percent as of April 1, 2016. The new agreement takes effect on February 1, 2016 and runs for two years.

**Placement of shares in Scout24 AG.** On April 14, 2016, we placed approximately 2.6 million shares in Scout24 AG in an accelerated book-building process at a price of EUR 30.00 per placed share. The settlement of the sale took place on April 18, 2016. We received gross proceeds of about EUR 79 million. Following the sale, we continue to hold approximately 11.8 million shares, representing approximately 10.9 percent of the total number of shares of Scout24 AG. Due to the continued significant influence on Scout24 AG's finance and operations, the remaining stake in this company continues to be included in the consolidated financial statements using the equity method and is still part of the Group Headquarters & Group Services segment.

**Financing activities.** On April 1, 2016, T-Mobile US issued **Senior Notes** with a total volume of USD 1.0 billion. The company expects to use the net proceeds from this offering for the purchase of 700 MHz A-block spectrum and other spectrum purchases. On April 12, 2016, Deutsche Telekom International Finance B.V. with the guarantee of Deutsche Telekom AG issued a **Eurobond** of EUR 0.5 billion under our debt issuance program. The issuance forms part of the Company's general corporate financing. In April 2016, Deutsche Telekom AG issued irrevocable and temporary **loan commitments** to T-Mobile US for another up to USD 2.0 billion with no effect on financial liabilities.

## FORECAST

The statements in this section reflect the current views of our management. To date, there is no evidence that the forecasts published in the 2015 combined management report have significantly changed (2015 Annual Report, page 116 et seq.). Accordingly, the statements made therein remain valid. For additional information and recent changes in the economic situation, please refer to the section "The economic environment" in this interim Group management report. Readers are also referred to the Disclaimer at the end of this report.

## RISKS AND OPPORTUNITIES

This section provides important additional information and explains recent changes in the risks and opportunities as described in the combined management report for the 2015 financial year (2015 Annual Report, page 125 et seq.). Readers are also referred to the Disclaimer at the end of this report.

### LITIGATION

**Monthly charges for the unbundled local loop.** The new rulings issued and the withdrawal of claims following the implementation of settlement agreements with (former) complainants (see "Regulation," page 32) result in deeming the remaining risk from the proceedings concerning the ULL monthly and one-time charges to be low. As a result, we will not report about the proceedings which are still pending in the future.

**Claim for damages in Malaysia after legal final 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 (DTAH), a subsidiary of Deutsche Telekom AG. The complainants are demanding damages and compensation of USD 232 million plus interest. DTAH had enforced this amount against Celcom in 2005 on the basis of a final ruling in its favor. The first instance proceedings are scheduled for October 2016. It is not yet possible to estimate the potential financial impact 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 claimant withdraw its claim.

## PROCEEDINGS CONCLUDED IN 2016

**Claims for damages concerning the provision of subscriber data.** In 2005, telegate AG filed a claim against Deutsche Telekom AG for damages of approximately EUR 86 million plus interest. telegate AG alleged that Deutsche Telekom AG charged excessive prices for the provision of subscriber data between 1997 and 1999. Also in 2005, Dr. Harisch, founder of telegate AG, filed a claim against Deutsche Telekom AG for damages of most recently around EUR 612 million plus interest. After both Dr. Harisch and telegate AG lost their cases in the courts of first and second instance, the complaint filed by Dr. Harisch against the non-allowance of appeal was dismissed by the Federal Court of Justice in April 2015. The Federal Court of Justice has now also dismissed the complaint by telegate AG against non-allowance of appeal in a ruling dated April 12, 2016. Thus both claims have now been dismissed with final and binding effect and the proceedings are at an end.

## REGULATION

**Consumer protection.** In February 2014, the Federal Network Agency had presented a draft regulation designed to achieve more transparency and greater cost control in telecommunications services. The draft regulation is expected to be adopted by the end of the second quarter of 2016 following agreement with the relevant ministries. Back in September 2015, the Federal Network Agency launched its measuring system that enables consumers to measure the bandwidths available on their fixed-network and mobile lines. A report on the line bandwidths achieved throughout Germany is expected to be published in May 2016. The regulation will enter into force after a six-month transposition period. An extended transposition period of twelve months is envisaged for individual rules.

**Retrospective new ruling on rate approvals.** The settlement agreements concluded in 2015 with complainants concerning the ULL one-time charges, in which the originally approved charges were agreed and the contractual parties undertook to withdraw pending claims, were implemented in full by April 2016. On this basis, we submitted corresponding 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. Thus the past ULL one-time charges in the amount of the original approval have now become legal and binding for almost the entire market.

**Awarding of frequencies.** With regard to risks and opportunities in relation to spectrum regulation, particular note should be made of the proceedings currently in preparation or in planning in some countries for the awarding of spectrum. The allocations mainly relate to the auctioning of spectrum in the 0.8 GHz, 1.8 GHz, 2.6 GHz, and 3.5 GHz ranges. Award procedures are currently being prepared in Greece, the United Kingdom, Montenegro, the Czech Republic, Hungary, and Slovakia, which are expected to be held by the end of 2016. In addition, the Incentive Auction has begun in the United States to reallocate former broadcast spectrum to mobile communications usage. The first phase is aimed at broadcasters, while the second phase later in the year will focus on the sale of surrendered spectrum to interested mobile companies.

On October 27, 2015, the EU parliament and the European Council adopted the **EU Regulation concerning the single market for electronic communications**, which contains provisions on net neutrality, international roaming, and obligations to provide information.

- **Net neutrality.** The Body of European Regulators for Electronic Communications (BEREC) is currently working on guidelines for implementing the regulation on net neutrality. An initial consultation on these guidelines has been announced for the start of June 2016 and publication for the end of August 2016.
- **International roaming.** In the first quarter of 2016, the European Commission completed a consultation on further measures to abolish roaming surcharges. The Commission is expected to publish a legislative proposal for the further regulation of wholesale roaming charges by June 15, 2016 at the latest, which is set to be adopted by the middle of 2017. Depending on the content of this proposal, revenue risks may arise for us and our subsidiaries, among other things from the misuse of the international roaming mechanism to circumvent national terms and conditions.

On March 15, 2016, the European Commission launched a public consultation to evaluate the **termination rate recommendation** dated May 7, 2009, with a deadline of June 7, 2016. This consultation is intended, on the one hand, to examine the effects of the "pure LRIC cost standard" introduced with the previous termination rate recommendation, and, on the other, to ask questions about the future regulatory measures. Future regulatory measures entail both risks and opportunities. Risks result from the related future rate reductions, while the opportunities relate to the fact that the Commission could deregulate the termination market.

## ASSESSMENT OF THE AGGREGATE RISK POSITION

At the time of preparing this report, neither our risk management system nor our management could identify any material risks to the continued existence of Deutsche Telekom AG or a significant Group company as a going concern.



# INTERIM CONSOLIDATED FINANCIAL STATEMENTS

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

millions of €

	Mar. 31, 2016	Dec. 31, 2015	Change	Change %	Mar. 31, 2015
<b>ASSETS</b>					
<b>CURRENT ASSETS</b>	<b>25,453</b>	<b>32,184</b>	<b>(6,731)</b>	<b>(20.9)%</b>	<b>28,549</b>
Cash and cash equivalents	7,332	6,897	435	6.3%	5,100
Trade and other receivables	8,894	9,238	(344)	(3.7)%	10,696
Current recoverable income taxes	136	129	7	5.4%	125
Other financial assets	4,829	5,805	(976)	(16.8)%	2,702
Inventories	1,998	1,847	151	8.2%	1,841
Other assets	1,855	1,346	509	37.8%	1,826
Non-current assets and disposal groups held for sale	409	6,922	(6,513)	(94.1)%	6,259
<b>NON-CURRENT ASSETS</b>	<b>118,152</b>	<b>111,736</b>	<b>6,416</b>	<b>5.7%</b>	<b>108,912</b>
Intangible assets	57,384	57,025	359	0.6%	56,791
Property, plant and equipment	44,442	44,637	(195)	(0.4)%	41,221
Investments accounted for using the equity method	811	822	(11)	(1.3)%	652
Other financial assets	9,877	3,530	6,347	n.a.	3,759
Deferred tax assets	5,119	5,248	(129)	(2.5)%	6,142
Other assets	519	474	45	9.5%	347
<b>TOTAL ASSETS</b>	<b>143,605</b>	<b>143,920</b>	<b>(315)</b>	<b>(0.2)%</b>	<b>137,461</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>					
<b>CURRENT LIABILITIES</b>	<b>32,211</b>	<b>33,548</b>	<b>(1,337)</b>	<b>(4.0)%</b>	<b>28,357</b>
Financial liabilities	13,876	14,439	(563)	(3.9)%	10,116
Trade and other payables	9,867	11,090	(1,223)	(11.0)%	9,542
Income tax liabilities	260	197	63	32.0%	278
Other provisions	3,227	3,367	(140)	(4.2)%	3,605
Other liabilities	4,981	4,451	530	11.9%	4,816
Liabilities directly associated with non-current assets and disposal groups held for sale	-	4	(4)	n.a.	-
<b>NON-CURRENT LIABILITIES</b>	<b>72,950</b>	<b>72,222</b>	<b>728</b>	<b>1.0%</b>	<b>72,108</b>
Financial liabilities	48,185	47,941	244	0.5%	47,004
Provisions for pensions and other employee benefits	8,369	8,028	341	4.2%	9,213
Other provisions	3,027	2,978	49	1.6%	2,536
Deferred tax liabilities	9,342	9,205	137	1.5%	9,236
Other liabilities	4,027	4,070	(43)	(1.1)%	4,119
<b>LIABILITIES</b>	<b>105,161</b>	<b>105,770</b>	<b>(609)</b>	<b>(0.6)%</b>	<b>100,465</b>
<b>SHAREHOLDERS' EQUITY</b>	<b>38,444</b>	<b>38,150</b>	<b>294</b>	<b>0.8%</b>	<b>36,996</b>
Issued capital	11,793	11,793	0	0.0%	11,611
Treasury shares	(51)	(51)	0	0.0%	(53)
	<b>11,742</b>	<b>11,742</b>	<b>0</b>	<b>0.0%</b>	<b>11,558</b>
Capital reserves	52,399	52,412	(13)	0.0%	51,796
Retained earnings including carryforwards	(36,187)	(38,969)	2,782	7.1%	(37,385)
Total other comprehensive income	(1,470)	(178)	(1,292)	n.a.	(235)
Total other comprehensive income directly associated with non-current assets and disposal groups held for sale	-	1,139	(1,139)	n.a.	1,201
Net profit (loss)	3,125	3,254	(129)	(4.0)%	787
<b>ISSUED CAPITAL AND RESERVES ATTRIBUTABLE TO OWNERS OF THE PARENT</b>	<b>29,609</b>	<b>29,400</b>	<b>209</b>	<b>0.7%</b>	<b>27,722</b>
Non-controlling interests	8,835	8,750	85	1.0%	9,274
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>143,605</b>	<b>143,920</b>	<b>(315)</b>	<b>(0.2)%</b>	<b>137,461</b>

## CONSOLIDATED INCOME STATEMENT

millions of €

	Q1 2016	Q1 2015	Change	Change %	FY 2015
<b>NET REVENUE</b>	<b>17,630</b>	<b>16,842</b>	<b>788</b>	<b>4.7%</b>	<b>69,228</b>
Other operating income	3,179	397	2,782	n. a.	2,008
Changes in inventories	12	5	7	n. a.	(11)
Own capitalized costs	480	501	(21)	(4.2)%	2,041
Goods and services purchased	(8,663)	(8,907)	244	2.7%	(35,706)
Personnel costs	(4,062)	(3,870)	(192)	(5.0)%	(15,856)
Other operating expenses	(909)	(808)	(101)	(12.5)%	(3,316)
Depreciation, amortization and impairment losses	(3,142)	(2,694)	(448)	(16.6)%	(11,360)
<b>PROFIT FROM OPERATIONS</b>	<b>4,525</b>	<b>1,466</b>	<b>3,059</b>	<b>n. a.</b>	<b>7,028</b>
Finance costs	(633)	(600)	(33)	(5.5)%	(2,363)
Interest income	62	65	(3)	(4.6)%	246
Interest expense	(695)	(665)	(30)	(4.5)%	(2,609)
Share of profit (loss) of associates and joint ventures accounted for using the equity method	2	(2)	4	n. a.	24
Other financial income (expense)	417	159	258	n. a.	89
<b>PROFIT (LOSS) FROM FINANCIAL ACTIVITIES</b>	<b>(214)</b>	<b>(443)</b>	<b>229</b>	<b>51.7%</b>	<b>(2,250)</b>
<b>PROFIT BEFORE INCOME TAXES</b>	<b>4,311</b>	<b>1,023</b>	<b>3,288</b>	<b>n. a.</b>	<b>4,778</b>
Income taxes	(934)	(234)	(700)	n. a.	(1,276)
<b>PROFIT (LOSS)</b>	<b>3,377</b>	<b>789</b>	<b>2,588</b>	<b>n. a.</b>	<b>3,502</b>
<b>PROFIT (LOSS) ATTRIBUTABLE TO</b>					
Owners of the parent (net profit (loss))	3,125	787	2,338	n. a.	3,254
Non-controlling interests	252	2	250	n. a.	248

## EARNINGS PER SHARE

	Q1 2016	Q1 2015	Change	Change %	FY 2015
Profit (loss) attributable to the owners of the parent (net profit (loss))	3,125	787	2,338	n. a.	3,254
Weighted average number of ordinary shares (basic/diluted)	4,587	4,515	72	1.6%	4,553
<b>EARNINGS PER SHARE BASIC/DILUTED</b>	<b>0.68</b>	<b>0.17</b>	<b>0.51</b>	<b>n. a.</b>	<b>0.71</b>

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

millions of €

	Q1 2016	Q1 2015	Change	FY 2015
<b>PROFIT (LOSS)</b>	<b>3,377</b>	<b>789</b>	<b>2,588</b>	<b>3,502</b>
<b>Items not reclassified to the income statement retrospectively</b>				
Gain (loss) from the remeasurement of defined benefit plans	(638)	(766)	128	230
Share of profit (loss) of investments accounted for using the equity method	0	0	0	0
Income taxes relating to components of other comprehensive income	196	233	(37)	(60)
	<b>(442)</b>	<b>(533)</b>	<b>91</b>	<b>170</b>
<b>Items reclassified to the income statement retrospectively, if certain reasons are given</b>				
<b>Exchange differences on translating foreign operations</b>				
Recognition of other comprehensive income in income statement	(948)	4	(952)	4
Change in other comprehensive income (not recognized in income statement)	(1,182)	2,460	(3,642)	2,000
<b>Available-for-sale financial assets</b>				
Recognition of other comprehensive income in income statement	(1)	2	(3)	0
Change in other comprehensive income (not recognized in income statement)	(459)	5	(464)	31
<b>Gains (losses) from hedging instruments</b>				
Recognition of other comprehensive income in income statement	244	(404)	648	(255)
Change in other comprehensive income (not recognized in income statement)	(409)	605	(1,014)	653
<b>Share of profit (loss) of investments accounted for using the equity method</b>				
Recognition of other comprehensive income in income statement	7	0	7	0
Change in other comprehensive income (not recognized in income statement)	1	3	(2)	25
Income taxes relating to components of other comprehensive income	53	(61)	114	(127)
	<b>(2,694)</b>	<b>2,614</b>	<b>(5,308)</b>	<b>2,331</b>
<b>OTHER COMPREHENSIVE INCOME</b>	<b>(3,136)</b>	<b>2,081</b>	<b>(5,217)</b>	<b>2,501</b>
<b>TOTAL COMPREHENSIVE INCOME</b>	<b>241</b>	<b>2,870</b>	<b>(2,629)</b>	<b>6,003</b>
<b>TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO</b>				
Owners of the parent	223	2,270	(2,047)	5,221
Non-controlling interests	18	600	(582)	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)
<b>BALANCE AT JANUARY 1, 2015</b>	<b>11,611</b>	<b>(53)</b>	<b>51,778</b>	<b>(39,783)</b>	<b>2,924</b>
Changes in the composition of the Group					
Transactions with owners			(22)		
Unappropriated profit (loss) carried forward				2,924	(2,924)
Dividends					
Capital increase from share-based payment			40		
Profit (loss)					787
Other comprehensive income				(526)	
<b>TOTAL COMPREHENSIVE INCOME</b>					
Transfer to retained earnings					
<b>BALANCE AT MARCH 31, 2015</b>	<b>11,611</b>	<b>(53)</b>	<b>51,796</b>	<b>(37,385)</b>	<b>787</b>
<b>BALANCE AT JANUARY 1, 2016</b>	<b>11,793</b>	<b>(51)</b>	<b>52,412</b>	<b>(38,969)</b>	<b>3,254</b>
Changes in the composition of the Group					
Transactions with owners			(47)		
Unappropriated profit (loss) carried forward				3,254	(3,254)
Dividends					
Capital increase from share-based payment			34		
Share buy-back/shares held in a trust deposit					
Profit (loss)					3,125
Other comprehensive income				(437)	
<b>TOTAL COMPREHENSIVE INCOME</b>					
Transfer to retained earnings				(35)	
<b>BALANCE AT MARCH 31, 2016</b>	<b>11,793</b>	<b>(51)</b>	<b>52,399</b>	<b>(36,187)</b>	<b>3,125</b>

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	
						0		0	
(3)						(25)	40	15	
						0		0	
						0	(15)	(15)	
						40	20	60	
						787	2	789	
1,860	2	6	201	1	(61)	1,483	598	2,081	
						2,270	600	2,870	
						0		0	
610	(60)	85	541	(41)	(169)	27,722	9,274	36,996	
427	(62)	110	738	(17)	(235)	29,400	8,750	38,150	
						0		0	
(1)						(48)	49	1	
						0		0	
						0		0	
						34	18	52	
						0		0	
						3,125	252	3,377	
(1,901)		(460)	(165)	8	53	(2,902)	(234)	(3,136)	
						223	18	241	
						0		0	
				35		0		0	
(1,475)	(62)	(350)	573	26	(182)	29,609	8,835	38,444	

## CONSOLIDATED STATEMENT OF CASH FLOWS

millions of €

	Q1 2016	Q1 2015	FY 2015
<b>PROFIT BEFORE INCOME TAXES</b>	<b>4,311</b>	<b>1,023</b>	<b>4,778</b>
Depreciation, amortization and impairment losses	3,142	2,694	11,360
(Profit) loss from financial activities	214	443	2,250
(Profit) loss on the disposal of fully consolidated subsidiaries	(6)	-	(583)
(Income) loss from the sale of stakes accounted for using the equity method	(2,507)	-	-
Other non-cash transactions	91	59	243
(Gain) loss from the disposal of intangible assets and property, plant and equipment	(410)	10	(87)
Change in assets carried as working capital	(417)	(258)	(1,438)
Change in provisions	(92)	46	112
Change in other liabilities carried as working capital	128	78	878
Income taxes received (paid)	(132)	(136)	(695)
Dividends received	175	279	578
Net payments from entering into, canceling or changing the terms and conditions of interest rate derivatives	0	50	100
<b>CASH GENERATED FROM OPERATIONS</b>	<b>4,497</b>	<b>4,288</b>	<b>17,496</b>
Interest paid	(1,167)	(1,180)	(3,464)
Interest received	166	200	965
<b>NET CASH FROM OPERATING ACTIVITIES</b>	<b>3,496</b>	<b>3,308</b>	<b>14,997</b>
Cash outflows for investments in			
Intangible assets	(1,707)	(2,440)	(6,446)
Property, plant and equipment	(2,189)	(1,989)	(8,167)
Non-current financial assets	(310)	(61)	(493)
Payments to acquire control of subsidiaries and associates	1	(8)	(28)
Proceeds from disposal of			
Intangible assets	0	0	4
Property, plant and equipment	157	87	363
Non-current financial assets	43	9	446
Proceeds from the loss of control of subsidiaries and associates	11	(1)	(58)
Net change in short-term investments and marketable securities and receivables	262	1,468	(638)
Other	(6)	(2)	2
<b>NET CASH USED IN INVESTING ACTIVITIES</b>	<b>(3,738)</b>	<b>(2,937)</b>	<b>(15,015)</b>
Proceeds from issue of current financial liabilities	7,897	2,734	33,490
Repayment of current financial liabilities	(11,401)	(6,271)	(36,944)
Proceeds from issue of non-current financial liabilities	4,459	599	5,247
Repayment of non-current financial liabilities	0	(140)	(207)
Dividends (including to non-controlling interests)	(9)	-	(1,256)
Repayment of lease liabilities	(76)	(53)	(224)
Deutsche Telekom AG share buy-back	-	-	(15)
Sale of Deutsche Telekom AG treasury shares	-	-	31
Cash inflows from transactions with non-controlling entities	1	19	43
Cash outflows from transactions with non-controlling entities	(43)	(25)	(1,041)
Other	-	1	-
<b>NET CASH FROM (USED IN) FINANCING ACTIVITIES</b>	<b>828</b>	<b>(3,136)</b>	<b>(876)</b>
Effect of exchange rate changes on cash and cash equivalents	(151)	341	267
Changes in cash and cash equivalents associated with non-current assets and disposal groups held for sale	-	1	1
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>435</b>	<b>(2,423)</b>	<b>(626)</b>
<b>CASH AND CASH EQUIVALENTS, AT THE BEGINNING OF THE PERIOD</b>	<b>6,897</b>	<b>7,523</b>	<b>7,523</b>
<b>CASH AND CASH EQUIVALENTS, AT THE END OF THE PERIOD</b>	<b>7,332</b>	<b>5,100</b>	<b>6,897</b>

## 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 March 31, 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	Expected amendments	Expected impact on the presentation of Deutsche Telekom's results of operations, financial position, or cash flows
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	A revenue-based depreciation method for property, plant and equipment is not permissible, whereas for intangible assets there is only a rebuttable 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	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 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.

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. The operations were bundled to improve the way in which the company can be managed. Comparative figures have been adjusted retrospectively.

### CHANGES IN THE COMPOSITION OF THE GROUP AND TRANSACTIONS WITH OWNERS

#### 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 telecommu-

nications 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 GBP 25.7 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 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 41.

### PRESENTATION OF THE QUANTITATIVE EFFECTS ON THE COMPOSITION OF THE GROUP IN THE FIRST QUARTER 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 result 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.

	Total Q1 2016	Q1 2015							Organic change Q1 2016
		Total	Germany	United States	Europe	Systems Solutions	Group Headquarters & Group Services	Reconcili- ation	
Net revenue	17,630	16,842			(54)		(25)	16,763	867
Other operating income	3,179	397			0		0	397	2,782
Changes in inventories	12	5			0		0	5	7
Own capitalized costs	480	501			0		0	501	(21)
Goods and services purchased	(8,663)	(8,907)			51		2	(8,854)	191
Personnel costs	(4,062)	(3,870)			0		9	(3,861)	(201)
Other operating expenses	(909)	(808)			0		6	(802)	(107)
Depreciation, amortization and impairment losses	(3,142)	(2,694)			0		1	(2,693)	(449)
<b>PROFIT (LOSS) FROM OPERATIONS</b>	<b>4,525</b>	<b>1,466</b>	<b>0</b>	<b>0</b>	<b>(3)</b>	<b>0</b>	<b>(7)</b>	<b>1,456</b>	<b>3,069</b>
Finance costs	(633)	(600)			0		0	(600)	(33)
Share of profit (loss) of associates and joint ventures accounted for using the equity method	2	(2)			0		0	(2)	4
Other financial income (expense)	417	159			0		0	159	258
<b>PROFIT (LOSS) FROM FINANCIAL ACTIVITIES</b>	<b>(214)</b>	<b>(443)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>(443)</b>	<b>229</b>
<b>PROFIT (LOSS) BEFORE INCOME TAXES</b>	<b>4,311</b>	<b>1,023</b>	<b>0</b>	<b>0</b>	<b>(3)</b>	<b>0</b>	<b>(7)</b>	<b>1,013</b>	<b>3,298</b>
Income taxes	(934)	(234)			0		0	(234)	(700)
<b>PROFIT (LOSS)</b>	<b>3,377</b>	<b>789</b>	<b>0</b>	<b>0</b>	<b>(3)</b>	<b>0</b>	<b>(7)</b>	<b>779</b>	<b>2,598</b>

<sup>a</sup> 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 0.3 billion to EUR 8.9 billion. Factoring agreements concluded in the reporting period concerning monthly revolving sales of current trade receivables resulted in a reduction in receivables. 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 only the monthly lease installment for the device. Exchange rate effects, mainly from the translation of U.S. dollars into euros, likewise had a reducing effect.

### NON-CURRENT ASSETS AND DISPOSAL GROUPS HELD FOR SALE

The decrease in the carrying amounts of the non-current assets and disposal groups held for sale of EUR 6.5 billion to EUR 0.4 billion is largely due to two 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. Secondly, the transaction agreed in the third quarter of 2015 for the exchange of spectrum licenses between T-Mobile US and AT&T 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 with Sprint in the first 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 on the carrying amount of EUR 0.3 billion.

### INTANGIBLE ASSETS AND PROPERTY, PLANT AND EQUIPMENT

**Intangible assets** increased by EUR 0.4 billion to EUR 57.4 billion, mainly due to additions totaling EUR 3.0 billion. This includes among other factors EUR 1.1 billion for the purchase of spectrum licenses by T-Mobile US, in particular from the exchange of spectrum licenses with AT&T that was completed in March 2016. Furthermore, there were additions from the acquisition of spectrum licenses by T-Mobile US in January 2016 for around EUR 0.5 billion and by T-Mobile Polska for around EUR 0.5 billion. Negative exchange rate effects, primarily from the translation of U.S. dollars into euros, reduced the carrying amount by EUR 1.3 billion. Amortization of EUR 1.0 billion as well as the reclassification of assets worth EUR 0.3 billion to non-current assets and disposal groups held for sale also lowered the carrying amount.

**Property, plant and equipment** decreased by EUR 0.2 billion compared with December 31, 2015 to EUR 44.4 billion. Additions of EUR 2.8 billion primarily in the United States and Germany operating segments increased the carrying amount. This also included EUR 0.7 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 0.6 billion. Depreciation charges of EUR 2.1 billion had a decreasing effect on the carrying amount, as did disposals of EUR 0.2 billion.

### OTHER FINANCIAL ASSETS

Other financial assets increased by EUR 5.4 billion compared with December 31, 2015 to EUR 14.7 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 6.7 billion as of March 31, 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.

### TRADE AND OTHER PAYABLES

Trade and other payables decreased by EUR 1.2 billion compared with the end of 2015 to EUR 9.9 billion. Apart from the reduction in the portfolio of liabilities at the national companies in the Europe and Germany operating segments, this decrease is attributable to exchange rate effects from the translation of U.S. dollars into euros.

### FINANCIAL LIABILITIES

Financial liabilities decreased by EUR 0.3 billion compared with the end of 2015 to a total of EUR 62.1 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 four-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 seven-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.

In the first quarter of 2016, a U.S. dollar bond was repaid in the amount of USD 1.0 billion (around EUR 0.9 billion), commercial paper in the amount of EUR 1.6 billion, and promissory notes in the amount of EUR 0.4 billion. In addition, exchange rate effects from the translation of U.S. dollars into euros reduced financial liabilities by around EUR 1.3 billion.

The following table shows the composition and maturity structure of financial liabilities as of March 31, 2016:

millions of €				
	Mar. 31, 2016	Due within 1 year	Due >1 ≤ 5 years	Due > 5 years
Bonds and other securitized liabilities	48,677	7,955	13,669	27,053
Liabilities to banks	3,933	1,617	1,467	849
Finance lease liabilities	1,951	333	907	711
Liabilities to non-banks from promissory notes	628	112	229	287
Liabilities with the right of creditors to priority repayment in the event of default	1,739	18	70	1,651
Other interest-bearing liabilities	2,939	2,260	497	182
Other non-interest-bearing liabilities	1,473	1,393	78	2
Derivative financial liabilities	721	188	222	311
<b>FINANCIAL LIABILITIES</b>	<b>62,061</b>	<b>13,876</b>	<b>17,139</b>	<b>31,046</b>

### PROVISIONS FOR PENSIONS AND OTHER EMPLOYEE BENEFITS

Provisions for pensions and other employee benefits increased by EUR 0.3 billion to EUR 8.4 billion, mainly due to interest rate adjustments which resulted in an actuarial loss of EUR 0.6 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. 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

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 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 2016	Q1 2015
Income from the disposal of non-current assets	458	18
Income from insurance compensation	13	13
Income from reimbursements	8	71
Income from ancillary services	7	11
Miscellaneous other operating income	2,693	284
Of which: income from divestitures and from the sale of stakes accounted for using the equity method	2,513	-
	<b>3,179</b>	<b>397</b>

Income from the disposal of non-current assets increased by EUR 0.4 billion compared with the first quarter of 2015. This is attributable to the income from a transaction for the exchange of spectrum licenses between T-Mobile US and AT&T that was completed in March 2016. Miscellaneous other operating income increased year-on-year by EUR 2.4 billion to a total of EUR 2.7 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. 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 2016	Q1 2015
Legal and audit fees	(45)	(30)
Losses from asset disposals	(47)	(28)
Losses from divestitures	-	(1)
Income (expense) from measurement of receivables	(204)	(200)
Other taxes	(142)	(97)
Miscellaneous other operating expenses	(471)	(452)
	<b>(909)</b>	<b>(808)</b>

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 0.4 billion year-on-year to EUR 3.1 billion. This increase was attributable to 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 due to remeasurement effects resulting from the subsequent measurement of embedded derivatives included in the Mandatory Convertible Preferred Stocks of T-Mobile US and from the subsequent measurement of embedded options in bonds issued by T-Mobile US. Other financial income includes a final dividend payment of EUR 0.2 billion from the EE joint venture received on January 25, 2016. In the prior-year quarter, a dividend payment of EUR 0.3 billion had been recognized as income under this item.

**INCOME TAXES**

A tax expense of EUR 0.9 billion was recorded in the first quarter of 2016. 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 tax.

**OTHER DISCLOSURES****NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS****Net cash from operating activities**

Net cash from operating activities increased by EUR 0.2 billion year-on-year to EUR 3.5 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 0.7 billion on net cash from operating activities in the reporting period. This mainly relates to factoring agreements in the Germany operating segment. The effect from factoring agreements in the prior-year period totaled EUR 0.5 billion. The lower dividend payment received from the former EE joint venture decreased net cash from operating activities year-on-year by EUR 0.1 billion.

**Net cash used in investing activities**

millions of €

	Q1 2016	Q1 2015
Cash capex		
Germany operating segment	(908)	(949)
United States operating segment	(1,756)	(2,729)
Europe operating segment	(1,009)	(498)
Systems Solutions operating segment	(237)	(248)
Group Headquarters & Group Services	(60)	(96)
Reconciliation	74	91
	<b>(3,896)</b>	<b>(4,429)</b>
Net cash flows for collateral deposited for hedging transactions	(21)	1,340
Proceeds from the disposal of property, plant and equipment	157	87
Allocation under contractual trust agreement (CTA) on pension commitments	(250)	-
Acquisition/sale of government bonds, net	200	70
Other	72	(5)
	<b>(3,738)</b>	<b>(2,937)</b>

Cash capex decreased by EUR 0.5 billion to EUR 3.9 billion. In the reporting period, mobile spectrum licenses were acquired for a total of EUR 1.1 billion, primarily in the United States and Europe operating segments. In the prior-year period, the United States and Europe operating segments had acquired mobile spectrum licenses for EUR 1.9 billion. In addition, cash capex increased primarily in the United States operating segment in connection with the network modernization, including the 4G/LTE network roll-out.

**Net cash from/used in financing activities**

millions of €	Q1 2016	Q1 2015
Repayment of bonds	(886)	(2,274)
Dividends (including to non-controlling interests)	(9)	-
Repayment of financial liabilities from financed capex and opex	(91)	(241)
Repayment of EIB loans	-	(412)
Net cash flows for collateral deposited for hedging transactions	(88)	20
Repayment of lease liabilities	(76)	(53)
Repayment of financial liabilities for media broadcasting rights	(58)	(43)
Cash deposits from the EE joint venture, net	(220)	(199)
Deutsche Telekom AG share buy-back	-	-
Cash flows from continuing involvement factoring (net)	5	39
Sale of Deutsche Telekom AG treasury shares	-	-
Loans taken out with the EIB	-	599
Promissory notes, net	(336)	-
Issuance of bonds	4,459	-
Commercial paper, net	(1,556)	(303)
Cash inflows from transactions with non-controlling entities		
T-Mobile US capital increase	-	-
T-Mobile US stock options	1	19
	<b>1</b>	<b>19</b>
Cash outflows from transactions with non-controlling entities		
T-Mobile US share buy-back	(42)	(25)
Other	(1)	-
	<b>(43)</b>	<b>(25)</b>
Other	(274)	(263)
	<b>828</b>	<b>(3,136)</b>

**Non-cash transactions in the consolidated statement of cash flows**

In the first quarter of 2016, Deutsche Telekom chose financing options totaling EUR 0.2 billion under which the payments for trade payables from operating and investing activities primarily become due at a later point in time by involving banks in the process (Q1 2015: EUR 0.6 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 from/used in financing activities.

In the first quarter of 2016, Deutsche Telekom leased network equipment for a total of EUR 0.1 billion (Q1 2015: EUR 0.1 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 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 0.1 billion were recognized in the first quarter of 2016 for future consideration for acquired broadcasting rights (Q1 2015: EUR 0.1 billion). As soon as the payments have been made, they are disclosed under net cash from/used in financing activities.

In the United States operating segment, mobile devices amounting to EUR 0.7 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 2015 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 between T-Mobile US and AT&T agreed in the third quarter of 2015 was completed in March 2016 and spectrum licenses with a value of EUR 1.1 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 GBP 25.7 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 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. The operations were bundled to improve the way in which the company can be managed. Comparative figures have been adjusted retrospectively.

The measurement principles for Deutsche Telekom's segment reporting structure are primarily based on the IFRSs adopted in the consolidated financial statements. Deutsche Telekom evaluates the segments' performance based on revenue and profit or loss from operations (EBIT), among other factors. Revenue generated and goods and services exchanged between segments are calculated on the basis of market prices. 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 17 et seq.

**Segment information in the first quarter**

millions of €

		Net revenue	Intersegment revenue	Total revenue	Profit (loss) from operations (EBIT)	Depreciation and amortization	Impairment losses	Segment assets <sup>a</sup>	Segment liabilities <sup>a</sup>	Investments accounted for using the equity method <sup>a</sup>
Germany	Q1 2016	5,136	316	5,452	1,074	(940)	(8)	32,745	25,774	20
	Q1 2015	5,265	324	5,589	1,190	(935)	0	33,552	26,270	20
United States	Q1 2016	7,816	0	7,816	956	(1,312)	0	60,579	44,203	205
	Q1 2015	6,904	1	6,905	273	(838)	0	62,534	46,087	215
Europe	Q1 2016	3,018	62	3,080	326	(636)	0	30,785	12,641	62
	Q1 2015	3,098	59	3,157	326	(635)	(1)	30,437	12,543	61
Systems Solutions	Q1 2016	1,545	500	2,045	30	(116)	0	9,094	6,229	18
	Q1 2015	1,420	507	1,927	(70)	(141)	0	8,701	5,870	21
Group Headquarters & Group Services	Q1 2016	115	398	513	2,139	(129)	(1)	46,476	52,022	507
	Q1 2015	155	410	565	(252)	(135)	(9)	44,532	50,830	504
<b>TOTAL</b>	Q1 2016	<b>17,630</b>	<b>1,276</b>	<b>18,906</b>	<b>4,525</b>	<b>(3,133)</b>	<b>(9)</b>	<b>179,679</b>	<b>140,869</b>	<b>812</b>
	Q1 2015	<b>16,842</b>	<b>1,301</b>	<b>18,143</b>	<b>1,467</b>	<b>(2,684)</b>	<b>(10)</b>	<b>179,756</b>	<b>141,600</b>	<b>821</b>
Reconciliation	Q1 2016	-	(1,276)	(1,276)	-	-	-	(36,074)	(35,708)	(1)
	Q1 2015	-	(1,301)	(1,301)	(1)	-	-	(35,836)	(35,830)	1
<b>GROUP</b>	Q1 2016	<b>17,630</b>	<b>-</b>	<b>17,630</b>	<b>4,525</b>	<b>(3,133)</b>	<b>(9)</b>	<b>143,605</b>	<b>105,161</b>	<b>811</b>
	Q1 2015	<b>16,842</b>	<b>-</b>	<b>16,842</b>	<b>1,466</b>	<b>(2,684)</b>	<b>(10)</b>	<b>143,920</b>	<b>105,770</b>	<b>822</b>

<sup>a</sup> Figures relate to the reporting dates of March 31, 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.

**Claim for damages in Malaysia after legal final 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 (DTAH), a subsidiary of Deutsche Telekom AG. The complainants are demanding damages and compensation of USD 232 million plus interest. DTAH had enforced this amount against Celcom in 2005 on the basis of a final ruling in its favor. The first instance proceedings are scheduled for October 2016. It is not yet possible to estimate the potential financial impact 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 claimant withdraw its claim.

**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 March 31, 2016:

millions of €

	Mar. 31, 2016
Future obligations from operating leases	20,749
Purchase commitments regarding property, plant and equipment	2,017
Purchase commitments regarding intangible assets	1,283
Firm purchase commitments for inventories	3,002
Other purchase commitments and similar obligations	12,505
Payment obligations to the Civil Service Pension Fund	3,855
Purchase commitments for interests in other companies	1
Miscellaneous other obligations	41
	<b>43,453</b>

## 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 Mar. 31, 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
<b>ASSETS</b>						
Cash and cash equivalents	LaR	7,332	7,332			
Trade receivables	LaR	8,653	8,653			
Originated loans and receivables	LaR/n. a.	2,237	2,037			
Of which: collateral paid	LaR	74	74			
Other non-derivative financial assets						
Held-to-maturity investments	HtM	6	6			
Available-for-sale financial assets	AfS	9,809		153	9,656	
Derivative financial assets						
Derivatives without a hedging relationship	FAHFT	1,651				1,651
Of which: termination rights embedded in bonds issued	FAHFT	684				684
Derivatives with a hedging relationship	n. a.	1,003			485	518
<b>LIABILITIES</b>						
Trade payables	FLAC	9,815	9,815			
Bonds and other securitized liabilities	FLAC	48,677	48,677			
Liabilities to banks	FLAC	3,933	3,933			
Liabilities to non-banks from promissory notes	FLAC	628	628			
Liabilities with the right of creditors to priority repayment in the event of default	FLAC	1,739	1,739			
Other interest-bearing liabilities	FLAC	2,939	2,939			
Of which: collateral received	FLAC	1,721	1,721			
Other non-interest-bearing liabilities	FLAC	1,473	1,473			
Finance lease liabilities	n. a.	1,951				
Derivative financial liabilities						
Derivatives without a hedging relationship	FLHFT	640				640
Of which: conversion rights embedded in Mandatory Convertible Preferred Stock	FLHFT	251				251
Of which: options granted to third parties for the purchase of shares in subsidiaries	FLHFT	37				37
Derivatives with a hedging relationship	n. a.	81			67	14
Of which: aggregated by category in accordance with IAS 39						
Loans and receivables	LaR	18,022	18,022			
Held-to-maturity investments	HtM	6	6			
Available-for-sale financial assets	AfS	9,809		153	9,656	
Financial assets held for trading	FAHFT	1,651				1,651
Financial liabilities measured at amortized cost	FLAC	69,204	69,204			
Financial liabilities held for trading	FLHFT	640				640

<sup>a</sup> 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 Mar. 31, 2016 <sup>a</sup>	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 <sup>a</sup>
		Category in accordance with IAS 39	Carrying amounts Dec. 31, 2015	Amortized cost	Cost	Fair value recognized in equity		
-	-	LaR	6,897	6,897				-
-	-	LaR	8,752	8,752				-
200	2,279	LaR/n.a.	3,283	3,076			207	3,318
-	-	LaR	98	98				-
-	-	HtM	10	10				-
9,656	9,656	AFS	3,354		156	3,198		3,198
1,651	1,651	FAHfT	1,526				1,526	1,526
684	684	FAHfT	390				390	390
1,003	1,003	n.a.	1,160			870	290	1,160
-	-	FLAC	11,037	11,037				-
54,093	54,093	FLAC	47,766	47,766				52,194
4,024	4,024	FLAC	4,190	4,190				4,247
758	758	FLAC	934	934				1,069
1,785	1,785	FLAC	1,822	1,822				1,830
2,976	2,976	FLAC	3,009	3,009				3,059
-	-	FLAC	1,740	1,740				-
-	-	FLAC	1,798	1,798				-
1,951	2,290	n.a.	1,927					1,927
640	640	FLHfT	817				817	817
251	251	FLHfT	298				298	298
37	37	FLHfT	39				39	39
81	81	n.a.	117			107	10	117
2,279	2,279	LaR	18,725	18,725				3,111
-	-	HtM	10	10				-
9,656	9,656	AFS	3,354		156	3,198		3,198
1,651	1,651	FAHfT	1,526				1,526	1,526
63,636	63,636	FLAC	70,556	70,556				62,399
640	640	FLHfT	817				817	817

**Financial instruments measured at fair value**

millions of €

	Mar. 31, 2016				Dec. 31, 2015			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
<b>ASSETS</b>								
Available-for-sale financial assets (AFS)	9,385		271	9,656	2,931		267	3,198
Financial assets held for trading (FAHfT)		967	684	1,651		1,136	390	1,526
Derivative financial assets with a hedging relationship		1,003		1,003		1,160		1,160
<b>LIABILITIES</b>								
Financial liabilities held for trading (FLHfT)		352	288	640		480	337	817
Derivative financial liabilities with a hedging relationship		81		81		117		117

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 9,385 million (December 31, 2015: EUR 2,931 million) comprises two separate classes of financial instruments. The first comprises listed debt securities, most of which are short-term U.S. government bonds, with a carrying amount equivalent to around EUR 2.7 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 6.7 billion. 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
<b>Carrying amount as of January 1, 2016</b>	<b>267</b>	<b>390</b>	<b>(298)</b>
Additions (including first-time categorization as Level 3)	4	-	-
Value decreases recognized in profit/loss	0	(3)	-
Value increases recognized in profit/loss	-	322	35
Value decreases recognized directly in equity	0	-	-
Value increases recognized directly in equity	0	-	-
Disposals	0	-	-
Currency translation effects recognized directly in equity	-	(25)	12
<b>CARRYING AMOUNT AS OF MARCH 31, 2016</b>	<b>271</b>	<b>684</b>	<b>(251)</b>

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 271 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 109 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 March 31, 2016. In the case of investments with a carrying amount of EUR 140 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 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 less than EUR 1 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 the left 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 684 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 2.4 and 3.0 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 3.4 and 4.9 percent for the maturities of the bonds and between 2.3 and 3.0 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 76 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 210 million lower (EUR 298 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 17 million lower (EUR 20 million higher) when translated into euros. In the reporting period, net income of EUR 319 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 48 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. 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 251 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 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 102 million lower (EUR 97 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 13 million lower (EUR 10 million higher) when translated into euros. In the reporting period, net income of EUR 35 million when translated into euros was recognized 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 48 for the development of the carrying amount in the reporting period. The change in the market price in the reporting period is largely attributable to the decrease 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 37 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.

**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 1,721 million (December 31, 2015: EUR 1,740 million). The credit risk was thus reduced by EUR 1,582 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 1,970 million as of the reporting date (December 31, 2015: EUR 2,296 million) had a maximum credit risk of EUR 25 million (December 31, 2015: EUR 79 million) as of March 31, 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 74 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 67 million at the reporting date, which is why it was not exposed to any credit risks in this 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**

Satellit 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 was recognized from the construction contract as of the reporting date. 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.

#### **RELATED-PARTY DISCLOSURES**

There were no significant changes at March 31, 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 result, obligations from the loan commitment no longer exist. Loan guarantees and guarantee statements of EUR 0.9 billion given to external contracting parties of the EE joint venture existed as of December 31, 2015. These are currently being adapted to the new circumstances.

Net funds of EUR 0.2 billion that had been invested by the EE joint venture were repaid to the company by Deutsche Telekom upon consummation of the sale on January 29, 2016.

#### **EXECUTIVE BODIES**

##### **Changes in the composition of the Supervisory Board**

Waltraud Litzberger resigned her position effective midnight December 31, 2015. Nicole Koch was court-appointed to the Supervisory Board effective January 1, 2016.

**EVENTS AFTER THE REPORTING PERIOD (MARCH 31, 2016)**

For more information on developments in the **compensation claim against OTE**, please refer to “Contingent liabilities,” page 45.

**Collective agreements for Group Headquarters and Telekom Deutschland.**

On April 13, 2016, Deutsche Telekom and the ver.di union agreed the terms for a collective agreement for Group Headquarters and Telekom Deutschland. The new collective agreement provides for salaries to increase with retroactive effect by 2.2 percent as of April 1, 2016 and by a further 2.1 percent as of April 1, 2017. Lower salary bands increased at the higher rate of 2.6 percent as of April 1, 2016. The new agreement takes effect on February 1, 2016 and runs for two years.

**Placement of shares in Scout24 AG.** On April 14, 2016, Deutsche Telekom AG placed approximately 2.6 million shares in Scout24 AG in an accelerated book-building process at a price of EUR 30.00 per placed share. The settlement of the sale took place on April 18, 2016. Deutsche Telekom AG received gross proceeds of around EUR 79 million. Following the sale, Deutsche Telekom AG continues to hold approximately 11.8 million shares, representing around 10.9 percent of the total number of shares of Scout24 AG. Due to the continued significant influence on Scout24 AG's finance and operations, the remaining stake in this company continues to be included in the consolidated financial statements using the equity method and is still part of the Group Headquarters & Group Services segment.

**Financing activities.** On April 1, 2016, T-Mobile US issued **Senior Notes** with a total volume of USD 1.0 billion. The company expects to use the net proceeds from this offering for the purchase of 700 MHz A-block spectrum and other spectrum purchases. On April 12, 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. The issuance forms part of the Company's general corporate financing. In April 2016, Deutsche Telekom AG issued irrevocable and temporary **loan commitments** to T-Mobile US for another up to USD 2.0 billion with no effect on financial liabilities.

## 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 in accordance with German accepted accounting principles, and the interim management report of the Group 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, May 4, 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

## 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 March 31, 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, May 4, 2016

PricewaterhouseCoopers  
Aktiengesellschaft  
Wirtschaftsprüfungsgesellschaft

Harald Kayser  
Wirtschaftsprüfer

Thomas Tandetzki  
Wirtschaftsprüfer

# ADDITIONAL INFORMATION

## RECONCILIATION OF PRO FORMA FIGURES

### SPECIAL FACTORS

The following table presents a reconciliation of EBITDA, EBIT, and net profit/loss to the respective figures adjusted for special factors. Reconciliations are presented for the reporting period, the prior-year period, and the full 2015 financial year:

	EBITDA Q1 2016	EBIT Q1 2016	EBITDA Q1 2015	EBIT Q1 2015	EBITDA FY 2015	EBIT FY 2015
<b>EBITDA/EBIT</b>	<b>7,667</b>	<b>4,525</b>	<b>4,160</b>	<b>1,466</b>	<b>18,388</b>	<b>7,028</b>
<b>GERMANY</b>	<b>(158)</b>	<b>(158)</b>	<b>(86)</b>	<b>(86)</b>	<b>(545)</b>	<b>(545)</b>
Staff-related measures	(144)	(144)	(61)	(61)	(402)	(402)
Non-staff-related restructuring	(14)	(14)	(14)	(14)	(21)	(21)
Effects of deconsolidations, disposals and acquisitions	0	0	0	0	0	0
Other	0	0	(11)	(11)	(122)	(122)
<b>UNITED STATES</b>	<b>360</b>	<b>360</b>	<b>(114)</b>	<b>(114)</b>	<b>(425)</b>	<b>(425)</b>
Staff-related measures	(7)	(7)	(22)	(22)	(50)	(50)
Non-staff-related restructuring	0	0	0	0	0	0
Effects of deconsolidations, disposals and acquisitions	367	367	(95)	(95)	(382)	(382)
Impairment losses	-	0	-	0	-	0
Other	0	0	3	3	7	7
<b>EUROPE</b>	<b>(24)</b>	<b>(24)</b>	<b>(54)</b>	<b>(54)</b>	<b>(221)</b>	<b>(264)</b>
Staff-related measures	(29)	(29)	(22)	(22)	(177)	(177)
Non-staff-related restructuring	(1)	(1)	(2)	(2)	(14)	(14)
Effects of deconsolidations, disposals and acquisitions	6	6	0	0	31	31
Impairment losses	-	0	-	0	-	(43)
Other	0	0	(30)	(30)	(61)	(61)
<b>SYSTEMS SOLUTIONS</b>	<b>(60)</b>	<b>(60)</b>	<b>(74)</b>	<b>(84)</b>	<b>(647)</b>	<b>(713)</b>
Staff-related measures	(33)	(33)	(34)	(34)	(367)	(367)
Non-staff-related restructuring	(3)	(3)	(31)	(34)	(259)	(263)
Effects of deconsolidations, disposals and acquisitions	0	0	(6)	(6)	(4)	(4)
Other	(24)	(24)	(3)	(10)	(17)	(79)
<b>GROUP HEADQUARTERS &amp; GROUP SERVICES</b>	<b>2,386</b>	<b>2,386</b>	<b>(86)</b>	<b>(86)</b>	<b>319</b>	<b>303</b>
Staff-related measures	(35)	(35)	(33)	(33)	(213)	(213)
Non-staff-related restructuring	(16)	(16)	(32)	(32)	(48)	(48)
Effects of deconsolidations, disposals and acquisitions	2,458	2,458	(19)	(19)	574	574
Impairment losses	-	0	-	-	-	0
Other	(21)	(21)	(2)	(2)	6	(10)
<b>GROUP RECONCILIATION</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>(1)</b>	<b>(1)</b>
Staff-related measures	0	0	0	0	(1)	(1)
Non-staff-related restructuring	0	0	0	0	(1)	(1)
Effects of deconsolidations, disposals and acquisitions	0	0	0	0	1	1
Other	0	0	0	0	0	0
<b>TOTAL SPECIAL FACTORS</b>	<b>2,504</b>	<b>2,504</b>	<b>(414)</b>	<b>(424)</b>	<b>(1,520)</b>	<b>(1,645)</b>
<b>EBITDA/EBIT (ADJUSTED FOR SPECIAL FACTORS)</b>	<b>5,163</b>	<b>2,021</b>	<b>4,574</b>	<b>1,890</b>	<b>19,908</b>	<b>8,673</b>
Profit (loss) from financial activities (adjusted for special factors)		(215)		(441)		(2,233)
<b>PROFIT (LOSS) BEFORE INCOME TAXES (ADJUSTED FOR SPECIAL FACTORS)</b>		<b>1,806</b>		<b>1,449</b>		<b>6,440</b>
Income taxes (adjusted for special factors)		(582)		(366)		(1,927)
<b>PROFIT (LOSS) (ADJUSTED FOR SPECIAL FACTORS)</b>		<b>1,224</b>		<b>1,083</b>		<b>4,513</b>
<b>PROFIT (LOSS) (ADJUSTED FOR SPECIAL FACTORS) ATTRIBUTABLE TO</b>						
Owners of the parent (net profit (loss)) (adjusted for special factors)		1,047		1,036		4,113
Non-controlling interests (adjusted for special factors)		177		47		400

**GROSS AND NET DEBT**

Deutsche Telekom considers net debt to be an important performance indicator for investors, analysts, and rating agencies.

millions of €

	Mar. 31, 2016	Dec. 31, 2015	Change	Change %	Mar. 31, 2015
Financial liabilities (current)	13,876	14,439	(563)	(3.9)%	10,116
Financial liabilities (non-current)	48,185	47,941	244	0.5%	47,004
<b>FINANCIAL LIABILITIES</b>	<b>62,061</b>	<b>62,380</b>	<b>(319)</b>	<b>(0.5)%</b>	<b>57,120</b>
Accrued interest	(696)	(1,014)	318	31.4%	(876)
Other	(832)	(857)	25	2.9%	(847)
<b>GROSS DEBT</b>	<b>60,533</b>	<b>60,509</b>	<b>24</b>	<b>0.0%</b>	<b>55,397</b>
Cash and cash equivalents	7,332	6,897	435	6.3%	5,100
Available-for-sale financial assets/ financial assets held for trading	2,666	2,877	(211)	(7.3)%	219
Derivative financial assets	2,654	2,686	(32)	(1.2)%	2,820
Other financial assets	278	479	(201)	(42.0)%	948
<b>NET DEBT</b>	<b>47,603</b>	<b>47,570</b>	<b>33</b>	<b>0.1%</b>	<b>46,310</b>

## RECONCILIATION FOR THE CHANGE IN DISCLOSURE OF KEY FIGURES FOR THE PRIOR-YEAR COMPARATIVE PERIOD IN THE FIRST QUARTER OF 2016

millions of €

	Total revenue	Profit (loss) from operations (EBIT)	EBITDA	Adjusted EBITDA	Depreciation and amortization	Impairment losses	Segment assets <sup>a</sup>	Segment liabilities <sup>a</sup>
<b>Q1 2015/MARCH 31, 2015</b>								
PRESENTATION AS OF MARCH 31, 2015 – AS REPORTED								
Germany	5,589	1,190	2,125	2,211	(935)	-	33,552	26,270
United States	6,905	273	1,111	1,225	(838)	-	62,534	46,087
Europe	3,106	320	953	1,008	(632)	(1)	30,296	12,595
Systems Solutions	2,001	(65)	80	154	(145)	-	9,067	6,043
Group Headquarters & Group Services	565	(252)	(108)	(22)	(135)	(9)	44,532	50,830
<b>TOTAL</b>	<b>18,166</b>	<b>1,466</b>	<b>4,161</b>	<b>4,576</b>	<b>(2,685)</b>	<b>(10)</b>	<b>179,981</b>	<b>141,825</b>
Reconciliation	(1,324)	-	(1)	(2)	1	-	(36,061)	(36,055)
<b>GROUP</b>	<b>16,842</b>	<b>1,466</b>	<b>4,160</b>	<b>4,574</b>	<b>(2,684)</b>	<b>(10)</b>	<b>143,920</b>	<b>105,770</b>
<b>Q1 2015/MARCH 31, 2015</b>								
+/- CHANGE IN DISCLOSURE OF MAGYAR TELEKOM								
AS OF JANUARY 1, 2015								
Germany	-	-	-	-	-	-	-	-
United States	-	-	-	-	-	-	-	-
Europe	51	6	9	8	(3)	-	141	(52)
Systems Solutions	(74)	(5)	(9)	(9)	4	-	(366)	(173)
Group Headquarters & Group Services	-	-	-	-	-	-	-	-
<b>TOTAL</b>	<b>(23)</b>	<b>1</b>	<b>-</b>	<b>(1)</b>	<b>1</b>	<b>-</b>	<b>(225)</b>	<b>(225)</b>
Reconciliation	23	(1)	-	1	(1)	-	225	225
<b>GROUP</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Q1 2015/MARCH 31, 2015</b>								
= PRESENTATION AS OF MARCH 31, 2016								
Germany	5,589	1,190	2,125	2,211	(935)	-	33,552	26,270
United States	6,905	273	1,111	1,225	(838)	-	62,534	46,087
Europe	3,157	326	962	1,016	(635)	(1)	30,437	12,543
Systems Solutions	1,927	(70)	71	145	(141)	-	8,701	5,870
Group Headquarters & Group Services	565	(252)	(108)	(22)	(135)	(9)	44,532	50,830
<b>TOTAL</b>	<b>18,143</b>	<b>1,467</b>	<b>4,161</b>	<b>4,575</b>	<b>(2,684)</b>	<b>(10)</b>	<b>179,756</b>	<b>141,600</b>
Reconciliation	(1,301)	(1)	(1)	(1)	-	-	(35,836)	(35,830)
<b>GROUP</b>	<b>16,842</b>	<b>1,466</b>	<b>4,160</b>	<b>4,574</b>	<b>(2,684)</b>	<b>(10)</b>	<b>143,920</b>	<b>105,770</b>

<sup>a</sup> Figures relate to the reporting date December 31, 2015.



## GLOSSARY

For definitions, please refer to the 2015 Annual Report and the glossary therein (page 251 et seq.).

## DISCLAIMER

This Report (particularly the section “Forecast”) contains forward-looking statements that reflect the current views of Deutsche Telekom’s management with respect to future events. They are generally identified by the words “expect,” “anticipate,” “believe,” “intend,” “estimate,” “aim,” “goal,” “plan,” “will,” “seek,” “outlook,” or similar expressions and include generally any information that relates to expectations or targets for revenue, adjusted EBITDA, or other performance measures. Forward-looking statements are based on current plans, estimates, and projections. You should consider them with caution.

Such statements are subject to risks and uncertainties, most of which are difficult to predict and are generally beyond Deutsche Telekom’s control. They include, for instance, the progress of Deutsche Telekom’s workforce reduction initiative and the impact of other significant strategic or business initiatives, including acquisitions, dispositions, and business combinations. In addition, movements in exchange rates and interest rates, regulatory rulings, stronger than expected competition, technological change, litigation, and regulatory developments, among other factors, may have a material

adverse effect on costs and revenue development. If these or other risks and uncertainties materialize, or if the assumptions underlying any of these statements prove incorrect, Deutsche Telekom’s actual results may be materially different from those expressed or implied by such statements. Deutsche Telekom can offer no assurance that its expectations or targets will be achieved. Without prejudice to existing obligations under capital market law, Deutsche Telekom does not assume any obligation to update forward-looking statements to account for new information or future events or any other aspects.

In addition to figures prepared in accordance with IFRS, Deutsche Telekom presents non-GAAP financial performance measures, e.g., EBITDA, EBITDA margin, adjusted EBITDA, adjusted EBITDA margin, adjusted EBIT, adjusted EBIT margin, adjusted net profit/loss, free cash flow, gross debt, and net debt. These non-GAAP measures should be considered in addition to, but not as a substitute for, the information prepared in accordance with IFRS. Non-GAAP financial performance measures are not subject to IFRS or any other generally accepted accounting principles. Other companies may define these terms in different ways.

**FINANCIAL CALENDAR<sup>a</sup>**

May 4, 2016	May 25, 2016	June 22, 2016	August 11, 2016
Publication of the Interim Group Report as of March 31, 2016	2016 Shareholders' meeting	Dividend payment <sup>b</sup>	Publication of the Interim Group Report as of June 30, 2016
November 10, 2016	March 2, 2017	May 11, 2017	
Publication of the Interim Group Report as of September 30, 2016	Publication of the 2016 Annual Report	Publication of the Interim Group Report as of March 31, 2017	

<sup>a</sup> For more dates, an updated schedule, and information on webcasts, please go to [www.telekom.com](http://www.telekom.com).

<sup>b</sup> Deutsche Telekom is again considering offering the option of paying the dividend either in cash or in the form of shares. The cash dividend is expected to be paid out on June 22, 2016. Subject to approval by the relevant bodies and the fulfillment of other legal requirements.

**CONTACTS**

Deutsche Telekom AG  
Corporate Communications  
D-53262 Bonn

Phone +49 (0) 228 181 4949  
Fax +49 (0) 228 181 94004  
E-mail [media@telekom.de](mailto:media@telekom.de)  
[www.telekom.com](http://www.telekom.com)

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

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

This Interim Group Report can be downloaded from the Investor Relations site on the Internet at: [www.telekom.com/investor-relations](http://www.telekom.com/investor-relations)

Our Annual Report is available online at:  
[www.telekom.com/geschaeftsbericht2015](http://www.telekom.com/geschaeftsbericht2015)  
[www.telekom.com/annualreport2015](http://www.telekom.com/annualreport2015)

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