COMBINED MANAGEMENT REPORT

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

57 COMBINED MANAGEMENT REPORT

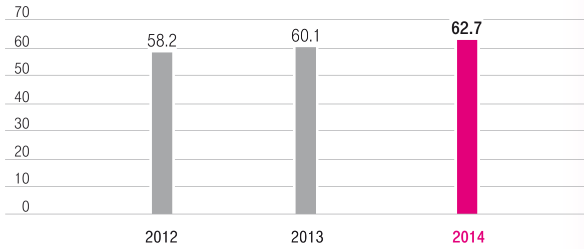
OVERVIEW OF THE 2014 FINANCIAL YEAR

NET REVENUE

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

G 05

Net revenue
billions of €

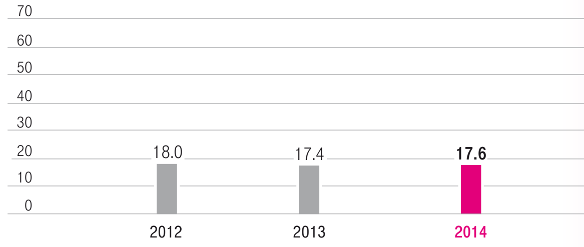


ADJUSTED EBITDA

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

G 06

Adjusted EBITDA
billions of €

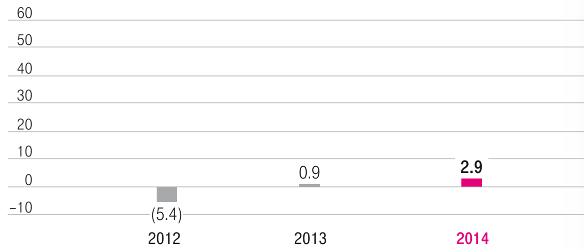


NET PROFIT/LOSS

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

G 07

Net profit/loss
billions of €

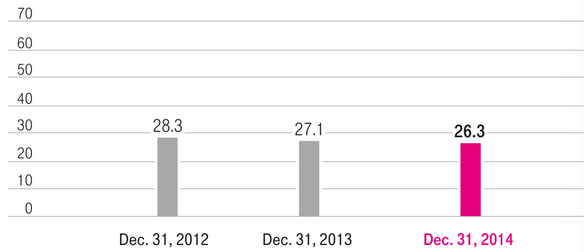


EQUITY RATIO

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

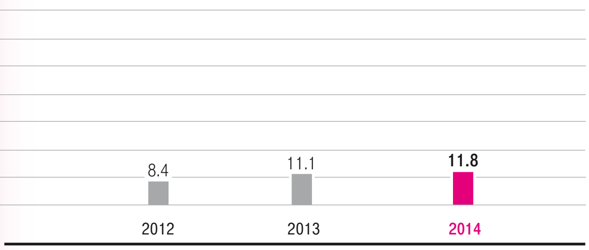
G 08

Equity ratio
%



G 09

Cash capex
billions of €



CASH CAPEX

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

G 10

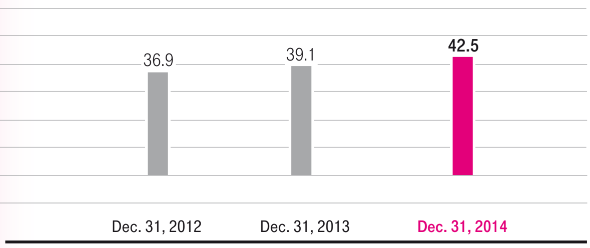
Free cash flow (before dividend payments, spectrum investment)[a]
billions of €

FREE CASH FLOW (BEFORE DIVIDEND PAYMENTS, SPECTRUM INVESTMENT)[a]

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

G 11

Net debt
billions of €

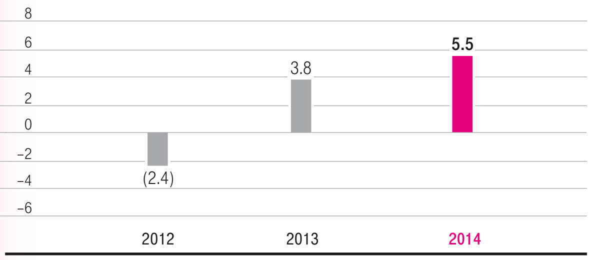


NET DEBT

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

G 12

ROCE
%



ROCE

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

[a] And before AT&T transaction and compensation payments for MetroPCS employees.

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

DEUTSCHE TELEKOM AT A GLANCE

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

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

Glossary, **PAGE 277 ET SEQ.**

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

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

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

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

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

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

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

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

HIGHLIGHTS IN THE 2014 FINANCIAL YEAR

DEVELOPMENTS AT SENIOR MANAGEMENT LEVEL

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

EMPLOYEES

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

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

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

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

DIVIDEND

Following its successful premiere in the prior year, we again offered our shareholders the option of converting the dividend for financial year 2013 into shares instead of receiving it as a cash payment. The acceptance rate of some 45 percent of dividend-bearing shares exceeded expectations. The exercising of the option results in an increase in the number of shares issued by just under 84.4 million to currently almost 4,536 million. This corresponds to a capital increase of almost 2 percent. The cash dividend paid out to our shareholders who did not choose this option totaled around EUR 1.2 billion. We are considering offering our shareholders this choice again for the 2014 financial year.

CORPORATE TRANSACTIONS

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

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

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

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

Glossary, PAGE 277 ET SEQ.

EXPANSION OF BRAND PRESENCE

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

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

Sustainability at Deutsche Telekom

INVESTMENTS IN NETWORKS AND NEW SPECTRUM

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

Glossary, PAGE 277 ET SEQ.

- The **fiber-optic roll-out** in Germany is in full swing: As of the end of the reporting year we had achieved coverage of 44.4 percent; which is around 18.7 million households. Furthermore, since September 2014, we have been marketing VDSL lines with the new vectoring technology, which offers customers transmission speeds of up to 100 Mbit/s for download and up to 40 Mbit/s for upload.

- We continue to upgrade our **LTE** mobile network: For this purpose, we are further rolling out spectrum in metropolitan areas in the 1.8 GHz range as well as in the 2.6 GHz range. Combining the two LTE frequencies creates additional capacity and as such a maximum transmission rate of up to 300 Mbit/s. We already cover around 80 percent of the population with fast Internet via LTE, with speeds of up to 150 Mbit/s; that is around 65.3 million inhabitants.

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

- The **IP** transformation is in full swing: By the end of 2014, we had migrated more than 5.8 million fixed network lines (retail and wholesale) to IP technology, thereby achieving an IP rate of 25 percent. At times we were migrating up to 60,000 customers a week – and this during ongoing operations. For our customers, the IP technology brings many advantages, such as voice transmission in HD quality for calls between fixed and mobile networks.

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

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

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

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

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

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

REGULATORY DECISIONS

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

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

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

PARTNERSHIPS

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

- At the start of July 2014, we agreed an extensive partnership with **salesforce.com:** In the future, the U.S. market leader for business cloud solutions will on the one hand use T-Systems data center services in Germany. On the other hand, we began joint sales of the Salesforce1 cloud solution with the conclusion of the agreement in July 2014. The customer relationship management software helps medium-sized companies to better analyze the behavior of their customers in the digital world.
- In October 2014, we entered into a partnership with the leading cyber security specialists **FireEye:** The FireEye solutions complement the Advanced Cyber Defense security portfolio developed by us, which is tailored to meet the security requirements of multinational corporations. FireEye and T-Systems will thus be offering a comprehensively managed service for the first time in order to protect companies quickly and effectively against IT espionage and cyber attacks.
- T-Systems and the IT group **Cisco Systems** want to set up a secure cloud in Europe as part of a strategic partnership. T-Systems is thus to be one of the co-founders of the world's largest cloud network Intercloud. T-Systems operates and markets the European platform. In the future, the Intercloud technology will allow us to offer cloud services for medium-sized and corporate customers from a single source and based on German security requirements.
- In partnership with the semiconductor manufacturer **Infineon,** we presented a security solution "made in Germany" for networked production (Industry 4.0) at the National IT Summit in October 2014. We showed how it is possible to transmit sensitive production data between two German locations via a completely secure communications channel. We already provide the networked industry with security solutions as a reliable partner; ultimately, data security is a prerequisite for the success of Industry 4.0.
- Participants in the **"E-Mail made in Germany"** industry initiative completed the encryption of all e-mail traffic as of April 29, 2014. This means around 50 million German consumers, customers of Deutsche Telekom, freenet, GMX and WEB.DE, automatically enjoy encrypted e-mail communication, regardless of the e-mail program they use. Under this arrangement, all data is to be processed and saved entirely in Germany.
- At the end of October 2014, we launched our European M2M **program** to enable us to offer a huge range of M2M solutions internationally. The program also helps our partners to market their M2M solutions across Europe. At the program launch, 34 solutions from a total of 15 partners, including from Poland, the Netherlands, Slovakia, Hungary and the Czech Republic were nominated to participate. The committee for the M2M program reviews and grants partnerships if the extensive requirements for international marketing are met.
- We won almost 20 new platform and sales partners for our smart home platform **QIVICON** in the reporting year: Among them are Sonos, the leading provider of wireless music systems, Netatmo, a French manufacturer of weather stations and intelligent heating control systems, Philips Lighting and OSRAM, providers of innovative lighting systems, and Huawei, a Chinese provider of information and telecommunications solutions. In addition, Telekom Deutschland is collaborating with Germany's leading insurance company, Allianz Deutschland, piloting its smart home offering. Overall, more than 30 partners from a number of economic sectors are now working together to offer consumers products that allow people to manage their homes intelligently. Furthermore, QIVICON joined one of the largest independent developer communities, the Eclipse Foundation, and as such will open up its platform for developers and start-ups.
- Due to the collaboration with **HOWOGE Wohnungsbaugesellschaft,** more than 26,000 apartments in Berlin were connected to our fiber-optic network by the end of 2014 for the provision of TeleVision, our cable TV product. Further offerings are our IPTV product Entertain and telephone and Internet lines.

Glossary, **PAGE 277 ET SEQ.**

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

Sustainability at Deutsche Telekom

- Thanks to a partnership with ProSiebenSat.1 Media AG, which we entered into in February 2014, Entertain customers have also been able to use the broadcasting group's on-demand services since the middle of the year. The maxdome subscription package allows them to choose from Germany's biggest online video store, with more than 50,000 titles. In addition, they can view more than 1,000 items of content from the broadcasting group's media-center portfolio free of charge. Moreover, we were the first TV provider to include Netflix in our service: Entertain customers can now view, by subscription, all of the leading U.S. video streaming service's content in SD and HD quality.

Glossary, PAGE 277 ET SEQ.

- In December 2014, the strategic partnership between T-Mobile Polska and TVN SA, one of Poland's leading private broadcasters, enabled the launch of the new mobile TV offering T-Mobile Zone in Poland. Customers of T-Mobile Polska can subscribe to the broadcasting group's content as video-on-demand on a monthly basis and view it whenever and wherever they like on their mobile devices.

- The tolino e-reader has now also been available in Belgium, since mid-July 2014. As an international partner, Standaard Boekhandel offers the tolino in its branches and webshops and, in this way, plans to establish e-reading offerings in the Belgian market. We entered into another partnership in October 2014, with the book wholesaler Libri. Libri operates the shop technology for a large network of online shops. In the future, more than 1,000 online shops will offer the entire tolino product family.

NEW CORPORATE CUSTOMER ACCOUNTS

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

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

- T-Systems and SABMiller, one of the world's largest brewery groups, concluded an agreement for IT and telecommunications services for the next five years. In the future, SABMiller's locations around the world will be connected via our global high-speed network.

- We signed a deal with automotive manufacturer Daimler AG which has a three-digit million order volume: T-Systems will assume long-term, sole responsibility for the maintenance, development, and integration of numerous software applications in all major business units at Daimler. In addition, the two companies will work together on promising issues, such as the networking of automobiles and the cloud-based workstation.

- Our T-Systems subsidiary Satellic N.V. won the contract to set up and operate a satellite-based toll collection system for trucks in Belgium. Satellic and Viapass, the responsible authority in Belgium, signed the agreement on July 25, 2014. With a term of at least 12 years, the agreement initially envisages that Satellic will establish the new toll collection system in the next 18 months. T-Systems owns 76 percent and STRABAG AG owns 24 percent of Satellic.

- In November 2014, the insurance group ERGO extended its sourcing contract. T-Systems will now provide all telecommunications services for the exchange of voice and data to around 300 ERGO locations until 2020. Since the partnership began in 2010, we have gradually modernized the insurer's telecommunications landscape and cut its costs.

- T-Systems concluded one of the largest deals in our Company history with ThyssenKrupp. With our help ThyssenKrupp will move some 80,000 computer workstations and 10,000 server systems in 34 countries to the cloud. The deal comprises two components: first, we provide dynamic workplace services. Employees can thereby use their workstation systems flexibly and easily on various devices around the world and securely exchange data and documents. Second, we transfer IT processes and services to our data centers.

- In December 2014, the federal government extended by another three years the agreement with Toll Collect, our consortium with Daimler and the French company Cofiroute. The agreement which concerns the collection of truck tolls will now run until 2018. Toll Collect was also commissioned to implement the toll charge for trucks weighing 7.5 tons and over. Furthermore, the requirement for trucks to pay toll is to be extended to over another 1,100 kilometers of federal roads.

INNOVATIONS

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

NEW PRODUCTS AND RATE PLANS

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

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

- At IFA, we also announced that we have become one of the worlds first providers to offer a new hybrid router. When customers surf the net at home, the Speedport Hybrid automatically combines fixed and mobile network bandwidths. This combination of DSL and LTE standards will enable fast Internet access even in areas where coverage is less good. We began to market hybrid rate plans in fall 2014, initially in just a few federal states; from spring 2015, we will offer them Germany-wide.

- T-Mobile US continued its Un-carrier value proposition in the 2014 financial year: Phase 8.0 of the Un-carrier initiative was introduced in December 2014, giving customers the option to roll their unused high-speed data automatically each month into a personal Data Stash so they can use it up within a year whenever they need it.

- For CeBIT in March 2014, we launched our "SME initiative," with the aim of offering a standardized, cost-effective portfolio of IT and telecommunications services tailored to the needs of small and medium-sized enterprises (SMEs). A key component of the initiative is to offer more integrated products and cloud solutions. New cloud offerings are, for example, "DeutschlandLAN PABX from the Net," Managed Workplace, i.e., hosted desktops from the private cloud, and TeamLike, a social company network.

- We continuously extended our portfolio of security solutions in the financial year. For example, Corporate Security Hub protects employees' mobile devices from attacks and malware. Additional protection is provided by encrypting communications through a secure connection. In August of this year, we became one of the first providers to launch a mobile encryption solution for smartphones on the market. The "Mobile Encryption app" for Android and iOS devices is globally applicable: in contrast to other solutions, it works in all phone networks, and even without a SIM card via Wi-Fi or a satellite link. The app allows encrypted communication even in countries that block Internet phone calls.

- In May 2014, we introduced our MyWallet product to Germany and Slovakia. It had already been successfully launched in Poland in 2012. MyWallet turns smartphones into digital wallets, which in the future will also be able to hold travel and admission tickets as well as access and customer cards. We also introduced a service for mobile payment in Hungary in the reporting year.

- At the end of October 2014, our Croatian subsidiary Hrvatski Telekom unveiled the Mobile Ticket Issuing Service in collaboration with the Etranet Group: This cloud-based service can be used to sell tickets for passenger transport, parking, the cinema and theater, as well as for shows and exhibitions – including validation and billing.

- Since November 2014, we have been offering even more customer service with the new "Telekom hilft" (Telekom helps) video app: Our personal advice has gone mobile for the first time. The app allows our customers to contact our advisers by video chat, who then help them, for example, to install a router or fill out documents. We want to delight our customers with simple, fast services like this.

AWARDS

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

- As a network operator in Germany, we once again set benchmarks and, at the start of December 2014, took first place for the fourth time in a row in the major mobile network test by "connect" magazine. We were the only provider to be rated "very good." In May 2014, readers of "connect" awarded us first place in seven categories at once, including the most important categories "best mobile network operator" and "best fixed-network operator of 2014." On top of this, our second brand "congstar" was named best mobile communications provider, and T-Mobile Austria was named best mobile network operator in Austria. We also won best in test in the Computer Bild trade journal's major mobile communications test. This test compared the networks in 100 cities for the first time and, unlike conventional tests, was based on real user data. In October 2014, we also took first place again in the major mobile network test by the trade journal CHIP, which named us the best network for both telephony and surfing, with our high data rates proving particularly impressive. The test also looked specifically at LTE, where we also scored highly.

- Our fixed network performed well once again in the major 2014 network test carried out by trade journal "connect." The testers scrutinized the fixed networks of various providers in Germany, taking some 1.6 million measurements to assess the quality and performance of DSL and broadband cable lines. Their conclusion: Thanks to a convincing performance in all tested areas, we once again led the field of providers in 2014.

- We consistently scored highly in the 2015 Hotline Test by computer magazine CHIP. The hotlines of 250 companies from 16 industries were put to the test over 6 weeks, with particular attention to customer service and waiting times as well as availability and transparency. Our hotline came in for particular praise for the good and friendly advice provided for fixed network and the Internet. In customer service, we scored highly for Entertain and webhosting. We achieved a very good score for availability and waiting times in mobile communications; we also received a "very good" rating for availability for the fixed network. Our free mobile hotline also did well in the "connect" service test, taking first place over all other mobile communications providers in Germany. In particular, the testers praised our hotline's availability, friendliness, and e-mail service.

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Sustainability at Deutsche Telekom

- We also performed well in the international arena: Cosmote, a company of our Greek subsidiary OTE, offers the fastest mobile Internet network in Greece. This was confirmed by the independent speed test conducted by **Ookla** in April 2014. In fact, Cosmote's network was found to be 27 percent faster than the second-place network. Furthermore, in June 2014, **P3** Communications, a leading international engineering services provider in the telecommunications sector, granted two accolades at once to the OTE subsidiary's mobile data service. The leading Austrian technology portal **Futurezone** named T-Mobile Austria the fastest Austrian provider in the "mobile browsing" category. T-Mobile Austria took second place overall, as a reliable challenger to the market leader in all areas.

Sustainability at Deutsche Telekom

Glossary, PAGE 277 ET SEQ.

- In September 2014, the independent IT research and consulting company **Experton** evaluated the big data providers in Germany for the second time, analyzing 121 IT companies. They found that T-Systems is among the top three providers in the categories Big Data Operations, Big Data Security Analytics, and Big Data Consulting & Solutions. This is thanks in part to our realignment: We want to strengthen new business models in growth areas like big data, cloud computing, or cyber security so as to be fit for the future in the fiercely competitive IT market.

- **Brand Finance Global 500** named Deutsche Telekom as the most valuable German brand. Our top ranking is primarily a result of the successful redesign of our umbrella brand. We were acclaimed as the most trusted German brand by **European Trusted Brands 2014,** the largest consumer study in Europe. We performed especially well in the Mobile Phone Network and Internet Service Provider categories.

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

- Our ecological and social performance have been rewarded. Climate protection, customer focus, electronic-waste prevention, and a sustainable supply chain were the areas in which we performed particularly well in this year's "oekom Industry Report Telecommunications," taking first place in the **oekom industry ranking.** oekom GmbH had analyzed 108 telecommunications companies overall, including their sustainability performance and development over time. For our CR Report "We take responsibility," we won the **Econ Award,** issued by the publisher of the same name, in the Online Reporting category and were the only winner to achieve the highest rating of Platinum. Our CR Report won over the jury with its reporting in the areas of economy, ecology and society.

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

Sustainability at Deutsche Telekom

- We had engaged intensively in a research partnership with the farm machinery group CLAAS regarding connected combine harvesters. This project earned us a place among the prize winners of the Germany-wide competition **"Landmarks in the Land of Ideas"** 2014/15 and demonstrated how well Industry 4.0 also works in agriculture. When, for example, the combine harvester's grain tank is full, this is automatically reported. The machines are fitted with sensors that send second-by-second data via mobile communications and provide the drivers with real-time information about the status of the harvest. This not only improves workflows, it also saves time, fuel and thus also CO_2.

- In the **Top Marka Ranking,** which determines the reach of print and electronic media, T-Mobile Polska took first place for the second time in a row in the Telecommunications category. In September in Prague, our subsidiary T-Mobile Czech Republic was named a **Superbrand** for its unusual marketing campaigns and successful advertising. At the end of the year, OTE was named "Company of the Year" at the **16th International InfoCom World Congress,** in particular for its prominent role in the Greek telecommunications market and for its investments in innovation, infrastructure and the growth of Greece. Magyar Telekom has the best online customer service. This was the finding in November 2014 of the **Excellence in Customer Service** competition, the biggest and most important customer service competition in Hungary.

- We were awarded the **German Investor Relations Prize 2014** for the best Investor Relations (IR) work in the category of DAX 30 companies. In the **Thomson Reuters Extel Survey,** 16,000 investors and analysts from more than 75 countries voted us as having the best investor relations work in Europe across all industries. Our Mergers & Acquisitions unit won the **Corporate Finance Award** in recognition for the successful business combination of T-Mobile USA and MetroPCS.

LITIGATION

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

GROUP ORGANIZATION

- Business activities and organization
- Management and supervision

BUSINESS ACTIVITIES AND ORGANIZATION

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

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

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

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

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

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

Sustainability at Deutsche Telekom

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

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

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

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

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

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

G 13

Organizational structure

Deutsche Telekom Group

Group Headquarters & Group Services

Germany	United States	Europe	Systems Solutions
Fixed-network and mobile communications	Mobile communications	Fixed-network and mobile communications	T-Systems

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

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

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

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

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

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

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

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

MANAGEMENT AND SUPERVISION

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

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

- Chairman of the Board of Management

and the Board departments

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

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

- Germany
- Europe & Technology
- T-Systems

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

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

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

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

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

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

T 010

Composition of the Board of Management

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

GROUP STRATEGY

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

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

OUR CORPORATE STRATEGY: LEADING EUROPEAN TELCO

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

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

Sustainability at Deutsche Telekom

For details on the activities of the Supervisory Board in the 2014 financial year, please refer to PAGE 42 ET SEQ.

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G 14

Leading European Telco corporate strategy

STRATEGIC AREAS OF OPERATION

Integrated IP networks

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

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

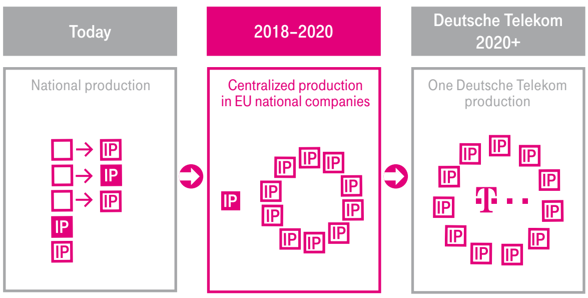
The expansion of our networks also serves our corporate and social aims: a modern network makes our products and services attractive for a larger number of potential customers and thus increases our revenue potential. Modern networks and systems also improve our energy efficiency. At the same time we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

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

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

G 15

Pan-European IP network



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

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

Best customer experience

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

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

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

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

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

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

Win with partners

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

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

G 16

Deutsche Telekom partnering platform

We are also further developing our **TV business** and want to drive growth here too. Our aim is to supply our TV services to 10 million customers across the Group, 5 million of them in Germany by 2017. We will expand our offerings of attractive content, also building on partnerships such as those with Sky or Netflix. We make this content accessible to our customers across all screens, whether television, smartphone, or tablet. In 2014, for example, we took further steps towards "TV on all screens" with our cross-screen TV product "Entertain to go."

Lead in business

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

Sustainability at Deutsche Telekom

GROWTH AREAS

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

Sustainability at Deutsche Telekom

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T 011

Deutsche Telekom's 2012 growth areas
billions of €

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

[a] Ambition level for 2015 communicated at the 2012 Capital Markets Day.
[b] Excluding revenue from intelligent network solutions.

SUPPORTING AREAS OF OPERATION

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

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

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

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

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

Sustainability at Deutsche Telekom

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

The leading European telecommunications provider

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

MANAGEMENT OF THE GROUP

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

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

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

FINANCE STRATEGY

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

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

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

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

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

The finance strategy supports our Leading European Telco corporate strategy in transforming our Group. In order to generate a sustainable increase in value, we intend to earn our cost of capital in the medium term. We aim to achieve this goal in part by optimizing the utilization of our non-current assets. In Germany, for example, marketing under the contingent model was very successful again in 2014. In Europe, the migration of fixed-network customers to IP technology was completed in both the F.Y.R.O. Macedonia and in Slovakia. We also intend to achieve our target of earning our cost of capital through strict cost discipline. To this end, the target costing method was piloted in initial projects and will now be established Group-wide, the aim being to move away from a historical view of our costs and to follow a consistent course oriented toward our target costs based on market prices achievable in the future. We also ensure the viability of our Company through further measures to enhance the efficiency of administrative functions. Since 2013, we have also additionally focused our steering on unadjusted EBIT. Taking investment costs into account, EBIT is closer to the ROCE concept (please refer to the explanations later in this section for more detailed information about ROCE as a key performance indicator) and therefore supports our consistent focus on an efficient allocation of capital in the Deutsche Telekom Group.

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

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

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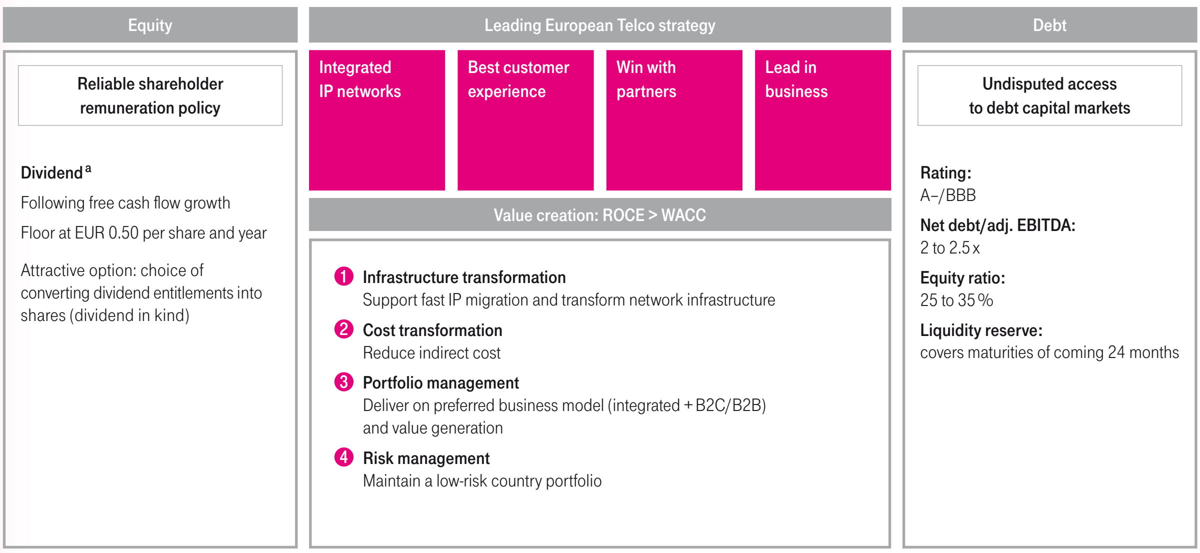
G 17

Our finance strategy until 2018



[a] Subject to approval by the relevant bodies and the fulfillment of other legal requirements.

VALUE MANAGEMENT AND PERFORMANCE MANAGEMENT SYSTEM

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

PROFITABILITY

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

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

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

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

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

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

REVENUE AND EARNINGS

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

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

T 012

Financial performance indicators

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

[a] And before PTC and AT&T transactions and compensation payments for MetroPCS employees.
[b] Before spectrum investment.

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

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

FINANCIAL FLEXIBILITY

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

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

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

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

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

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

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Sustainability at Deutsche Telekom

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

T 013

Non-financial performance indicators

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

[a] Commitment index according to the most recent employee survey in 2012.
[b] The lines of our subsidiary Euronet Communications in the Netherlands have no longer been included in the Europe operating segment since January 2, 2014 following the sale of the shares held in the company. The comparatives for 2013 and 2012 have been adjusted accordingly.
[c] Excluding wholesale.
[d] The prior-year comparative was adjusted retrospectively due to changes in the structure of the Group implemented as of January 1, 2014.

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

Sustainability at Deutsche Telekom

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

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

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

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

THE ECONOMIC ENVIRONMENT

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

MACROECONOMIC SITUATION

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

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

T 014

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

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

Source: Oxford Economics, January 2015.

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

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

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

TELECOMMUNICATIONS MARKET

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

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

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

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

EUROPEAN REGULATORY ENVIRONMENT

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

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Sustainability at Deutsche Telekom

GERMANY

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

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

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

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

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

UNITED STATES

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

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

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

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

EUROPE

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

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

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

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

Glossary, PAGE 277 ET SEQ.

SYSTEMS SOLUTIONS

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

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

- The overall economic trend had a comparatively small effect on the telecommunications market segment. As in previous years, this market was dominated by continued price erosion in telecommunications services and intense competition.

- Growth in the IT services market was significantly higher in 2014 than in the prior year. Further recovery has been especially tangible in the area of computing & desktop services. This was due to the growing success of cloud services and platform-based solutions. The IT project business remains largely dependent on the economy. After relatively weak development in 2013 compared to the two previous years, growth gained momentum in the reporting year. The main contributing factors were the migration to cloud services, the growth areas such as big data, M2M, the standard project business, and the industry-specific systems integration business in the environment of the automotive, healthcare and energy sectors.

Sustainability at Deutsche Telekom

MAJOR REGULATORY DECISIONS

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

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

Glossary, PAGE 277 ET SEQ.

REGULATION OF SERVICES FOR WHOLESALE CUSTOMERS

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

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

REGULATION OF PRICING AND SPECIAL TAXES

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

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

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

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

ALLOCATION OF MOBILE SPECTRUM

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

- Following the approval for the merger of Telefónica Deutschland and E-Plus in **Germany** at the start of July 2014, in fall 2014, the Federal Network Agency launched a consultation on the auction concept for the process for reassigning the 0.9 and 1.8 GHz frequency rights from the German network operators' GSM licenses and for tendering further frequencies from the 0.7 GHz (digital dividend II) and 1.5 GHz ranges. The auction is scheduled for the second quarter of 2015.

- In **Greece,** the regulatory authority EETT allocated frequencies in the 0.8 GHz (digital dividend) and 2.6 GHz ranges on October 13, 2014 in the form of a simultaneous multi-round auction. Apart from our Greek subsidiary Cosmote, only the two other mobile operators, Vodafone and WIND, took part in the auction. Cosmote was able to secure a competitive frequency allocation.

- In **Hungary,** the three-stage process to assign frequencies in the 0.8, 0.9, 1.8, and 2.6 GHz ranges was completed. Magyar Telekom successfully took part in the tender process and was able to secure the frequency resources it desired.

- The **Czech** regulatory authority CTU launched a consultation on the auction of the remaining spectrum in the 1.8 and 2.6 GHz ranges that was not sold in the 2013 auction. T-Mobile Czech Republic is analyzing the terms and conditions and preparing to take part in the process, which is planned for 2015.

- In **Albania,** AMC applied to extend its GSM license with frequencies in the 0.9 and 1.8 GHz ranges, which expired in August 2014. Due to the fact that all the requirements are met, the extension certificate is expected to be sent out soon. The Albanian regulatory authority AKEP plans to tender further mobile frequencies in the 0.9, 1.8 and 2.6 GHz ranges in 2015.

- In **Poland,** the regulator UKE began the tender process for frequencies from the 0.8 and 2.6 GHz ranges on October 14, 2014. It is based largely on the conditions of award already known from the planning for the last auction. The award in the form of a simultaneous multi-round auction is expected to start in January 2015.

- There have been further delays in preparations for the frequency auctions in **Montenegro,** where the publication of the final allocation rules and the start of the bidding phase were expected in the first half of 2014. This process has been postponed until after 2015.

- The **U.S.** telecommunications regulator (FCC) carried out an auction for a total of 65 MHz of spectrum in the 1.6, 1.7, and 2.1 GHz bands (AWS-3). At a final price of USD 44.9 billion, the reserve price of approximately USD 10.5 billion for the entire spectrum was surpassed several times over. T-Mobile US participated in the auction, which ended on January 29, 2015. The licenses acquired by T-Mobile US cover 97 million people and have a total value of USD 1.8 billion. Subject to approval by the relevant authorities, T-Mobile US expects to receive the AWS spectrum licenses in the second quarter of 2015.

DEVELOPMENT OF BUSINESS IN THE GROUP

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

STATEMENT OF THE BOARD OF MANAGEMENT ON BUSINESS DEVELOPMENT IN 2014

Bonn, February 10, 2015

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

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

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

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

The trends in the telecommunications industry remain challenging: saturated markets, rising competition, strict regulatory requirements – all resulting in further price erosion. To overcome these challenges successfully and ensure the continued viability of Deutsche Telekom, we are investing further in our networks. In 2014, we made investments (before spectrum) of EUR 9.5 billion, EUR 0.7 billion more than in the previous year. In the fixed network, our focus was on investments in vectoring/fiber-optic roll-out in Germany, IPTV, and the continued migration to an IP-based network in the Germany operating segment and our national companies in Europe. In mobile communications, we invested in LTE, increased network coverage, and upgraded capacity to meet increasing demand for data volumes. Our sound rating will help us to manage our planned capital expenditure flexibly over the next few years and thus to contribute to future growth.

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

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

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

COMPARISON OF THE GROUP'S EXPECTATIONS WITH ACTUAL FIGURES

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

T 015

Comparison of the financial key performance indicators with actual figures

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

T 016

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

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

[a] And before AT&T transaction and compensation payments for MetroPCS employees.
[b] Before spectrum investment.
[c] Commitment index according to the 2012 employee survey.
[d] The prior-year comparative was adjusted retrospectively due to changes in the structure of the Group implemented as of January 1, 2014.
[e] The lines of our subsidiary Euronet Communications in the Netherlands have no longer been included in the Europe operating segment since January 2, 2014 following the sale of the shares held in the company. The comparatives for 2013 have been adjusted accordingly.

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

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

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

COMPARISON OF OUR STAKEHOLDERS' EXPECTATIONS WITH ACTUAL FIGURES

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

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

G 18

Results and comparison of our stakeholders' expectations with actual figures

Shareholders

	2014 guidance	2014 delivery
Shareholder remuneration policy[a]	Dividend for the 2014 financial year: € 0.50 per share Option to have the dividend entitlement fulfilled in the form of shares	Proposed dividend for the 2014 financial year of € 0.50 per share (€ 2.3 billion); cash dividend or, as an option, dividend converted into shares

Providers of debt capital

	2014 guidance	2014 delivery
Rating	A–/BBB	BBB+
Relative debt	2 to 2.5 x	2.4 x
Equity ratio	25 to 35 %	26.3 %
Liquidity reserve	covers maturities of the next 24 months	covers maturities > 24 months

ROCE
Return on capital employed

AMBITION LEVEL FOR 2014
Increase compared with 2013

ROCE LEVEL
2014: 5.5 %
(2013: 3.8 %, 2012: –2.4 %)

Staff restructuring and staff reduction	
Expenses arising from staff restructuring in 2014	€ 0.9 billion

Employees

	Before spectrum	For spectrum
Cash capex	€ 9.5 billion	€ 2.3 billion

"Enterpreneurs within the enterprise"

[a] Subject to approval by the relevant bodies and the fulfillment of other legal requirements.

RESULTS OF OPERATIONS OF THE GROUP

NET REVENUE

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

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

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

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

T 017

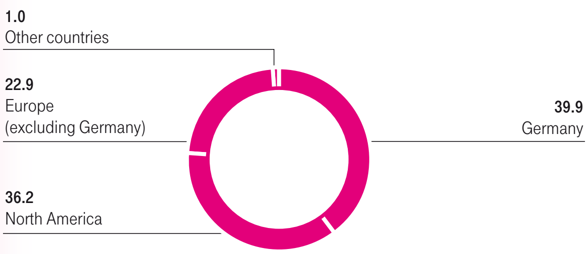
Contribution of the segments to net revenue
millions of €

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

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

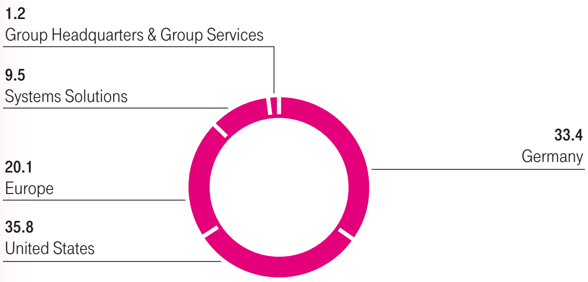
G 19

Breakdown of revenue by region
%



G 20

Contribution of the segments to net revenue
%



EBITDA, ADJUSTED EBITDA

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

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

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

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

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

T 018

Contribution of the segments to adjusted Group EBITDA

	2014 millions of €	Proportion of adjusted Group EBITDA %	2013 millions of €	Proportion of adjusted Group EBITDA %	Change millions of €	Change %	2012 millions of €
EBITDA (ADJUSTED FOR SPECIAL FACTORS) IN THE GROUP	**17,569**	**100.0**	**17,424**	**100.0**	**145**	**0.8**	**17,973**
Germany	8,810	50.1	8,936	51.3	(126)	(1.4)	9,166
United States	4,296	24.5	3,874	22.2	422	10.9	3,840
Europe	4,432	25.2	4,550	26.1	(118)	(2.6)	4,972
Systems Solutions	835	4.8	774	4.4	61	7.9	711
Group Headquarters & Group Services	(667)	(3.8)	(655)	(3.8)	(12)	(1.8)	(715)
Reconciliation	(137)	(0.8)	(55)	(0.2)	(82)	n. a.	(1)

MARKETING EXPENSES

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

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

EBIT

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

PROFIT/LOSS BEFORE INCOME TAXES

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

NET PROFIT/LOSS

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

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

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

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

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

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

T 019

Consolidated income statement and effects of special factors
millions of €

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

FINANCIAL POSITION OF THE GROUP

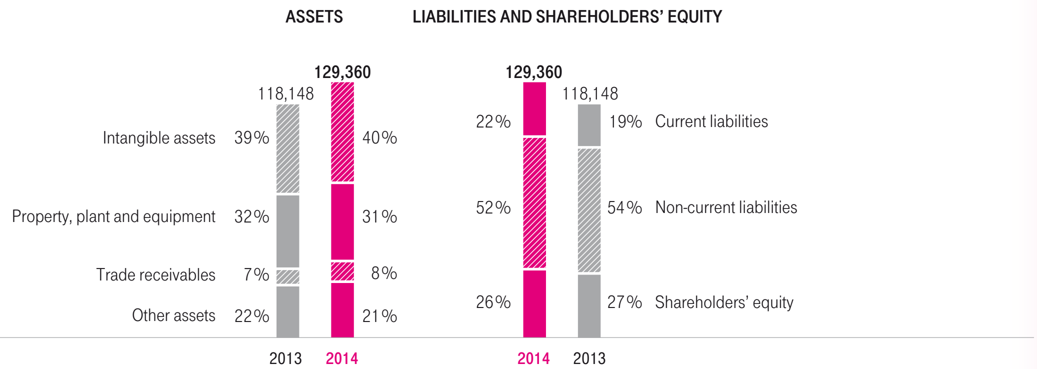
T 020

Condensed consolidated statement of financial position
millions of €

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

G 21

Structure of the consolidated statement of financial position
millions of €

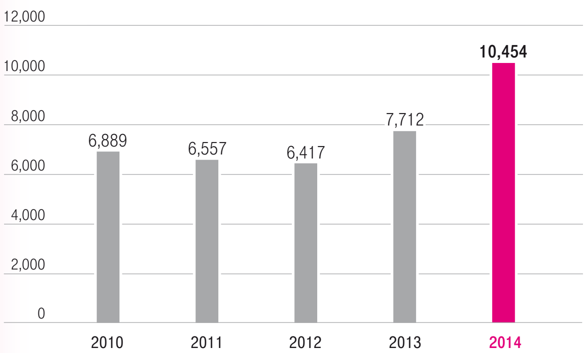


Total assets increased by EUR 11.2 billion compared with December 31, 2013, largely due to higher intangible assets and property, plant and equipment. EUR 4.0 billion of this figure alone was attributable to exchange rate effects, mainly from the translation from U.S. dollars into euros. The level of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

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

G 22

Trade and other receivables
millions of €



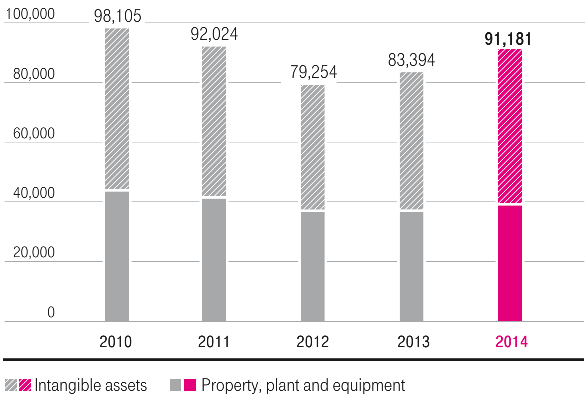
Trade and other receivables increased by EUR 2.7 billion to EUR 10.5 billion, due in particular to customer growth and an increased percentage of terminal equipment sold under installment plans in our United States operating segment. This results from the strategy pursued by T-Mobile US to introduce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

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

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

G 23

Intangible assets and property, plant and equipment
millions of €



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

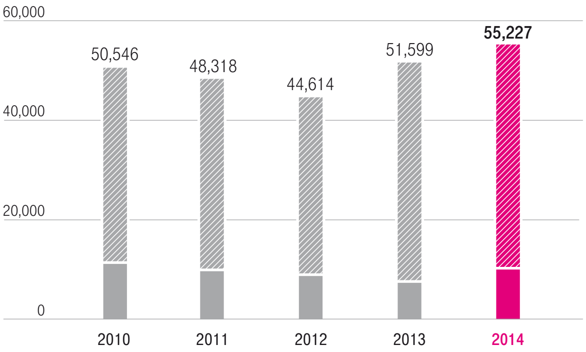
with Verizon Communications. Effects of changes in the composition of the Group totaling EUR 0.2 billion resulting from the inclusion of the GTS Central Europe group and goodwill of EUR 0.1 billion recognized in this connection likewise contributed to this increase. Exchange rate effects of EUR 2.8 billion,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

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

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

G 24

Financial liabilities
millions of €



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

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

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

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

T 021

Financial liabilities
millions of €

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

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

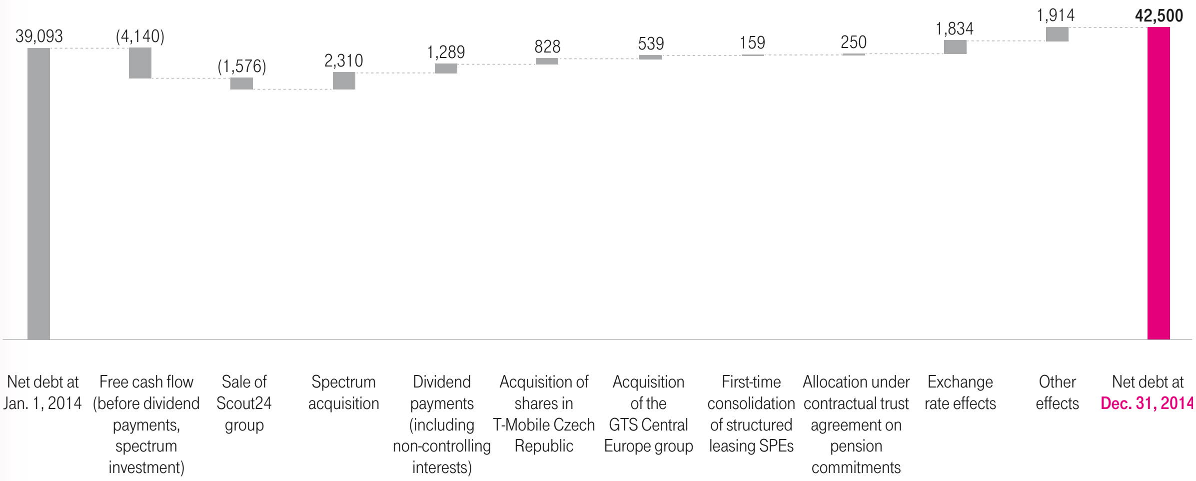
T 022

Net debt
millions of €

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

G 25

Changes in net debt
millions of €



Our **net debt** increased by EUR 3.4 billion year-on-year to EUR 42.5 billion. The factors responsible for this are shown in GRAPHIC 25. Other effects of EUR 1.9 billion include financing options under which the payments for trade payables from investing and operating activities become due at a later point in time by involving banks in the process. Other effects also include a payment as part of a wholesale transaction.

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

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

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

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

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

T 023

The rating of Deutsche Telekom AG

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

T 024

Financial flexibility

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

Glossary, **PAGE 277 ET SEQ.**

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

T 025

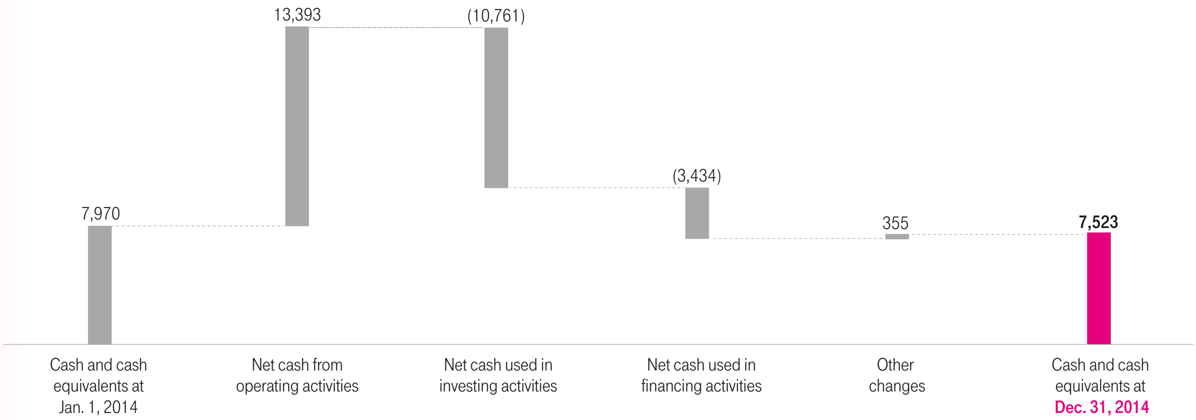
Condensed consolidated statement of cash flows
millions of €

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

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

G 26

Changes in cash and cash equivalents
millions of €



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

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

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

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

T 026

Reconciliation for the change in disclosure of key figures in 2014
millions of €

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

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

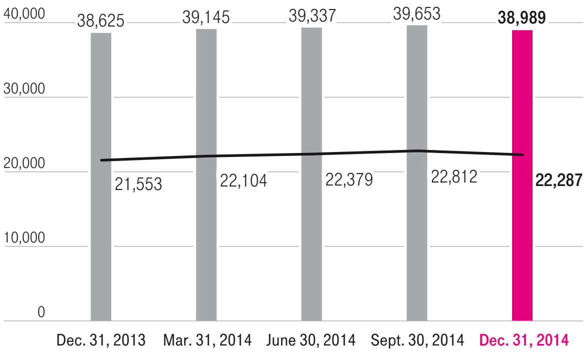
DEVELOPMENT OF BUSINESS IN THE OPERATING SEGMENTS

GERMANY

CUSTOMER DEVELOPMENT

G 27

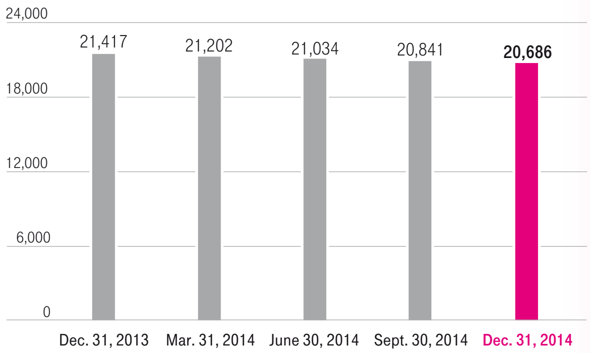
Mobile customers
thousands



— Contract customers

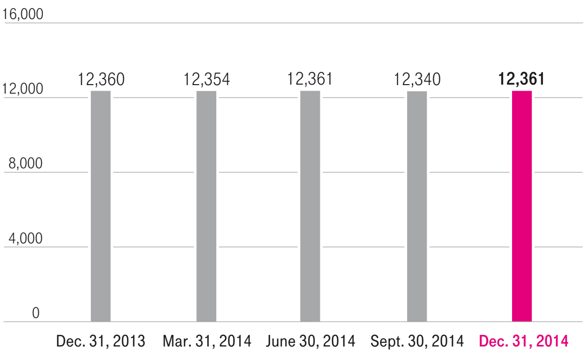
G 29

Fixed-network lines
thousands



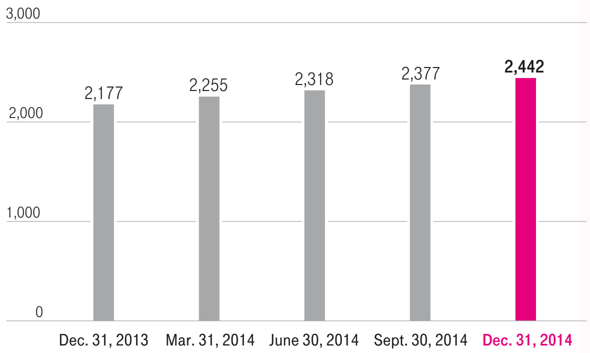
G 28

Broadband lines
thousands



G 30

Television (IPTV, satellite)[a]
thousands



[a] Customers connected.

T 027

thousands

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

Glossary, **PAGE 277 ET SEQ.**

Total

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

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

With our "network of the future," we provide state-of-the-art connection technology. By 2018, we want to convert our entire network to IP technology. To date, we have migrated 5.8 million retail and wholesale customers to IP, which corresponds to a migration rate of 25 percent. Also, in the second half of the year, we began to market vectoring and LTE 300 as part of our integrated network strategy.

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

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

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

Glossary, PAGE 277 ET SEQ.

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

Mobile communications

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

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

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

Fixed network

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

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

Consumers

Connected life **across all screens.** In 2014, we were able to win 371 thousand new mobile contract customers. We recorded 551 thousand branded customer additions compared with 2013 under the Deutsche Telekom and "congstar" brands. This was thanks to the high acceptance of the AllnetFlat rate plans for "congstar" and the new MagentaMobil rate plans introduced in September 2014. Reseller business (service providers) declined by 179 thousand due to the intensified deactivation of inactive contract cards in the second half of 2014. Overall, the number of mobile customers decreased by 2.9 percent year-on-year. The number of prepay customers decreased by 1.2 million, in particular in the reseller segment and due to the switching to attractive contract rate plans.

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

Business Customers

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

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

Wholesale

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

DEVELOPMENT OF OPERATIONS

T 028

millions of €

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

Total revenue

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

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

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

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

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

EBITDA, adjusted EBITDA

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

EBIT

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

Cash capex

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

UNITED STATES
CUSTOMER DEVELOPMENT

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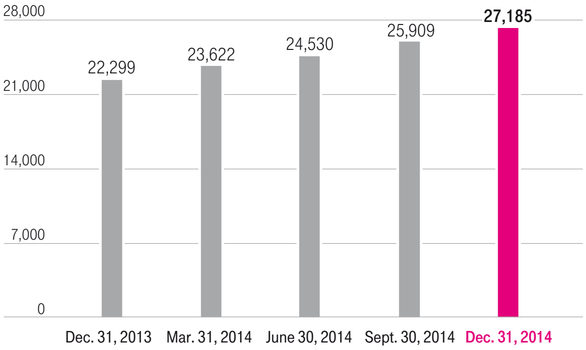
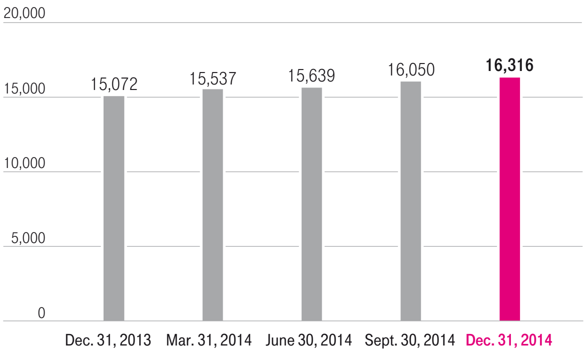
G 31

Branded postpaid customers
thousands



G 32

Branded prepay customers
thousands



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

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

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

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

T 029

thousands

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

DEVELOPMENT OF OPERATIONS

T 030

millions of €

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

Total revenue

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

EBITDA, adjusted EBITDA, adjusted EBITDA margin

Adjusted EBITDA increased by 10.9 percent to EUR 4.3 billion compared to 3.9 billion in 2013. In U.S. dollars, adjusted EBITDA increased by 10.3 percent, including the positive impact from inclusion of MetroPCS activity since May 2013. Adjusted EBITDA was positively impacted by increased branded postpaid service revenues resulting from growth in the branded postpaid customer base due to strong response to the company's Un-carrier initiatives and promotional activities. These increases were partially offset by an increase in loss on equipment sales due to higher volumes of smartphone sales, higher promotional costs and increased commission expense on higher gross customer additions. Adjusted EBITDA in the year of 2014 excludes EUR 0.1 billion associated with EUR 0.4 billion in gains on spectrum license transactions, primarily with Verizon Communications, partially offset by EUR 0.1 billion of stock-based compensation costs and EUR 0.3 billion relating to the decommissioning of the MetroPCS CDMA network. The adjusted EBITDA margin decreased year-on-year due to the factors described above, as increases in revenues outpaced adjusted EBITDA growth for the year of 2014.

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EBIT

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

Cash capex

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

EUROPE

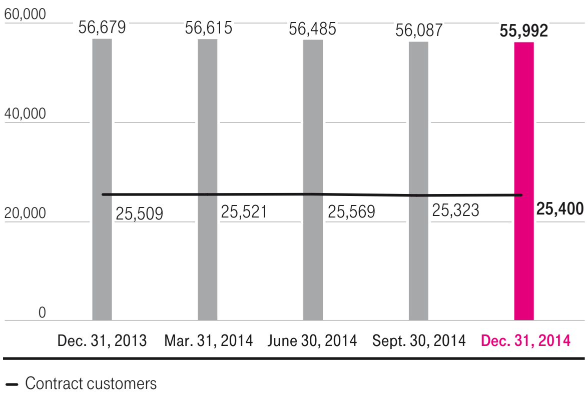
The ICSS/GNF business of the local business units (LBUs), which had been organizationally assigned to the Systems Solutions operating segment until December 31, 2013, was brought together as of January 1, 2014 and is now reported under the Europe operating segment. Furthermore, as of January 1, 2014,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

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

CUSTOMER DEVELOPMENT

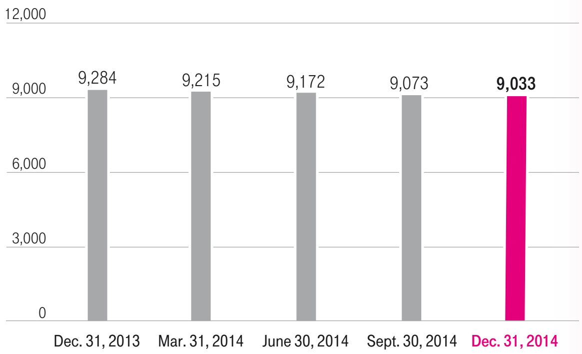
G 33

Mobile customers
thousands



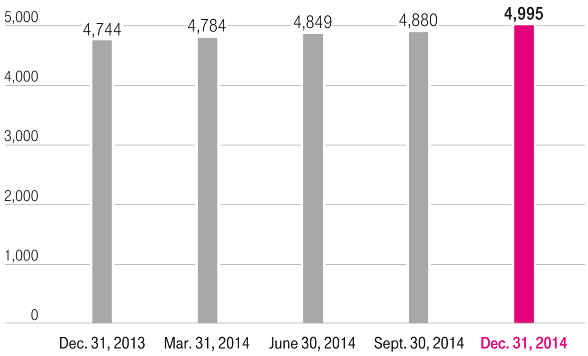
G 35

Fixed-network lines[a]
thousands



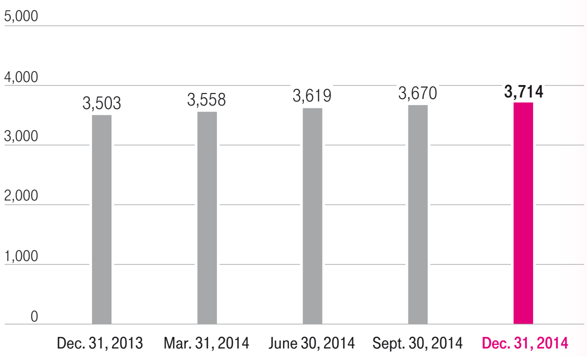
G 34

Retail broadband lines[a]
thousands



G 36

Television (IPTV, satellite, cable)[a]
thousands



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

T 031

thousands

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

[a] The lines of our subsidiary Euronet Communications in the Netherlands have no longer been included in the Europe operating segment since January 2, 2014 following the sale of the shares held in the company. They have been eliminated from all historical customer figures to improve comparability.
[b] Other: national companies of Albania, the F.Y.R.O. Macedonia, and Montenegro, as well as the lines of the GTS Central Europe group (since May 30, 2014).

Total

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

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Mobile communications

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

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

Fixed network

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

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

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

DEVELOPMENT OF OPERATIONS

T 032

millions of €

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

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

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

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

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

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

Due to the consistent focus on the growth areas in the countries of our Europe operating segment, we partially offset the negative revenue effects from voice telephony at segment level. Growth areas already accounted for a quarter of segment revenue in the reporting year. Mobile data business was the biggest driver, with revenue increasing by 13 percent or EUR 177 million year-on-year (excluding effects of changes in the composition of the Group and exchange rate effects), with all countries of our operating segment contributing, in particular the Netherlands, the Czech Republic, Austria, and Hungary. The majority of revenue from mobile data business was attributable to consumers. Attractive rate plans combined with our broad portfolio of terminal equipment, such as smartphones and tablets, resulted in a substantial increase in usage of data services. In TV business, the positive trend of the past few quarters continued: TV revenue increased in 2014 by 27 percent, especially in Croatia and Greece; excluding the acquisition of DIGI Slovakia, the increase stood at 23 percent. In addition to the acquisition of the GTS Central Europe group, our expanded product and service portfolio also resulted in higher revenue in B2B/ICT business with business customers compared with the prior year. The national companies contributing to this above all were Greece, Romania, and Croatia. In addition to the growth areas, revenues from sales of terminal equipment also increased slightly. This revenue increase is due in part to the fact that some countries of our Europe operating segment have introduced an alternative model to the conventional bundled rate plans. In contrast to these bundled rate plans, which include a discounted terminal device but higher service charges, the alternative model is distinctive in that the customer concludes separate contracts for the service and the device. The customer pays a regular monthly service charge and in addition, a monthly charge for the chosen device. This means the device remains affordable for the customer even without subsidies.

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

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

Development of operations in selected countries

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

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

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

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

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

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

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

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

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

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

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

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

EBIT

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

Cash capex

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

SYSTEMS SOLUTIONS

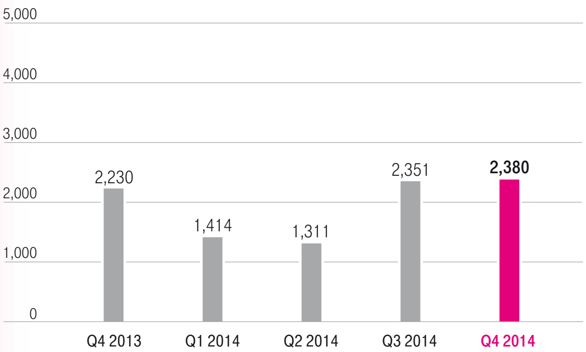
The ICSS/GNF business of the local business units (LBUs), which had been organizationally assigned to the Systems Solutions operating segment until December 31, 2013, was brought together as of January 1, 2014 and is now reported under the Europe operating segment. Furthermore, as of January 1, 2014,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

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

SELECTED KPIs

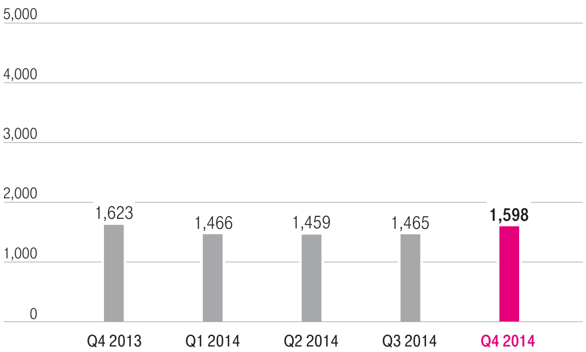
G 37

Order entry
millions of €



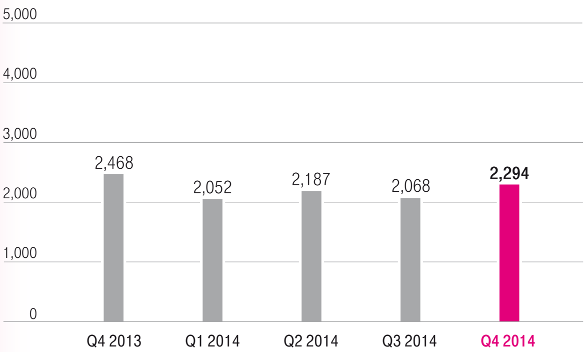
G 39

External revenue
millions of €



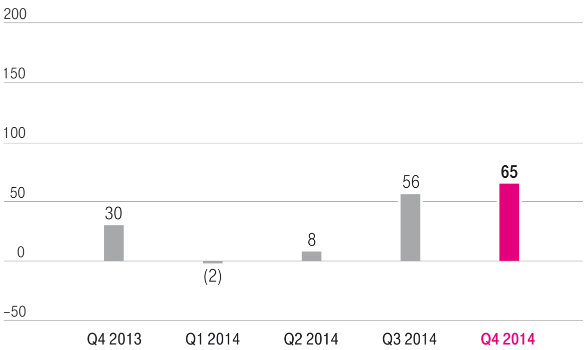
G 38

Revenue
millions of €



G 40

Adjusted EBIT
millions of €



T 033

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

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

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

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

To meet the requirements from the new deals, we are continuously modernizing and consolidating our ICT resources. Thanks to high-performance servers and improved capacity utilization, we reduced the number of servers managed by 1.0 percent compared with the prior year. There was a similar picture with data centers: Technical advances made it possible to set up ever larger and higher-performance units. At the start of July 2014, for example, we opened the largest data center in Germany in Biere near Magdeburg. The high-performance units also allowed us to reduce our number of data centers, which has a positive impact on our cost efficiency. The number of workstations managed and serviced increased by 20.6 percent to 1.58 million compared with the prior year.

DEVELOPMENT OF OPERATIONS

Total revenue

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

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

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

T 034

millions of €

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

EBITDA, adjusted EBITDA

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

EBIT, adjusted EBIT

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

Cash capex

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

GROUP HEADQUARTERS & GROUP SERVICES

Total revenue

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

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

EBITDA, adjusted EBITDA

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

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

EBIT

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

Cash capex

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

T 035

millions of €

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

DEVELOPMENT OF BUSINESS AT DEUTSCHE TELEKOM AG

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

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

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

RESULTS OF OPERATIONS OF DEUTSCHE TELEKOM AG

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

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

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

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

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

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

T 036

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

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

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

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

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

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

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

FINANCIAL POSITION OF DEUTSCHE TELEKOM AG

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

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

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

T 037

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

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

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

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

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

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

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

The increase in shareholders' equity was due in particular to income after taxes for the financial year of EUR 4.0 billion and its effect on unappropriated net income as well as to the deposits of EUR 1.0 billion reported in capital stock and reserves by shareholders who chose in the 2014 financial year to exchange their dividend entitlement for shares as part of the fulfillment of dividend entitlements. The EUR 2.2 billion dividend payment for the previous year had an offsetting effect.

The increase in financial liabilities was mainly due to the issue of new commercial paper in the amount of EUR 1.6 billion. The repayment of liabilities to banks of EUR 0.8 billion in particular had an offsetting effect.

Other liabilities decreased mainly on account of net loan repayments to subsidiaries of EUR 2.9 billion. These related in particular to repayments of loans from Deutsche Telekom International Finance B.V., Amsterdam, in the amount of EUR 3.0 billion.

The reduction in liabilities from cash management in the amount of EUR 0.8 billion also had an effect.

T 038

Statement of cash flows
millions of €

	2014	2013	Change
INCOME AFTER TAXES	**4,005**	**2,837**	**1,168**
Net cash provided by (used for) operating activities	129	(980)	1,109
Net cash provided by investing activities	2,232	2,848	(616)
Net cash used for financing activities	(3,096)	(1,743)	(1,353)
NET CHANGE IN CASH AND CASH EQUIVALENTS	**(735)**	**125**	**(860)**
Cash and cash equivalents, at the beginning of the year	1,122	997	125
CASH AND CASH EQUIVALENTS, AT THE END OF THE YEAR	**387**	**1,122**	**(735)**

Net cash provided by/used for operating activities increased year-on-year by EUR 1.1 billion to EUR 0.1 billion. After elimination of the divestment share in the Scout24 group in the amount of EUR 1.0 billion in income after taxes for the reporting year, this trend results in particular from the net increase of EUR 2.9 billion in receivables from cash management, which was largely attributable to higher profit transfers by subsidiaries as well as the issue of short-term loans in connection with cash management at the Group. The change in net cash provided by/used for operating activities is mostly due to the year-on-year improvement in working capital, primarily as a result of the reduction in liabilities from cash management compared with the previous year.

Net cash provided by investing activities in the reporting year was mainly influenced by repayments in connection with medium- and long-term investments at subsidiaries in the amount of EUR 2.0 billion, the sale of 70 percent of the shares in the Scout24 group for EUR 1.6 billion, and deposits of EUR 0.4 billion for cash collateral furnished to hedge derivatives. Medium- and long-term investments of EUR 1.8 billion at subsidiaries had an offsetting effect. In the previous year, net cash provided by investing activities had been impacted in particular by the sale of some of the bonds issued by T-Mobile USA in connection with the refinancing (EUR 4.3 billion).

The year-on-year increase of EUR 1.4 billion in net cash used for financing activities is primarily attributable to the EUR 3.1 billion lower net issuance of medium- and long-term financial liabilities to Deutsche Telekom International Finance B.V., Amsterdam. The EUR 1.1 billion decrease in the net repayment of current liabilities and a EUR 0.7 billion lower cash payment for the dividend in 2014 had an offsetting effect. Net cash used for financing activities in the reporting year mainly relates to the net repayment of current liabilities of EUR 2.0 billion as well as the payment of the cash dividend of EUR 1.2 billion for the 2013 financial year.

Combined, this resulted in a decrease in cash and cash equivalents of approximately EUR 0.7 billion in the reporting year.

RISK MANAGEMENT IN HEDGE ACCOUNTING

We use derivatives to hedge interest rate and currency exposures; i.e., exclusively for hedging purposes, not for speculative gains. In the process, we continuously monitor the effectiveness of the hedge.

Sustainability at Deutsche Telekom

CORPORATE RESPONSIBILITY

- Tap potential
- Hold dialogs
- Measure progress

We are one of the world's leading providers of telecommunications and information technology. The ICT sector has a vital role to play in sustainable development through all phases of the value chain. We want to live up to this corporate responsibility. In our CR strategy, which is derived from our Group strategy, we have created a binding orientation framework for doing so. We accept social, ecological and economic responsibility and thereby reduce our business and reputation risks, lower our cost of capital and strengthen the trust of our investors and customers.

For more information relating to our CR strategy, our CR targets, and the most important CR issues, please refer to our online CR Report at: **www.cr-report.telekom.com**

TOP ISSUES FOR SUSTAINABILITY MANAGEMENT

We make a point of involving important stakeholder groups in our processes. As the basis for our sustainability management strategy, we therefore systematically collect the topics that are of material interest to our stakeholders and to us. Results from additional sources, such as internal workshops, studies and surveys, are all incorporated in this analysis. The following areas have been defined as being of great relevance:

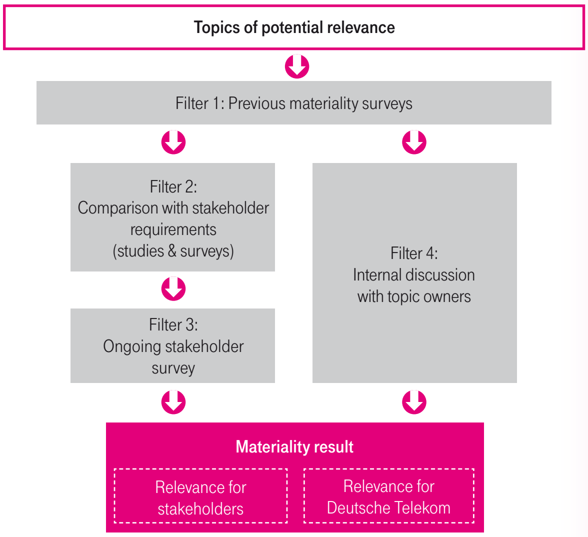
- Group-wide climate protection
- Customer enablement
- Sustainability in the supply chain
- Digital inclusion
- Compliance with human rights
- Data privacy and data security
- Responsible network expansion
- Customer satisfaction
- Diversity, health and other HR issues
- Waste and recycling

The first six topics will be dealt with in this section.

You can find out how we approach the other issues from this list elsewhere in this report or in Deutsche Telekom's CR Report.

G 41

Process for the selection of material topics



MEASURABLE PROGRESS IN SUSTAINABLE DEVELOPMENT

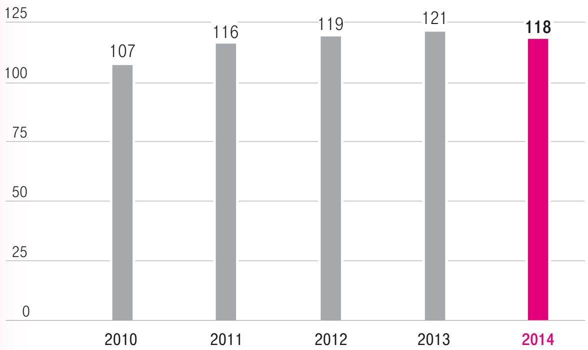
We have used key performance indicators to measure the success of our sustainability commitment since the year 2010. To clarify their relevance for analysts and investors, we have renamed our CR KPIs and now refer to them as ESG KPIs (environment, social and governance (ESG); key performance indicator (KPI)). Our performance indicators help our external stakeholder groups rate our CR commitment and make it easier for us to subject our performance to systematic, transparent and continual improvement. The most important KPIs have been a component of our Annual Report since 2011.

We want to make sure that our ESG KPIs go on contributing to successful corporate governance and hence fulfill the expectations of our stakeholder groups. We therefore subjected them to a detailed review in the reporting year and updated them where necessary. For example, we extended the scope for the Energy Consumption and CO_2 Emissions ESG KPIs to all Group units which are collaborating to achieve our climate protection targets. These generate around 99 percent of total Group revenues, compared with 96 percent in the previous year. The extended scope affects the current volume of CO_2 emissions as well as the figure recorded in 2008, on which our climate protection target is based.

We follow with great interest the discussions on national and international KPI standards, in particular the SD KPIs (Sustainable Development key performance indicators), which Germany's Federal Ministry for the Environment developed in conjunction with auditors, investors and analysts. However, our own ESG KPIs make it possible for us to tailor KPI management to our corporate group. For this reason, we will continue to use them and further develop them on an ongoing basis.

G 42

Energy Consumption ESG KPI[a]
Expressed as MPEI: electricity consumption (thousand MWh)/revenue (billions of €)



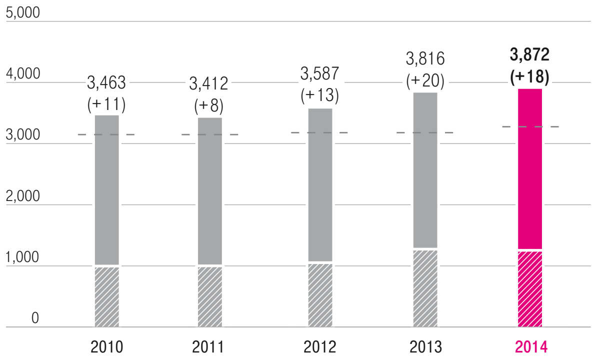
	2010	2011	2012	2013	2014
Revenue billions of €	58.4	55.4	55.7	57.8	61.9
Energy consumption (thousand MWh)	6,262.6	6,409.4	6,624.7	6,992.9	7,333.0

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

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

G 43

CO_2 Emissions ESG KPI[a]
CO_2 emissions in thousands of metric tons
(Changes in %, compared against 2008 base year for the climate target)



CO_2 emissions (Scopes 1 and 2). Emissions are measured in CO_2-equivalent values based on energy and fuel consumption in accordance with the Greenhouse Gas Protocol and employing the emission factors specified by the International Energy Agency and the Greenhouse Gas Protocol.

T-Mobile US share

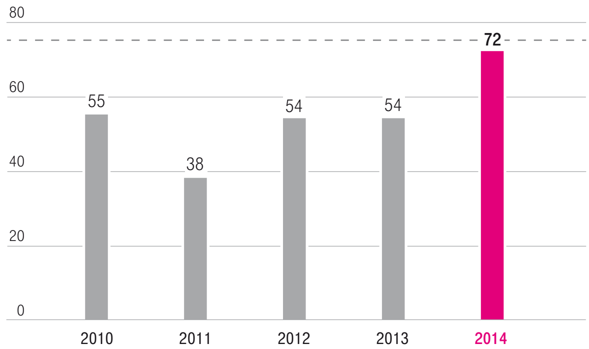
- - - Relevant base year for climate target (2008)

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

Glossary, PAGE 277 ET SEQ.

G 44

Sustainable Procurement ESG KPI
%



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

- - - Target value

In our 2013 Annual Report, we forecast trends for three of our ESG KPIs – Energy Consumption, CO_2 Emissions and Sustainable Procurement. In the case of all three ESG KPIs, actual developments in the 2014 financial year exceeded our forecast. Both the Energy Consumption and CO_2 Emissions ESG KPIs improved slightly in place of a stable trend. This is accounted for by the fact that revenue grew more strongly and energy consumption less strongly than anticipated. The ratio between actual emissions and our climate target base year 2008 also improved as a result of extending the scope for the CO_2 Emissions ESG KPI. The Sustainable Procurement ESG KPI increased more than planned as a result of further suppliers being audited for compliance with our social and environmental standards. In future, we expect these ESG KPIs to develop as follows:

- Over the next two years we expect our Energy Consumption ESG KPI to fall or fall slightly, i.e., a positive development. Network migration to IP technology and consolidation of the T-Systems data centers will be the main factors helping us to achieve major energy savings. These savings will be partly counterbalanced by the expansion of T-Mobile US and the accompanying rise in energy consumption.

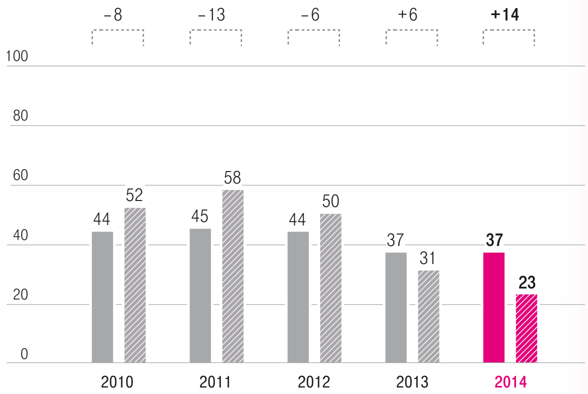
- Since our CO_2 emissions are largely driven by our power consumption, the resulting positive trend is similar to the development described for the Energy Consumption ESG KPI. We will also strive to achieve a slight reduction in our CO_2 Emissions ESG KPI in the years 2015 and 2016. Our expectation for the Group units participating in the climate protection target is that, in 2020, CO_2 emissions will lie 20 percent below the rate of the base year 2008 (excluding T-Mobile US). The CO_2 Emissions ESG KPI figure will, however, also include emission figures for T-Mobile US. Since strong business growth will continue to drive power demand in the foreseeable future, the KPI will only improve slightly in the period up to the year 2016.

- In 2015 we expect to reach the forecast target of 75 percent for the Sustainable Procurement ESG KPI. In subsequent years we assume that the ESG KPI will continue to rise slightly and reach the final target of 80 percent in the year 2020, since audits focus on strategic suppliers and those with an increased CR risk.

Our Social Commitment ESG KPI shows that in 2014 our performance was again rated significantly higher than the level of importance attached by the public to the subject.

G 45

Social Commitment ESG KPI
%



Performance: share of respondents who considered Deutsche Telekom to be committed to social issues.

Importance: share of respondents who considered corporate social commitment to be important and answered “very important” or “extremely important”; respondents who answered “important” have been included additionally since 2013.

Social Commitment ESG KPI: difference between the assessment of the importance of corporate social commitment and Deutsche Telekom’s performance in this area (percentage points).

Source: TNS Infratest. Until 2012: excluding telephone surveys carried out among the residential population of Germany (CR market research). From 2013: similar questions incorporated into the Group CRQI survey (Corporate Reputation Quality Indicator).

BROAD DISCLOSURE OF CO_2 EMISSIONS

We are paving the way to a climate-friendly society by supporting our customers in their efforts to produce lower emissions through the use of innovative technologies. Alongside Scope 1 and Scope 2 emissions, we also gave a full report of the Scope 3 emissions resulting from our Company’s business activities in Germany for the first time in the CDP (Carbon Disclosure Project) in June 2014. These emissions occur primarily during use of our products and services as well as in our supply chain. In the coming years we plan to report on Scope 3 emissions for the entire Group.

For 2014 we determined the Scope 3 emissions for a total of almost 4 million metric tons of CO_2 equivalents, a figure that is around 6 percent higher than in 2013. The main reasons for this rise are the growing number of Entertain customers, an increase in devices leased to customers and a higher procurement volume for the new technology needed in network build-out in Germany. At the same time, however, the new technology is far more efficient, so that its use will help reduce the CO_2 emissions generated by our electricity consumption in the mid-term. We have been able to report a significant reduction in our emissions in the transport logistics sector since the year 2012. Emissions generated during journeys to the workplace and business travel also decreased slightly.

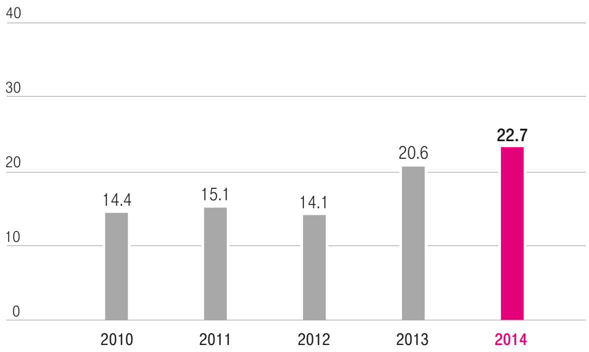
In order to enable us to report more efficiently on the Scope 3 emissions within our supply chain, we invited around 100 suppliers to participate in our CDP Supply Chain Program. 75 percent of the suppliers we approached responded, an excellent rate for our first survey in this field. The program gives businesses and their suppliers a standardized platform for recording and managing emissions.

INVESTORS OPT FOR RESPONSIBILITY

Our Socially Responsible Investment ESG KPI gages perception of our CR activities by the finance markets. It reflects the proportion of T-Shares held by investors whose investment strategies take into account not only the economic but also – at least to some degree – the ecological and social aspects of corporate governance. To provide relevant investors with details of our CR commitment, we held a webinar in October 2014, which was attended by several major financial institutions. In addition, we again held annual presentations and individual talks as part of our Socially Responsible Investment (SRI) roadshows and responded to numerous direct requests for information on our sustainability performance from rating agencies, analysts and investors. At the end of 2014, around 21 percent of T-Shares were owned by investors who considered SRI criteria in their investment decisions at least to some extent. 2 percent of T-Shares are held by investors who give priority to SRI aspects when managing their funds. Increasingly, our efforts toward more sustainability and social commitment therefore pay off in terms of reputation.

G 46

Socially Responsible Investment (SRI) ESG KPI
%



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

More and more investors also take CR ratings into account when deciding to invest. These ratings assess the sustainability performance of business enterprises. In line with our CR rating strategy, we confine ourselves to CR rating requests that serve as a basis for the sustainability indexes shown below (see TABLE 039). We based this choice of indexes on a set of criteria that we have been using for some time and which we updated in 2014. In doing so, we gave priority to aspects such as reputation, relevance for investors, rating independence, and the effort and the actual findings that participation in a rating involved for us.

T 039

Listing of the T-Share in sustainability indexes/ratings

Rating agency	Indexes/ratings/ranking	Successfully listed in index				
		2014	2013	2012	2011	2010
RobecoSAM	DJSI World	✗	✗	✓	✓	✓
	DJSI Europe	✗	✗	✓	✓	✓
CDP	Carbon Disclosure Leadership[a]	✓	✓	✗	✗	✗
	Carbon Performance Leadership	✗	✗	✗	✗	✓
oekom research AG	"Prime" (sector leader[b])	✓	✓	✓	✓	✓
Sustainalytics	STOXX Global ESG Leaders	✓	✓	✓	✓	n. a.
	iSTOXX 50 SD KPI	✓	✓	n. a.	n. a.	n. a.
	UN Global Compact	✓	✓	n. a.	n. a.	n. a.
FTSE Financial Times Stock Exchange	FTSE4Good	✓	✓	✓	✓	✓
Sarasin	Global Sarasin[c]	✓	✓	✓	✓	✓
MSCI	MSCI Global Climate	✗	✗	✗	✓	✓

✓ Successfully listed ✗ Not listed

[a] DACH (Germany, Austria, Switzerland) is sector leader.
[b] Based on "oekom Industry Report" (2014). Deutsche Telekom was in third place in the previous report (2008).
[c] Last Deutsche Telekom rating carried out in 2012.

As in previous years, our share is listed on most of our preferred sustainability indexes. Rating agency "oekom" singled us out as the world's best telecommunications company in terms of ecological and social performance. For the fourth year in succession, we were again included on the STOXX Global ESG Leaders Index, for the second year running on the UN Global Compact 100 Index, which was first published in 2013. The FTSE4Good Index was another of those that listed our share in the reporting year. We also achieved a listing for the second year running on the Climate Disclosure Leadership Index, which evaluates the transparency of emissions reporting by business enterprises. In this case, we improved from 90 to 98 points, making us the best telecommunications company on the CDP DACH Index. In the SAM rating for the Dow Jones Sustainability Indexes (DJSI), we gained top points in our industry for climate change, supply chain, compliance and privacy. Although we are still one of the ten best companies listed, our total of points was not sufficient for inclusion in the relevant DJSI World and Europe indexes, due to their enhanced requirements.

SUSTAINABILITY FOR OUR CUSTOMERS

For us, sustainable products and services are the ICT business of the future. We offer our customers green solutions that help them make their professional and private lives simpler and more sustainable. In 2014 we again used many innovations for sustainable ICT solutions from a wide range of fields:

- Smart home. The QIVICON smart home platform helps our customers make easy and safe savings on resources. QIVICON is an alliance of leading industrial enterprises in Germany initiated by us and won the European Visionary Innovation Leadership Award in 2014 for outstanding innovation in its open platform strategy. More than 30 partners have now connected to the platform and some of them, such as Deutsche Telekom, EnBW, Vattenfall and Rheinenergie, already offer their products and services for end customers via the QIVICON platform. Customers can compile their own individual solutions from the areas of energy, security and convenience. The user-friendly handling was acknowledged with a "good" rating in the readers' test published in CHIP computer magazine. We attach great importance not only to convenience but also to the areas of security and protection of our customers' data. According to AV-Test GmbH's IT security test, the QIVICON platform is reliably protected from unauthorized access. We have plans to offer the services of our open, multi-vendor platform at international level in future. We joined the Eclipse Foundation, one of the largest independent developer communities, in 2014. In taking this step, we are opening up our platform to developers and start-ups to enable users to benefit from even greater product diversity in future.

- Sustainable wine-growing in F.Y.R.O. Macedonia. Agriculture is responsible for 21 percent of global greenhouse gas emissions. The annual savings potential here lies at 1.6 billion metric tons of CO_2. With its Smart Wine project, our national company in F.Y.R.O. Macedonia took a vital step toward sustainable viticulture in 2014. The technical basis for the project is a sensor-supported system that monitors grape development and controls all of the production processes. It helps vintners lower their consumption of energy, water and chemicals. Besides this, the system provides information on plant disease, weather problems and optimal harvesting dates.

- **Efficient vehicle fleet solution.** In collaboration with DB Schenker logistics, we implemented a solution for efficient fleet management in the reporting year. It won us second place in the Big Data Project category for the Big Data Awards published in Computerwoche magazine in September 2014. The system uses mobile communications and GPS to track all vehicle movements and analyzes their fuel and resources consumption. It provides drivers with real-time information on how to improve their driving styles. The application also calculates CO_2 emissions for each delivery, thereby supporting customers' green management processes.

- Sustainable cell phones. In 2014 we collaborated with the Fraunhofer Institute for Reliability and Microintegration to conduct a study on harmful substances in cell phones. Certain substances were identified which are ecologically harmful but not currently prohibited. We defined our own list of prohibited materials over and above those covered by legal standards in order to send out a clear signal for a reduction in the industrial usage of substances that are problematic for the environment. Manufacturers are urged to implement this list of prohibited materials in the course of the coming year.

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In order to systematically exploit the business potential offered by sustainable products, we identified 64 potentially sustainable products and solutions in our portfolio during a pilot project conducted in 2014. We then chose Dynamic Workplace, Connected Car and Smart Metering as pilot products, with the objective of analyzing them to establish their contribution to sustainability and deriving their business potential from this. In doing so, we identified benefits in all three pillars of sustainability: environmental, social and economic. We calculated, for example, that the Dynamic Workplace – a cloud-based service in the B2B segment – enables a potential customer with a 35,000-strong workforce to save over 16,000 metric tons of CO_2, relieve its staff of around 2 million hours of commuting for a more productive or pleasant occupation, and save over EUR 15 million. We will be highlighting these benefits in our product marketing, which will enable us to improve our competitive standing. The next step will be to review other products on the same basis.

SUSTAINABLE VALUE CHAIN FOR A COMPETITIVE EDGE

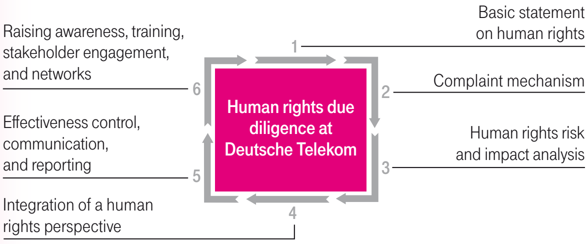
As an international player, our Group assigns high priority to human rights compliance, especially since the ICT sector is frequently criticized for deficiencies in its supply chain. We have therefore established broad social standards to guarantee that human rights are observed within the Group, for instance with regard to diversity and equal opportunities. We are committed to their implementation and also include our suppliers in this responsibility.

HUMAN RIGHTS COMPLIANCE THROUGHOUT THE DEUTSCHE TELEKOM GROUP

We have developed a comprehensive program in order to implement the UN's guiding principles on business and human rights in our Company. These principles require businesses to systematically identify the impact their operations have on human rights, and to prevent, neutralize or compensate these where necessary. As GRAPHIC 47 shows, to do this we introduced several interconnecting tools, which are enhanced on an ongoing basis. In 2014, the focus lay on raising awareness and training, both within our Group and among our suppliers. For example, we added a Human Rights module to the e-learning tool for our suppliers in Germany. At internal level, we held discussions with managers in various areas of the Group, for example with the Data Privacy department, to raise awareness and analyze existing risks. This heightened awareness for the problems involved in key units and helped publicize the existence of a central point of contact for human rights at Deutsche Telekom. We also identified current processes and structures that have a positive impact on corporate responsibility and those which still need improvement.

G 47

Overview of the implementation of human rights due diligence



OUR ACTIONS ARE BASED ON THE SOCIAL CHARTER

In order to comply with the UN's guiding principles on business and human rights, we revised our Social Charter – our commitment to observing human rights – in 2013 and implemented it throughout the Group in 2014. One essential aspect was setting up a central point of contact for human rights issues in our Company. Our website lists all contact points which accept inquiries relating to human rights or tip-offs for cases of human rights infringements. Since mid-2014 we have issued regular figures and information on the status quo of these requests.

Our Social Performance Report verifies our compliance with the Social Charter. All the 111 fully consolidated companies in our Group which employ staff are obliged to submit binding declarations to this effect. We published our latest Social Performance Report on our website in November 2014. No violations of human rights were reported by management in our Group companies between October 2013 and September 2014. In the reporting year, we performed our first independent Human Rights Impact Assessment. This focuses solely on the impact that our business activities in a specific country have on human rights inside and outside our Group. We expect to have results in the first quarter of 2015.

Human rights also play a key role in the dialog with our stakeholders. On the sixth Sustainable Procurement Stakeholder Dialog Day held in Bonn on March 26, 2014, one of three workgroups addressed this issue. It was ultimately agreed that this requires transparency and awareness-raising as well as collaboration among all relevant stakeholders and rightsholders who could potentially be involved.

PARTNERSHIP IN SUPPLY CHAIN MANAGEMENT

Our Code of Conduct and our Social Charter also apply explicitly to our suppliers. We commit suppliers to observance of our sustainability requirements in a CR clause which we include in all agreements with them. We also require them to provide self-assessments and conduct audits of their business practices. In our efforts to ensure sustainable conduct on the part of our suppliers, we rely on trust and dialog as well as on controls and training/development offers. We take sustainability criteria into account in all our procurement decisions. Moreover, we support outstanding ecological and social commitment with commendations such as the DELFIN Award from our Hungarian subsidiary Magyar Telekom. Our own supply chain management process has also received commendation at international level. We achieved top position in the latest Sustainable Supply Chain Review study published by Italy's non-governmental organization (NGO) Acquisti & Sostenibilità.

RAISING VALUE THROUGH SUPPLIER DEVELOPMENT

We launched a collaboration with three leading suppliers from the devices and networks segments in June 2014. The object of joining forces is to find solutions for topics including working hours regulations and occupational health and safety, and in doing so to gain competitive advantages. Better working conditions have a positive influence on employee loyalty and motivation, raise productivity and improve the quality of products; a win-win situation for our suppliers as well as for our Company. The first measurable successes were reported only a few months after the project was launched. Overtime, for example, was reduced by 30 percent, while salaries increased 15 percent and employee satisfaction improved by 6 percent. Plans envisage including more suppliers in the project in the course of 2015.

COMPETITIVE BENEFITS THROUGH SUSTAINABILITY

Sustainability pays off. This was the message communicated by our CR Stakeholder Dialog Day held in Shenzhen, China, on November 26, 2014. 120 participants including direct and sub-suppliers, independent auditors, members of the Chinese Government, NGOs and sustainability experts discussed the positive economic impact of sustainability on business enterprises under the motto "Competitive benefits through sustainability." The event revealed the importance of long-term partnerships and strategies in obtaining better prices for sustainable products and ultimately competitive advantages. The success of the conference is in part attributable to the excellent collaboration between Group Procurement and the CR area.

DATA PRIVACY AND DATA SECURITY

Great hopes are attached to the digitization of business and society. ICT is expected to provide help and support in many areas, including climate protection, inclusion, science, transparency, healthcare and care of the elderly. Acceptance of ICT depends on whether people can rely on their personal data being protected from unauthorized access and that it will not be used without their consent. Data privacy and data security are two of our top priorities. We set up a separate Board department as long ago as 2008 and defined compulsory privacy standards for the Group in our Binding Corporate Rules on Privacy (previously Privacy Code of Conduct). In addition to this, we are committed to promoting research and education in the field of cyber security and data privacy. One step we took was to establish a professorship at the HfTL University of Applied Sciences in Leipzig. We also need a good network of task forces in the Company so that information on new hazards can be communicated without delay. We have therefore greatly extended the Cyber Defense Center team and promote the training of specialists. To this end, we collaborated with the Chamber of Industry and Commerce (IHK) in Cologne to launch the Cyber Security Professional training program.

For more information on data privacy and security, please refer to the section "Risk and opportunity management," **PAGE 146 ET SEQ.**

MEDIA SKILLS SUPPORT EQUAL OPPORTUNITIES

Our aim for our core business – building, operating and marketing communication networks and lines – is to connect people and make it easier for them to access the information and knowledge society. We work actively to ensure that everyone, regardless of age, background or education, can participate in the modern information society. Being confident at using digital media is a key skill for this. We consider that we have a key responsibility as an ICT provider, and therefore include the promotion of media skills, secure handling of modern communications technology and data security among our main focuses. With our diverse educational involvement, our goal is to improve people's skills, promote equal opportunities and spark interest in technology and natural sciences.

- In our strategic commitment to equal opportunities, we teach young people key skills to help them act autonomously and self-confidently as part of the "Yes, I can" initiative. This initiative, which celebrated its 5th anniversary in 2014, has supported over 700 projects since its launch with funding totaling more than EUR 4 million. In Germany it has reached over 60,000 children and young people from difficult social backgrounds.

- We also have a number of offers to help them acquire media skills. One example is our Teachtoday initiative. The online portal helps teachers and parents to exploit the potential of digitization and to tackle the associated challenges skillfully. Under the heading of "Reinventing learning," the portal presents practical ideas as well as material for teaching and learning with digital media. Since its relaunch in 2014, Teachtoday offers new formats and services, with the addition of a competition on how to use media safely enhancing the online portal's offers. Here, schools and youth work facilities have been able to submit their projects focusing on secure media usage. Five of these projects have won awards.

- Security was also the central theme at the third Cyber Security Summit, which we staged in collaboration with the Munich Security Conference. The Cyber Security Summit for Kids was also held here for the first time and focused exclusively on the protection of young people in the media. In Austria, T-Mobile Austria continued its Connected Kids project, with school classes being given tablets and Internet access. Under the watchful eye of specially trained instructors, students learned awareness and responsibility in handling digital media.

- Since the year 2010, we have supported the "Lebenshilfe für Menschen mit geistiger Behinderung e. V." association, which acts as a sponsor for people with intellectual disabilities. Staff in our Company participate in the development of communication offers in "plain language." Plain language is a mode of expression that is designed to be extremely easy to understand. In this way we want to make it easier for people with mental health disorders to use the media. Training courses are held on a regular basis.

- The international Global System for Mobile Communications Association (GSMA) and Deutsche Telekom joined forces with the child protection organization Child Helpline International (CHI) in 2014. Our objective is to help improve the protection of young people on the Internet and to ensure they can exercise their right to speak. In a joint agreement, GSMA and CHI laid the foundation stone for the funding of children's advice hotlines all over the world.

- The Telekom Foundation made a substantial contribution to improving Germany's educational system. It focuses on promoting better education in the STEM subjects (science, technology, engineering and mathematics), supporting projects throughout the education chain, from child daycare centers to universities. One example of the Telekom Foundation's social commitment is the MathZe – Mathematics Center. Its objective is to inspire primary school students and their teachers for mathematical questions and show them that mathematics is very useful and omnipresent in their day-to-day lives.

INNOVATION AND PRODUCT DEVELOPMENT

- Develop innovative products that inspire
- Win with partners

ARCHITECT OF THE DIGITAL AGE

We are one of the world's leading providers of telecommunications and information technology. To reinforce this position, we must strengthen our innovation capacity. This ultimately benefits our customers, since innovative technology enables us to deliver excellent networks – above all for mobile communications – and to offer our customers innovative products and services.

As an architect of the digital age, we want to help craft the future. The basis that we will use to do so remains unchanged, namely our high-speed broadband infrastructure for the fixed and mobile networks. The volume of data that is transported and stored is growing astronomically. In the coming years, we will therefore have to – and will – go on investing heavily in infrastructure.

Activities in **Germany** will center around building out the LTE network in mobile communications and on fiber-optic and vectoring technology in the fixed network. In addition, we will develop hybrid products that combine the strengths of fixed-network and mobile communications, in other words, capacity and speed. In Germany we have already brought our Speedport Hybrid router to market, thereby once again demonstrating our innovation capacity. IP transformation is the prerequisite for our integrated network strategy and thus represents the basis for all our future products and services.

INNOVATION CULTURE AND INNOVATION PROCESS

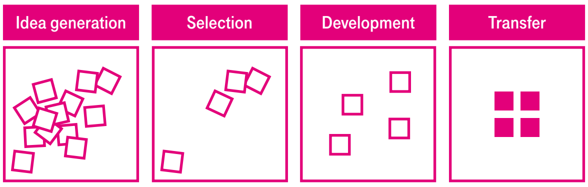
Innovation cannot be prescribed. Innovation is a culture that has to be nurtured and brought to life from the inside. Large enterprises like our corporate group, especially, need a vibrant **corporate culture** that fosters innovation. Key elements of this culture include fast decisions and implementation on the basis of lean internal processes, freeing up creative potential, promoting and challenging new ideas, and entrepreneurial initiative.

Innovation is born not only in Deutsche Telekom's special innovation units but must also be driven by the entire workforce, including those units dedicated to the Company's traditional core business and to direct marketing in our national markets. Interaction between innovation and our core business is the only way that can succeed in generating innovation for customers in our different markets.

Clear process structures give ideas the scope they need to grow and transform into innovative products and services. As GRAPHIC 48 shows, **innovation processes** in our Company pass through four phases.

G 48

Deutsche Telekom's innovation process



- First, there is an idea, which may be the result of market research or customer feedback, or may be sourced internally from our experts in central product and innovation units, our Technology Radar or Ideas Management. In addition to this, we have established a global scouting network and are currently looking at collaboration options with trend scouts in Germany, the United States, Israel and Asia.
- During the selection phase, we evaluate each idea: How easy is it to implement? How great is its potential? How high is customer interest rated?
- In the development phase, we integrate customer desires and requirements for design and handling into the product or service concept.
- Finally, the product or service is transferred to the market.

In each of the four phases, we naturally verify the extent to which the resources we use are in proportion to the anticipated result. This may lead to development of a product being abandoned in one of the phases of the innovation process. This is a vital option, since not every good idea has the potential to become a good product or a good service. Every innovation must offer our customers added value. If customers do not accept an innovation or the timing for the innovation is not right, even the best ideas are worthless.

Sustainability criteria are factored in throughout all stages of the innovation process. Our binding design guidelines are applied when new products are developed. They include sustainability aspects as well as design principles. The first design guideline was taken from the CR strategy and states "Act responsibly – think globally."

We have set up an innovation governance concept to manage innovation processes in the Group and to further promote our innovation culture. It includes the Portfolio & Innovation Board, which makes sure we get our priorities right. The board identifies and selects innovation

More information on the subject of innovation can be found in our online report at: **www.telekom.com/innovation**

Sustainability at Deutsche Telekom

focuses for the Group and resolves the individual strategies for their implementation. This means, for example, defining a portfolio which offers the greatest opportunities and making sure these are actually exploited. Our current focus is on the following areas:

- Products and services, e.g., Joyn
- Platform business, e.g., M2M
- Partnerships, e.g., with Spotify and Netflix
- Processes, e.g., additional direct marketing options in customer service, possibly via apps or video agents like our new "Telekom hilft" video app
- Networks, e.g., our commitment to standardization for the next generation of mobile communications, 5G
- Devices, e.g., our exclusive sales partnership with Amazon for the Fire Phone

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THREE-PRONGED INNOVATION STRATEGY

We are facing up to the challenges of the future. To develop even greater innovation capacity, our Group not only makes use of its own innovations, but it also successfully integrates innovations from outside the Group. We generate growth from innovation in three different ways: from in-house developments, from partnerships, and from equity investments. As GRAPHIC 49 shows, we see innovation as a three-pronged strategy. The uncompromising central focus is always on the benefit for our customers.

T-LABS: OUR OWN POWERHOUSE OF IDEAS

With our central research and innovation unit, Telekom Innovation Laboratories (T-Labs), we operate our own research and development facilities at various locations, including Berlin, Darmstadt and Bonn in Germany, Beer Sheva and Tel Aviv in Israel, and Mountain View in the United States. There, around 500 experts and scientists from various disciplines develop and test new technologies, cooperating closely with international universities and research institutes. Their mission is to collaborate with our operating segments to deliver new ideas and to support the development and rollout of innovative products, services and infrastructures.

At its main Berlin site, T-Labs has been associated with Technische Universität Berlin since 2004 in one of the biggest and best-known public-private partnerships in Europe. In 2014 T-Labs focused on the following main topics:

- Infrastructure and network technology: Here we develop prototype solutions to bundle different types of connection technologies, such as the hybrid technology bundle comprising DSL and LTE, the DSL community bundle of neighboring DSL lines, and cost-effective methods and tools to improve capacities and quality using new 4G+ technologies. In addition to this, we are working on new technologies that will offer customers hundredfold bandwidth at the same cost, e.g., with 5G and optimized FTTx architecture.

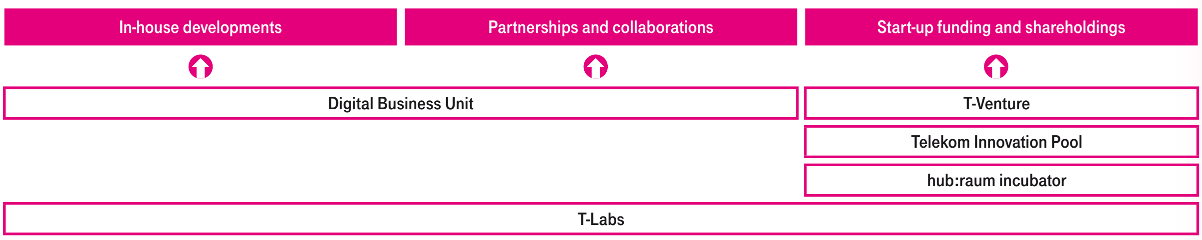
- Automation and virtualization: Automation and seamless virtualization of IT and network resources have the potential to dramatically accelerate the launch of new services and increase the efficiency of existing resources. This makes new business models possible for broadband build-out. It is especially important that the resources of one network operator be seamlessly available for use by another network operator. In future, such solutions will extend beyond today's bit stream access. Initiatives promoting more production flexibility are based on the virtualization/automation of installations in customer households as well as in small and medium-sized enterprises.

- Standardization and licensing: T-Labs drives standardization activities for broadband access and home networking technologies. Patents from T-Labs also help to protect innovation and reduce direct and indirect license fees at Deutsche Telekom. Prime examples are the development of next-generation prototypes for mobile communication networks, e.g., wireless technologies to succeed LTE/4G networks, as well as next-generation fixed-line networks, for example, fiber-optic technology.

- Data analytics: T-Labs is working on ways to suitably deploy and analyze big data. The objective is to obtain information on patterns of individual user groups and use these as the basis for bringing custom offers to market. Here again, we plan to develop new business models with companies from other sectors of industry. Collating and analyzing telecommunications and partner data enables us to generate new value added for industry and our end customers. In the area of data analytics, we also work on state-of-the-art M2M solutions, placing our current focus on predictive maintenance, mobile monitoring and communication. To perform initial analyses and speed up first findings in the field of unstructured big data, T-Labs has rolled out an Analytics Workbench and Toolbox. We

G 49

Growth through innovation



have also set up a competence team with the objective of creating Group-wide transparency, guaranteeing an exchange between relevant units and positioning the topic of big data in the Group. Supported by the Creation Center, the competence team performed a user-centric deep dive into the subject of big data, and developed guidelines for big data business in our Group.

- Industry 4.0: We agreed a research cooperation with Siemens in October 2014 in order to drive industry digitization in Europe. The objective of the cooperation is to defend our lead in the computerization of the manufacturing industry, which is known as Industry 4.0. This cooperation will initially run for three years and is open to new partners. The first step will be to link three Siemens locations in a pilot project. One of the tasks will be to clarify how communication in real time without delays and the security of data can be guaranteed. Within the Farming 4.0 project, T-Systems and T-Labs collaborated with CLAAS, an agricultural machinery maker, to demonstrate how ICT can significantly improve production and energy efficiency in farming and, at the same time, reduce employee workloads. One aim of the associated T-Labs DEXmp (Data Exchange Marketplace) project is to make a generic services platform available. It enables farmers and other agriculture players to collect status and movement data, to process and evaluate it, and thus to increase process transparency in real time. It also allows them to handle a broad range of analytic and planning tasks. Together with T-Systems, T-Labs has therefore developed and implemented various horizontal services with a generic role and rights management facility. These services can be used not only for agricultural applications but also in other Industry 4.0 projects such as in civil engineering.

- Software Defined Networking: Software Defined Networking (SDN) is a key technology that relies on virtualization and automation to enhance the efficiency and flexibility of our network infrastructure. This means that customers can, for example, book and begin using services within seconds, enjoy mobile access to services in their home networks and forget about ever having to configure devices themselves. In the SWAN project, we are working on adapting SDN technologies for wide area networks (WANs), which will enable us to offer business enterprises VPN services and other added-value gateway services with greater efficiency and speed. In a close cooperation with T-Systems, T-Labs plans to achieve a major reduction in provisioning times for WAN services. This will also make new earnings models for on-demand usage possible. The VPN2Go product prototype has been transferred successfully to T-Systems and marketed by us. In addition, T-Labs is working on a draft version for the next generation of WAN platforms.

Creating scope for ideas

Our Telekom Innovation Arena creates the ideal scenario for ideas for digital life in the future. It offers first and foremost optimal working conditions, from a state-of-the-art IT infrastructure, modern premises and opportunities for an exchange of ideas which are available round the clock, through to creative rooms for relaxation. Here employees from T-Labs, from hub:raum, and from the design and partnering areas work together in the Digital Business Unit on premises extending over around 8,000 square meters. The creative mix of people from all areas of our innovation business, ranging from entrepreneurs to developers and designers, makes the Innovation Arena the hotspot for ideas in Germany. Our Group Business Development unit depends on the Innovation Arena as a central basis for start-up scouting within the framework of its partnering activities. We also use the facility to offer our international partners a place to explore the start-up scene in Berlin. The second Night of the Start-ups was held in Berlin in 2014. We hosted the event, during which more than 100 start-ups from Germany, Israel and the United States held presentations for over 2,500 visitors.

IN-HOUSE DEVELOPMENTS

In the future, our innovation segment, the Digital Business Unit (DBU), will focus to an even greater degree on innovation issues and manage them centrally for the Group. In doing so, it will cooperate closely with the operating segments in order to be closer and faster to market. Our innovation capacity is of crucial importance in our core business units, where it is vital to assert ourselves in the face of growing competition and to position ourselves as a premium provider on a long-term basis. In 2014, the DBU was heavily involved in enhancing and introducing a variety of products, including tolino, the hybrid router, Roaming Pass, Global Corporate Access and the QIVICON Smart Home.

PARTNERSHIPS AND COOPERATIONS

The changes taking place in our innovation area are fully in line with our Group strategy. Our strategic area of operation "Win with partners" underlines the importance of cooperations for the future success of our Group. Naturally, we will also continue to rely on our own ideas. However, we are open to innovations from outside the Company and plan to cooperate with new partners. For in-house developments, we therefore focus on our core competencies in the areas of networks, network-related services and platforms. In the case of other services, we concentrate on partnerships in which we collaborate with partners to offer a broad portfolio of products and services. Big global corporations as well as small start-ups have the chance to become our peer partners. We can then use partner developments to enhance our own ideas. Smart concepts can often be intelligently combined to produce an even better offer for the customer.

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Partnerships help us differentiate our Company from the competition. Excellent networks and the best service are the foundation for our success with customers. However, customers also expect the latest apps and services from the online world. We therefore rely on the massive innovative capacity of Silicon Valley, Germany and other innovation hotspots. Partnerships include companies such as Evernote,

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“dropbox,” and Lookout. This partnership strategy is also valid in the business customer segment, e.g., the partnership with salesforce.com, a provider of customer management solutions from the cloud. In the area of IT security and cyber security, our experts now work closely together with FireEye.

We want to deliver the digital services that our customers require, on standard platforms and with attractive partners. We can connect partners and partner products to this technical commercial platform fast, flexibly and at low cost, in the same way as we would plug devices into a multiway power strip. We guarantee fast access to standardized interfaces, and take care of billing, security and transmission quality in the background. Our customers can then subscribe to services such as Spotify’s music streaming service quickly and easily.

For more information on our cooperations and partnerships, please refer to the section “Highlights in the 2014 financial year,” **PAGE 61 ET SEQ.**

Sustainability at Deutsche Telekom

As an architect of the digital age, we want to help craft the future. Our networks are the basis for doing so. We are in great demand as a partner on the way to the digital future, cooperating, for example, with companies from other sectors including energy, healthcare and connected car.

- Energy: We have positioned our Company as a proficient provider to the power industry for the coming roll-out of smart meters in Germany. The legal and regulatory basis for smart metering in Germany must now be put into force so that energy utilities can launch this upgrade. We are already one of the biggest providers, operating around 50,000 metering systems for customers such as RWE. We have also established ourselves successfully as a leading provider of security services in the energy sector. The security solutions we deliver are central components for secure smart metering. They include a security module which we developed together with semiconductor manufacturer NXP as well as points of issue for technical certificates allowing encrypted communication in energy networks.

- Healthcare: We made progress in the health sector again in 2014. During the first six months, we succeeded in integrating the healthcare IT business we acquired from brightONE and were pleased with its business development. As of May 2014 we have standardized our international market presence in our Telekom Healthcare Solutions. We continue to make progress on the product development side. Together with healthcare region Carus Consilium Sachsen, we are developing the telemedicine infrastructure of the future for the state of Saxony. Our smart care products, which enable the elderly to live independent lives, will be the subject of a feasibility study in 2015. As sole supplier, we are developing the telematics infrastructure for tests in Bavaria and Saxony. The test phase for this will commence in 2015 and is thus a prerequisite for future expansion in the whole of Germany.

- Connected Car: We entered into groundbreaking partnerships in order to promote the car as a mobile workplace. We develop and market the Vehicle Backend for the Mercedes multimedia system COMAND Online, the platform for global vehicle and driver services from Daimler. 3,300 HotSpots were installed in the BMW fleet of car hire company Sixt, giving all passengers access to broadband Internet in the car. Besides this, we won big points in the commercial vehicle market, when Europe’s biggest truck rental firm PEMA opted to buy one of our telematics solutions, as did MAN and Continental.

  In a collaboration with China Mobile, we are establishing a peer-to-peer joint venture for the connected car and signed a contract to this effect in autumn 2014. The plan is for the collaboration to offer products and services for the connected car in China from the city of Shanghai. We supply the core technology – a cloud-based connected car platform – and also channel our know-how in the telematics sector into the project. With an ultra-modern mobile communications network based on LTE, China Mobile supplies digital services for cars, e.g., with apps or vehicle-based services. The objective is for the joint venture to establish itself as a leading telematics provider in China’s connected car market.

START-UP FUNDING AND SHAREHOLDINGS

Beside the traditional approach with in-house research and development, we also rely on open innovation. We look for the best ideas and the best brains outside as well as inside the Company. Through our participation in joint ventures, we provide advice and support as well as financing. To broaden our access to innovations, we plan a significant increase in the scope and volume of our investments in the areas of venture capital and technology innovation. Over a period of five years, we are looking at providing an investment volume of EUR 500 million, doubling our current venture capital and innovation investments. A new fund structure under the name Deutsche Telekom Capital Partners (DTCP) will provide the basis for our activities. DTCP is due for launch in 2015, and will be one of the biggest innovation funds in Europe. In the future, we will mainly handle new investments outside our core business via DTCP. Alongside venture capital investments that focus on the steadily growing start-up scene, DTCP will extend its activities to include private equity investments in established companies in order to drive collaboration between our Group and what are known as “OTT players.” Over and above this, DTCP will provide our Group with consulting services on existing shareholdings. DTCP combines the strengths of a large corporation with the expertise, agility and flexibility of a small investment company, and hence considerably enhances our Group’s spectrum.

We also promoted innovation in 2014 through T-Venture, our venture capital arm. Since the inception of T-Venture in 1997, we have acquired over 200 minority shareholdings, supported these companies in their development as an active investor, and sold numerous companies at a profit. Following the launch of DTCP, T-Venture will not handle any new investments from the existing fund, but will continue to manage the existing portfolio and be responsible for follow-up investments in this portfolio. Over EUR 100 million will be available for this purpose in the next few years. In addition, T-Venture will continue to support Telekom Innovation Pool GmbH (TIP) and make investments for hub:raum. T-Venture currently holds interests in around 100 companies, two of which we present here:

- Racemi guarantees top efficiency for the migration of physical servers to the cloud. Racemi uses algorithms which enable fully automated migration of operating system, application software and data to the cloud data center environment with minimum error. Our customers therefore stand to benefit from hassle-free server migration without resulting server downtimes. Along with other prominent investors, T-Venture acquired an interest in the U.S. company headquartered in Atlanta in 2014.

- ETA Devices, a spin-off of the Massachusetts Institute of Technology (MIT), develops reference designs, produces and licenses an innovative, chip-based voltage transformer architecture for application in mobile devices and mobile communications base stations. This technology makes voltage transformers, the biggest energy consumers in these applications, smaller and up to 70 percent more efficient and is instrumental in their commercial implementation for future mobile communications standards and the increasing bandwidths involved. With ETA Devices we and our customers therefore benefit, firstly, from cost savings in network building and operation and, secondly, from more powerful, more compact devices with longer battery service life. Here, we make an additional contribution toward climate protection, since far less energy is consumed in the mobile communications network.

The object of Telekom Innovation Pool GmbH (TIP) is to integrate young companies in our Group. TIP also takes over internal company spin-offs, units that are outsourced from Deutsche Telekom as standalone companies.

We also make a point of supporting start-ups at their inception with our hub:raum incubator, which aims to promote the networking of people and capital with innovative business ideas and to build up new business. Already, hub:raum is a familiar name in the start-up scene. hub:raum has also gained a foothold at international level, firstly by setting up a program that specifically addresses Israeli start-ups and, secondly, with the launch of Poland's own hub:raum in Krakow. Also in 2014, hub:raum entered into partnerships in Western Europe's leading start-up markets, e.g., London, Paris, and Stockholm.

Patents

Patents are gaining more and more significance in the telecommunications industry. Market players and their areas of activity are changing, with a knock-on effect on our IPR (intellectual property rights) agenda. On the one hand, our Group's scope for action must be maintained. On the other and alongside our own research and development activities, we want to open the door to open innovation through cooperations and partnerships. National and international IPRs are vital for these types of activity. We are strongly dedicated to generating our own property rights. In the reporting year, we filed 196 patent applications, taking the total number of IPRs held by the Group to around 7,900 (7,500 in 2013).

Thanks to our intense efforts to develop and structure our IPR portfolio, the rights we hold are highly valuable and firmly in line with our Group's strategic objectives. We have put in place a professional patent law management process to keep our IPR assets safe. Additionally, we are represented on various standardization bodies. We manage our IPRs on the basis of cost/benefit aspects, filing only selected applications subject to a strict schedule.

EXPENDITURE AND INVESTMENT IN RESEARCH AND DEVELOPMENT

Research and development expenditure includes pre-production research and development, such as the search for alternative products, processes, systems, and services. By contrast, we do not class as research and development expenditure the costs of developing system and user software which is designed to improve productivity and make our business processes more effective. In 2014, research and development expenditure in the Deutsche Telekom Group amounted to EUR 95.6 million, almost the same level as in the previous year. As the parent company, Deutsche Telekom AG bears part of the Group's research and development expenditure. At EUR 60 million, this amount remained at prior-year level (2013: EUR 60 million).

However, this indicator must not be considered in isolation from the three-pronged innovation strategy described above. In this strategy, we rely not only on in-house developments but also on innovations from external partners and on start-up funding. In 2015, we will greatly increase our investments in the areas of venture capital and technology innovation with DTCP.

Deutsche Telekom's investments in internally generated intangible assets to be capitalized were also down year-on-year at EUR 93.2 million. These investments predominantly relate to internally developed software, mainly in our Systems Solutions operating segment. In the reporting year, some 2,900 employees (2013: around 2,900) were involved in projects and activities to create new products and market them more efficiently. The majority of employees working for T-Labs, the unit responsible for results-oriented research and innovation, are researchers from a wide variety of disciplines.

T 040

Expenditure and investment in research and development
millions of €

	2014	2013	2012	2011	2010
Research and development expenditure	95.6	97.0	65.9	121.4	145.6
Investments in internally generated intangible assets to be capitalized	93.2	112.0	78.0	122.4	162.2

EMPLOYEES

- Implementation of the HR strategy
- HR strategy 2015
- Headcount development

www.telekom.com/ media/publications

For further information, please refer to our other publications.

HUMAN RESOURCES STRATEGY

Ours is a constantly changing business. We must regularly ask ourselves what can be done today in order to respond to the challenges of tomorrow. High-performance managers, employees and teams are the cornerstones of our economic success. We know that only satisfied employees deliver consistently excellent performance. With this in mind, good HR work is devoted to the success of its employees and the success of the Company in equal measure.

The task of Human Resources is to support the Group strategy by taking suitable measures and initiatives in order to become the leading telecommunications provider in Europe. Our scope for action is defined by our external and internal environment. We fight for success in the fiercely competitive and often highly regulated ICT market. Immense price pressure forces us to become ever more innovative and efficient. We also take global trends into account that have a formative influence on our HR work: digitization, globalization, changing standards and values, demographic development, and our evolution into a knowledge society. At the same time, we remain mindful of our internal values, including our Social Charter, Code of Conduct, and Guiding Principles.

Sustainability at Deutsche Telekom

Our HR strategy takes all of this into consideration and shows the way forward so that all HR units at Deutsche Telekom are focused on the same objectives. In 2014, we dedicated our HR work to five principal themes which translate our HR vision into more specific terms: the HR Big 5.

- HR Big 1 – Continue business-driven total workforce management
- HR Big 2 – Encourage leadership and performance development
- HR Big 3 – Foster employability of our workforce
- HR Big 4 – Increase organizational effectiveness
- HR Big 5 – We make it lean and simple

Below are a few examples illustrating the successful implementation of our human resources strategy in the year under review, categorized according to the HR Big 5.

IMPLEMENTATION OF THE HR STRATEGY

HR BIG 1 – CONTINUE BUSINESS-DRIVEN TOTAL WORKFORCE MANAGEMENT

The transformation of our Group is a top priority, and will remain so for the next few years. We manage the various aspects of the transformation, such as the necessary adjustments to our business models, the focusing of talent development on business needs, and the ongoing training of employees, via our transformation programs – for instance at T-Systems: In this transformation program, we are increasing profitability further by driving forward digital growth areas, transforming our ICT business while at the same time making it more efficient, and putting a stop to unprofitable growth. This is why a complex restructuring of the workforce is also necessary. As part of this process, we have managed to resize the workforce in a socially considerate manner during the reporting year. The Group supports all employees whose roles have become redundant with a wide range of staff restructuring mechanisms and innovative change management procedures to help them find a new career. This meant that we were able to avoid compulsory redundancies and set up our new business areas with qualified IT experts.

Particularly in growth areas where new jobs are emerging, we have been able to successfully pursue our HR initiative of giving priority to internal candidates over external staff in Germany. This initiative aims to give preference to suitable internal applicants, in particular those from units with a surplus of staff, when filling positions and in external staff assignments. In the reporting year alone, we recorded almost 600 successful internal placements. This process is coordinated and managed by our central service provider for staff restructuring, Vivento, which has operated internally under the name “Telekom Placement Services” since April 1, 2014.

HR BIG 2 – ENCOURAGE LEADERSHIP AND PERFORMANCE DEVELOPMENT

The skills of our managers and the performance development of our staff are two key success factors for us in global competition. That is why we have realigned our leadership model and established consistent, Group-wide leadership principles. These activities are combined in our HR initiative “Lead to win.”

Based on our new leadership principles “Collaborate,” “Innovate” and “Empower to perform,” coupled with our Guiding Principles, our leadership model “Lead to win” was launched in 2014, initially among top management. It will be gradually rolled out to other management levels during 2015. Essentially, “Lead to win” focuses on a continuous exchange between managers and employees about performance and development issues (Performance dialog), a direct link between performance assessment and incentives (Rewards), and personal development paths (New horizon).

HR BIG 3 – FOSTER EMPLOYABILITY OF OUR WORKFORCE

In order to implement our strategic focus "Foster employability of our workforce," we are pursuing two thrusts in particular:

- Our HR initiative Education 3.0 is focused on expanding the expertise of our employees and driving forward training in the direction of skills that will be in high demand in the future.
- Diversity measures that support the different aspects of diversity in the Group: We remain determined to increase the proportion of women and make our workforce more international. When it comes to demographic change, we rely on integrated demographics management, and are particularly keen to ensure the employability of our older employees. We also promote this with a range of measures as part of work-life management at every phase of life, such as flexible working time models, company childcare facilities, and leave of absence in case of a family emergency. These activities are combined under the heading of "Demographics and work-life management."

Our HR initiative on training – **Education 3.0** – is all about aligning the training portfolio with the Group's strategic skills requirements. We want our investments in training to pay off. In order to ensure the greatest possible benefit for our employees and our Company, we therefore combine stand-alone offerings of training, further training, and university in integrated educational chains. In this way, we enable our employees to develop their skills in a seamless process. In the reporting year, we already set up educational chains for the strategic skills requirements of IT security, all IP and big data, initiating new, needs-based training programs in the process. The Cyber Security Professional, for example, provides for the strategic further development of IT experts among our trainees and students on cooperative study programs, and thus allows us to counter the lack of skilled professionals in this important business area. At the same time, we increasingly rely on modern, digitally-supported methods of learning so as to meet the needs of a digital working world also in terms of training.

Demographics and work-life management. The labor market is changing. In a multi-generational workforce, people of different age groups with different values, ideas and needs will now be required to work together for much longer. This brings its own set of challenges. Mindful of these challenges, in the year under review we continued to tweak our systematic demographics management program, and derived a raft of measures to suit all ages and life phases. These include healthcare programs and the promotion of cross-generational working teams. By focusing on work-life balance, we want to empower our employees to balance the work and private spheres even more effectively at every stage of their lives. One example is the encouragement of tandem positions, where two employees share responsibility for one job. Furthermore, a new initiative gave large numbers of managers the opportunity to test out our various flexible working time models and options for themselves and act as ambassadors for them as part of a pilot project.

Women's quota. We are committed to increasing the share of women in management, and introduced a women's quota back in 2010, our goal being that by the end of 2015, at least 30 percent of senior and middle management positions worldwide will be held by women. By the end of 2013, almost one in five such positions in Germany, and one in four worldwide, were held by women. In 2014, growth slowed somewhat, primarily as a result of company acquisitions and sales. These changes partially offset our initiatives to raise the number of women in management positions. Nevertheless, in the medium term, we want to ensure that our goal of a 30 percent women's quota extends well beyond 2015. Getting more women into management will bring about a deep-seated cultural transformation throughout the Company and encourage more diverse teams. From the outset, our program to achieve the women's quota has been applied to the entire global talent pipeline, by measuring the proportion of women at all entry and selection points, from recruitment through to management development programs and selection assessments, and then setting ourselves targets to improve the situation.

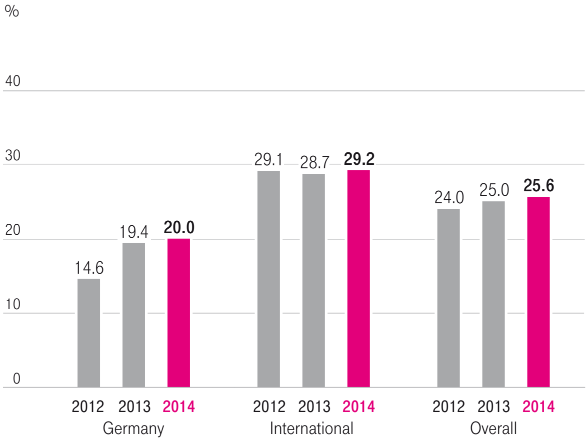
Sustainability at Deutsche Telekom

Overall, the proportion of women in management positions has risen since 2010. Group-wide, it increased from 19 percent in February 2010 to 25.6 percent in December 2014. Since 2010, we have also consistently increased the proportion of women in our supervisory boards, particularly among employee representatives. In 2010, women accounted for 17.7 percent of supervisory board members in Germany, rising to 28.1 percent by December 2014. Over the same period, the rise in the proportion of female employers' representatives in our international supervisory boards was equally encouraging, and increased from 7.4 to 22.6 percent. We are also one of only a few DAX corporations to have had a woman on its Board of Management for a number of years. Female members of our Business Leader Team, the international management team below the Group Board of Management, increased from two in February 2010 to eight (out of a total of 55) in December 2014.

Key measures to promote diversity and women in the year under review include improving the visibility of our talents beyond segment borders, and our program to train candidates for supervisory board roles. We have set up our own platform, Talents@Telekom, which allows HR staff to access employee profiles from other Group units and approach suitable candidates when vacancies arise. In the fourth quarter of 2014, we launched a development program to create a pool of potential female supervisory board members for our affiliated companies. Around 250 places on internal supervisory boards need to be filled regularly. Women currently account for just under 25 percent of such roles. This prompted the Company to devise a dedicated preparatory program across all Company units, and in 2014 this was attended by 29 female managers from a range of countries. Another key measure in 2014 was to selectively address women, e.g., with a "women special" on our website, internal and external advertisements, plus attendance at trade fairs dedicated specifically to women, such as femtec. We have also stepped up our collaboration with our internal women's networks to broaden our appeal to interested and ambitious women, e.g., via job newsletters.

G 50

Women in middle and top management



Sustainability at Deutsche Telekom

HR BIG 4 – INCREASE ORGANIZATIONAL EFFECTIVENESS

As the volume and content of work expands, demands are constantly rising. This calls for a high degree of flexibility at both an individual and an organizational level. We use forward-looking methods and tools to help our employees adjust quickly to new challenges. Modern workplaces, working time models and work formats provide the framework for our concept of flexible work environments, which was further extended in 2014. This helps to promote collaboration and strengthen innovation within the Group. We have two HR initiatives focusing on effective work techniques: Shareground and Future Work.

Shareground is an initiative we launched in 2013 and which was the beginning of a number of high-caliber projects. Shareground paved the way for new work methods, forms of collaboration and innovative learning formats which enhance our Company's transformation capabilities and help to ensure successful change projects. What is more, Shareground encourages innovative thinking among employees, together with a consistent focus on customer benefits. Shareground also helps to implement the new concept of leadership within the Group, along with cultural innovations focusing on transformation.

One example: the Magenta MOOC format was the first "massive open online course" to be offered by a German DAX-listed company. MOOCs are an Internet-based distance learning technique centering around video lectures by renowned scientists and distinguished experts, and augmented by interactive exercises and group discussions. The Magenta MOOC was an online course, accessible Group-wide, which focused on virtual collaboration within the Group. In 2014, the theme for the MOOCs was "Share your corporate spirit." It was held between April and July 2014. More than 3,600 employees from 27 countries took part. Interdisciplinary, Company-wide teams used agile methods to develop innovative customer-focused solutions derived from transformation trends, customer needs and simplicity strategies. This inspired 100 business and product ideas.

The Shareground Simplicity offers are directed at managers, teams, and employees with the aim of embedding simplicity as the fundamental principle of work and encouraging the use of corresponding techniques in their own management and working context. The result was simplifications in, for example, product portfolios, customer-relevant processes and internal workflows. In 2014, almost 750 colleagues took up this offer.

The Shareground Business Labs offer on-the-job training on current business challenges and focuses. In selected top transformation projects, they teach user-centric working methods and adapt them to the relevant working context. In the year under review, we held 55 such projects.

Under the heading Future Work, we subsume the design of the working world. For us, this is about our attractiveness as an employer and effective working under changing conditions. We want to ensure the smoothest possible interaction between the office organization, IT infrastructure, and the working and leadership culture – because modern leadership based on initiative and entrepreneurship is also part of the working world. We want our workforce to experience a modern working atmosphere that encourages efficient collaboration and provides ample freedom for creativity. In 2014, we set out a basic framework for Future Work, outlining our ideal office environment of the future, based on four principles: "Open office environments support collaboration among departments," "A new leadership style is based on personal responsibility," "The sharing and free choice of workstations encourages communication and optimizes the number of workstations," and "Mobile working enables flexible work organization."

HR BIG 5 – WE MAKE IT LEAN AND SIMPLE

Our fifth focus is about further improving operational HR work and continuously aligning it with the needs of the business. We also want to continue the process of harmonizing, simplifying and integrating the IT used for HR processes. Two HR initiatives turn these goals into reality: "Streamlining the HR product portfolio" and HR Suite/One.HR.

In the "Streamlining the HR product portfolio" initiative, we continuously optimize our HR offerings which are made up of a large number of different HR products. We want to achieve maximum standardization of our product portfolio, while at the same time ensuring that the latest business requirements are addressed. Since the project started in 2013, we have reduced our product portfolio by 5 percent in total. We achieved this result by reducing the number of products through a process of standardization, while at the same time creating scope for the introduction of new, modern HR products.

The standardization of our HR IT systems through the HR Suite/One.HR initiative was also a focal issue in the reporting year. The roll-out of the HR Suite IT system links Group-wide HR processes and supports them in a shared IT system. Focuses here include processes for recruiting and training our employees. The basis for the successful linking of different HR IT systems is a common standardized master data system implemented under the name One.HR. The project is comprised of a domestic module and an international module. In both projects, various IT systems were standardized in 2014, and further systems will follow suit in 2015.

Awards
Whether for a fair, socially responsible and sustainable HR policy, an innovative career website, or exemplary health management, in 2014 we received a number of awards for our HR work. Overall, in the year under review, our HR department received 30 national and international awards and prizes.

Here are details of a few of the major awards and prizes:

- We won the HR Excellence Award again in 2014. Our "AppSelect – personnel diagnostics in the digital world" project was acclaimed in the "Personnel diagnostics" category. AppSelect is the first professional, DIN standard iPad app for assessment centers which is integrated into the HR IT system landscape.
- Our "Tandem model," an innovative approach for a more flexible transition into retirement, was awarded a prize in the "Arbeit und Alter" (work and aging) ideas competition by the charitable organization "berufundfamilie gGmbH."
- In recognition of our exemplary emphasis on health and the fact that we are among the companies with the best health rates in Germany, we were presented with the Corporate Health Award by the Handelsblatt business newspaper, the TÜV Süd technical service corporation, and the research company EuPD Research Sustainable Management.
- The Polish Employers' Institute awarded our mobile communications subsidiary T-Mobile Polska the Top Employers Institute's Certification for the best employment policy for the fifth year in succession.
- The Hungarian Academy of Sciences awarded our Magyar Telekom group the special prize "Most family-friendly company."
- We collected further awards for our Blind Applying idea (Trendence Innovation Award) and Equal Pay Day campaign, in which our pay structures were successfully scrutinized by the Logib-D consulting service. Our innovative careers site and mobile recruiting channels helped us win second place in the APRIORI study. We also came second with our online careers site in the 2014 Online Talent Communication Study.

Employee satisfaction. Our image as an attractive employer continues to grow, and our employees are giving us good grades. The most recent Group-wide employee survey in 2012 was the fifth since 2005, and invited some 195,000 employees in 27 countries to give us their feedback in 18 languages. Around 150,000 employees worldwide took part, a response rate of 76 percent. We also conduct pulse surveys at regular intervals to gage employee satisfaction. Consistently high participation rates bear witness to the high level of interest and a growing desire among employees to help actively shape our Group. The results of such surveys, as per the most recent pulse survey in 2014, remain at a high level. The next employee survey will take place in April/May 2015.

HR STRATEGY 2015

When it comes to setting strategic priorities in our HR work and fleshing out the details, we continue to be guided by our Leading European Telco corporate strategy. It sets ambitious corporate targets which we achieve by ensuring that every employee delivers excellent results and performance today and tomorrow. Our Leading People For Leading Telco philosophy defines and shapes our HR strategy. Our employees and their outstanding performance will pave the way for creating a basis for increasing our Group's productivity and innovative strength and becoming Europe's leading telecommunications provider. This aim is underscored by our strategic priorities – the HR Big 1 to 4 – for 2015.

Sustainability at Deutsche Telekom

The complete list can be found here: www.telekom.com/employer-awards

Sustainability at Deutsche Telekom

HR Big 1 – Manage workforce transformation. We want to develop our business models faster than our competitors. For this reason, we continuously invest in increasing the skills and knowledge of our workforce, for example, by training employees for vacant positions, offering them strategic further training, or training them to replace loan and temporary workers. After all, training employees in marketable, forward-looking skills is a key component in staff restructuring. In Germany, we are supported in this process by our central service provider for staff restructuring, Vivento, which operates internally under the name "Telekom Placement Services." Its objective is clearly described: focusing on giving employees the prospect of long-term employment in the Company precisely where their know-how is most urgently needed.

HR Big 2 – Develop talents and strategic skills. Innovation is a significant part of our brand which sets us apart from our competitors. We are constantly working on innovations – on new products, our processes, and on how our customers experience us. A fundamental requirement for us to be successful in international competition is to empower our talents, identify and develop strategically relevant skills and expertise – for example, to open up growth areas such as cloud, big data, cyber security, intelligent networks or new markets in the healthcare, energy and automotive sectors.

HR Big 3 – Encourage leadership and performance development. Together we want to achieve results we can be proud of. In 2015, it is again vital that we enable both our managers and our staff to enhance their proficiency and further develop their leadership skills. In the "Lead to win" program, launched in 2014, which covers our binding, Group-wide Leadership Principles, we will involve more management levels. The leadership principles focus on collaboration, innovation and empowerment to perform. Our managers aim to identify and leverage innovation potential within the workforce and create a work culture in which people continually challenge the status quo and reflect their own conduct, in which they need not be afraid to make mistakes, in which they champion their ideas boldly and fight passionately for them.

HR Big 4 – Foster global culture and collaboration. Our aim is to support effective, cross-functional cooperation in our Company. We therefore support the exchange of knowledge and experience throughout the Group. Our efforts include the introduction of international job rotation for experts and temporary exchange programs. These enable our staff to familiarize themselves with overall contexts and to develop their social skills as a result of interfacing with new colleagues and foreign cultures. They bring valuable information and ideas back with them when they return to their units. As a result, mutual support becomes easier and more effective. With this approach, we mobilize our diversity and unleash our full innovation potential.

HEADCOUNT DEVELOPMENT

The Group's headcount was slightly below the figure for the end of 2013. Our segments showed countervailing effects to some extent. In the Germany operating segment, we increased headcount by three percent in 2014 compared with the previous year, as staff were taken on primarily for the build-out and upgrade of our "networks of the future." The 7 percent rise in overall headcount in our United States operating segment in the reporting year is due to the recruitment of additional staff in retail and customer service to serve the wider customer base. In our Europe operating segment, staff levels decreased by 2.4 percent compared with December 31, 2013. This trend is attributable to two offsetting effects. On the one hand, the number of employees decreased on account of the disposal of shares in Euronet Communications in the Netherlands. Efficiency enhancement measures in a number of countries in our operating segment, such as Romania, Croatia and Hungary, also contributed to the reduction. On the other hand, the headcount increased due to the inclusion of the GTS Central Europe group since May 30, 2014 and growth following the staff restructuring in Greece. Headcount in our Systems Solutions operating segment fell by 3.6 percent, largely due to personnel restructuring measures in Germany. The number of employees in the Group Headquarters & Group Services segment was down 10.7 percent compared with the end of 2013. The main reasons for this decline were deconsolidation of the Scout24 group and personnel restructuring activities.

WORKFORCE STATISTICS

T 041

Headcount development

Employees in the Group		Dec. 31, 2014	Dec. 31, 2013[b]	Dec. 31, 2012[b]	Dec. 31, 2011	Dec. 31, 2010
TOTAL		**227,811**	**228,596**	**229,686**	**235,132**	**246,777**
Of which: Deutsche Telekom AG		28,569	29,577	30,637	33,335	35,855
Of which: civil servants (in Germany, with an active service relationship)		19,881	20,523	21,958	23,516	25,570
Germany operating segment		68,754	66,725	67,497	69,574	70,902
United States operating segment		39,683	37,071	30,288	32,868	37,760
Europe operating segment		51,982	53,265	57,937	58,794	63,338
Systems Solutions operating segment		47,762	49,540	52,106	52,170	51,742
Group Headquarters & Group Services		19,631	21,995	21,858	21,726	23,035
BREAKDOWN BY GEOGRAPHIC AREA						
Germany		114,749	116,643	118,840	121,564	123,174
International		113,061	111,953	110,846	113,568	123,603
Of which: other EU member states		63,032	63,939	63,244	64,257	68,941
Of which: rest of Europe		3,127	3,238	9,422	9,736	9,991
Of which: North America		40,346	37,856	31,037	33,511	38,467
Of which: rest of world		6,556	6,920	7,143	6,064	6,204
PRODUCTIVITY TREND[a]						
Net revenue per employee	thousands of €	275	262	250	244	247

[a] Based on average number of employees.
[b] Figures for prior-year periods in the Europe operating segment and the Systems Solutions operating segment have been adjusted.

T 042

Personnel costs
billions of €

		2014	2013	2012	2011	2010
Personnel costs in the Group		14.7	15.1	14.7	14.8	15.1
Special factors[a]		0.9	1.4	1.2	1.2	1.0
Personnel costs in the Group (adjusted for special factors)		13.8	13.7	13.5	13.6	14.1
Net revenue		62.7	60.1	58.2	58.7	62.4
ADJUSTED PERSONNEL COST RATIO	%	**22.0**	**22.7**	**23.2**	**23.1**	**22.5**
PERSONNEL COSTS AT DEUTSCHE TELEKOM AG UNDER GERMAN GAAP		**2.8**	**3.1**	**3.3**	**3.4**	**3.4**

[a] Expenses for staff-related measures.

For detailed information, please refer to the section "Development of business in the Group," **PAGE 82 ET SEQ.**

SIGNIFICANT EVENTS AFTER THE REPORTING PERIOD

See PAGE 76 ET SEQ.

Acquisition of spectrum licenses. For information on the frequency auction in the United States completed on January 29, 2015, please refer to the section "The economic environment."

Agreement on the sale of our EE joint venture. On February 5, 2015, we and the French telecommunications operator Orange reached an agreement with the British telecommunications operator BT on the sale of the EE joint venture. Upon closing of the transaction at an agreed purchase price of GBP 12.5 billion, Deutsche Telekom will become the largest shareholder in BT with a stake of approximately 12 percent. Depending on BT's share price and other factors at closing, we may receive a cash payment in addition to the 12 percent stake in BT. The transaction is yet to be approved by BT's shareholders and the responsible authorities. Closing is expected before the end of March 2016. The EE joint venture, which is part of the Group Headquarters & Group Services segment, was reported under non-current assets and disposal groups held for sale as of December 31, 2014.

FORECAST[1]

ECONOMIC OUTLOOK

Barring any significant escalations in geopolitical hotspots or a further Europe-wide sovereign debt or banking crisis, we expect global economic growth to accelerate again in the course of 2015 and 2016. The economic outlook in our core markets is as follows:

- Moderate growth is expected in Germany in the next few years. The labor market situation is expected to remain stable given the positive environment.
- In the United States, the economy is expected to grow by more than 3 percent per year. The labor market situation will continue to improve, bolstered by this economic expansion.
- In the core countries of our Europe operating segment, most of the economies are expected to grow in 2015 and 2016. Despite this momentum, however, positive effects are only expected to filter through to the respective labor markets in the medium term. This is due in part to the lag-effect in labor-market recovery, but also to the high level of structural unemployment. The economic recovery in Greece may be adversely affected by a substantial deviation from the budget policy agreed with the Troika.

T 043

Forecast on the development of GDP and the unemployment rate in our core markets for 2015 and 2016

%

	GDP for 2015 compared with 2014	GDP for 2016 compared with 2015	Unemployment rate for 2015 compared with 2014	Unemployment rate for 2016 compared with 2015
Germany	1.5	1.5	6.8	6.8
United States	3.6	3.3	5.5	5.3
Greece	2.6	2.4	24.6	22.9
Romania	3.2	3.4	4.5	4.3
Hungary	2.5	2.6	6.9	6.9
Poland	3.6	3.8	11.5	11.0
Czech Republic	2.8	2.9	7.2	6.9
Croatia	0.8	1.8	19.6	19.3
Netherlands	1.4	1.4	8.0	7.9
Slovakia	3.2	3.6	12.9	12.0
Austria	1.3	2.1	4.9	4.8
United Kingdom	2.7	2.4	2.5	2.2

Source: Oxford Economics, January 2015.

MARKET EXPECTATIONS

GERMANY

We expect the downward trend in the telecommunications market in Germany to continue in 2015 and 2016. In addition to the intense competitive environment, this is due to the change in customers' usage patterns. They are shifting their communication activities to social networks such as Facebook or Google+, or to IP messaging services, such as WhatsApp. According to the industry association BITKOM, revenues in the German market for information and telecommunications technology will grow only slightly by 0.6 percent to EUR 154.3 billion. Business with data technology, software and services is expected to grow, and revenue from telecommunications and consumer electronics to decrease.

Traditional voice revenues in the fixed-network and mobile market will continue to decline, primarily because voice telephony is bundled together with other telecommunications products in the form of flat rates. The fight for customers with innovative, attractive, integrated products comprising fixed-network and mobile communications as well as offerings organized in partnerships becomes ever more important for the competitive position.

We also anticipate a further decline in service revenues in the mobile market in the next two years due to price erosion. What is more, text messages continue to be substituted by IP messaging services largely offered free-of-charge. The downward revenue trend is further intensified by expected regulatory price cuts, such as price reductions in relation to national termination in December 2014 and the possible abolition of EU roaming at the end of 2015. Increasingly, integrated data volumes and speed are what differentiate between competitors in the design of rate portfolios. In addition, voice and messaging services are increasingly offered in the form of flat rates.

In the fixed-network broadband market, we expect cable network operators to continue to grow. Above all, we expect growth in market segments such as television, IT through cloud services, M2M, mobile payment, and cyber security. Demand for integrated telecommunications products continues to rise among small and medium-sized enterprises, particularly for secure data transmission, for instance, in cloud applications. In order to be able to exploit this opportunity for growth, telecommunications companies are investing in modern broadband integrated networks, network concepts and capacities, IT, and innovations and partnerships.

UNITED STATES

The U.S. mobile market continues to be characterized by intense competition among the major mobile carriers. Competitive factors within the U.S. mobile market include dynamic changes in pricing, voice market saturation, service and product offerings, customer experience, network quality, development and deployment of technologies, availability of spectrum licenses and regulatory changes. The mobile postpaid market in the United States is embracing equipment installment plans and allowing customers to subscribe for wireless services separately without the purchase of or payment for a bundled device. With these plans, carriers recognize revenues for the device upfront, offsetting the majority of the equipment cost. Additionally, data services continue to be a growth driver, and despite the high level of competition, the U.S. mobile market is expected to grow from mobile broadband data services in 2015 and 2016, further supporting network investment by the major mobile carriers in the U.S. mobile market.

EUROPE

Our European markets (excluding Germany) are dominated by tough competition between market players from the traditional telecommunications industry, alternative broadband providers such as cable and fiber-optic network operators, and providers of Internet-based services such as short messaging (e.g., WhatsApp) and Internet TV (e.g., Watchever). We also expect competition to further intensify and the telecommunications market to further consolidate over the next two years. Despite initial signs of a price recovery in some markets, this has resulted in aggressive pricing with flat rate and/or SIM-only offerings.

In most of our European markets, we expect the general macroeconomic conditions to improve. Experience has shown, however, that an increase in GDP will only translate into revenue growth in the medium term. We are concerned that the governments of some European countries want to further improve their financial situation and will therefore intervene in the telecommunications market with fiscal policies: The Croatian government, for example, decided to triple the spectrum fees in the 2014 financial year. Furthermore, we expect decisions by national regulatory authorities and the European Union, which will put the markets under pressure and have a negative impact on mobile revenues in future.

Overall, we expect the decline in revenue in the telecommunications markets in the individual countries of our Europe operating segment to be less sharp over the next two years. This is due on the one hand to the smaller decline in termination rates compared with prior years, and on the other to the fast rising penetration of smartphones with mobile broadband, especially in Eastern Europe, and in the fixed-network market with a growing number of broadband and pay-TV lines. From 2017, we expect revenues to stabilize in the telecommunications markets in the countries of our footprint.

SYSTEMS SOLUTIONS

Even if the anticipated recovery in the global economy fails to materialize, we expect the growth trend in the ICT market to increase again in the next two years. We believe the ICT market will be influenced by digitization, persistent cost pressure, and strong competition. Digitization is leading to greater demand for solutions from the areas of cloud services, big data, intelligent network services like Industry 4.0, the Internet of Things, and M2M, as well as the mobilization of business processes.

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

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

- IT services: After only low-level growth in the reporting year, the market for IT services is expected to recover strongly in the following years. The IT services market is undergoing major change, however, brought about by progressive standardization, demand for intelligent services, changes in outsourcing business caused by cloud services, and new challenges posed by issues such as ICT security, big data, and increasing mobility. Traditional ICT business will only grow slightly due to price competition, whereas growth in areas such as cloud services, mobility, and cyber security may even reach double digits. So we will continue to increase investments in growth markets such as cloud services, cyber security, and intelligent network solutions for the healthcare sector or the automotive industry.

STATEMENT BY THE COMPANY'S MANAGEMENT ON THE EXPECTED DEVELOPMENT OF THE GROUP

Deutsche Telekom on growth course. At our Capital Markets Day in Bonn at the end of 2012 we had announced our goal of returning to growth from 2014. On a like-for-like basis, we already achieved this goal in 2013, a year ahead of schedule. And we are still on course for success: In the 2014 financial year, we achieved growth again of 2.9 percent on a like-for-like basis, primarily due to revenue growth in our United States operating segment. The new business model and the merger between T-Mobile USA and MetroPCS were well received, as can also be seen from the noticeable increase in the number of branded postpaid customers. This improvement in the customer base is expected to continue to significantly affect revenues and earnings in subsequent years. We also expect to be on course for growth again outside of the United States in the next few years.

We expect to see the following developments in the individual operating segments by 2016:

- We will maintain our position as market leader in our mobile communications and broadband business areas in Germany and stabilize our revenues by 2016. This will be based on our excellent network quality, our innovative and easy-to-use products, and our outstanding customer service.

- In our Europe operating segment, we want to defend and extend our strong market position in the respective countries and stabilize our revenue, in spite of tough competitive conditions and regulatory environments, as well as government interventions.

- Based on the very positive customer perception and the resulting trend in the customer base, we want to substantially increase revenue and adjusted EBITDA in 2015 in our United States operating segment.

- Our Systems Solutions operating segment continues to work on its business model, investing in digital innovation areas, but also further expanding partnerships. For 2015, therefore, we expect slight revenue growth and a slight increase in adjusted EBITDA.

These positive overall expectations are the result of our systematic strategic focus: We are driving forward the development of our Group – towards becoming the leading telecommunications provider for consumers and business customers in Europe. We want to offer best customer experience, based on intelligent solutions at home and on the move. To this end, we combine our multi-award-winning network quality with our own innovative applications and rate plans, such as hybrid technology and MagentaEINS. But we also integrate partner products. We will continue to invest massively in our networks and build out our broadband infrastructure. In Germany and Europe, we will be investing considerably in fiber-optic and vectoring technology in particular, as well as in the high-speed mobile standard LTE. In this way, we will safeguard our technology and quality leadership in the fixed network and in mobile communications, and strengthen our competitive position. In the United States, we will also invest a great deal in the quality and coverage of the mobile network. Overall, we aim for a Group-wide total **investment volume** (excluding spectrum investments) of around EUR 9.8 billion in 2015, followed by a slight increase in 2016. However, the prerequisite for our investments is a reliable, innovation-friendly regulatory environment in Europe, now and in the future.

To make the transformation towards becoming Europe's leading provider as profitable as possible, we will implement more measures and initiatives to cut costs, especially indirect costs, focusing primarily on human resources efficiency, the leveraging of synergies, process optimization, and target costing.

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

- We expect our revenue to increase year-on-year in 2015, largely as a result of the positive development of revenues in the United States. We expect revenue to increase again in 2016 relative to 2015.
- We expect adjusted EBITDA to stand at around EUR 18.3 billion in 2015, and to increase year-on-year in 2016.
- We expect strong decreases in EBITDA and EBIT in 2015 compared with 2014, due on the one hand to special factors, which had a positive impact on the 2014 financial year and thus on the basis for comparison. These special factors were income from the deconsolidation of the Scout24 group and from the transaction completed between T-Mobile US and Verizon Communications concerning the acquisition and swap of spectrum. On the other hand, we are planning, especially for 2015, increased special factors for the medium-term realization of savings in indirect costs, which will have a corresponding negative impact on EBITDA and EBIT in 2015. In 2016, we expect a strong increase in EBITDA and EBIT compared with 2015 due to the positive development in operations.
- The Group's free cash flow is expected to amount to approximately EUR 4.3 billion in 2015 and to increase strongly again in 2016.
- We expect the return on capital employed (ROCE) to decrease significantly in 2015, due to the described positive special factors in 2014 and increased special factors in 2015. We expect a strong increase in 2016.

All year-on-year estimates are based on the assumption of a comparable consolidated group structure and comparable exchange rates.

We intend to continue leveraging economies of scale and synergies in the future, through partnerships or appropriate acquisitions in our footprint markets. There are no plans for major acquisitions or expansion in emerging markets. We will continue to subject our existing cooperation activities and investments to strategic review with the focus on maximizing the value of our Company.

Despite substantial capital expenditure, we want to continue to compensate our shareholders appropriately. Subject to approval by the relevant bodies and the fulfillment of other legal requirements, a dividend of at least EUR 0.50 per dividend-bearing share is to be paid for each of the financial years 2015 to 2018. Relative growth of free cash flow is also to be taken into account when measuring the amount of the dividend for the specified financial years.

In relation to the dividend for the 2014 financial year, we are considering once again offering our shareholders the choice of converting their dividend into Deutsche Telekom AG shares instead of having it paid out in cash.

Developments on the international financial markets in 2014 can be described as stable overall. The environment was dominated in particular by the expansive monetary policy of the central banks and, consequently, a persistent period of low interest. The return on ten-year German government bonds fell by more than 70 percent in the course of the year. The euro zone is expected to experience a weak and fragile upturn in 2015, with interest levels remaining low. We continue to enjoy outstanding access to international capital markets and thanks to our continuous issuing activities are in a position at any time to place issues on these markets at short notice. Provided we meet the following targets, defined as part of our finance strategy, we will continue to enjoy flexible access to the international debt capital markets:

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

Deutsche Telekom did not issue any debt capital in 2014. Liquidity reserves were high throughout 2014, due in particular to the sale in November 2013 of T-Mobile US bonds worth USD 5.6 billion that were acquired as part of the business combination of T-Mobile USA with MetroPCS, the sale of 70 percent of the shares in the Scout24 group, and the payment of part of the dividend in the form of shares following the choice by a large number of shareholders to convert their dividend entitlement into shares. In 2014, T-Mobile US issued new corporate bonds for a total volume of USD 3.0 billion in order to finance investments and expenditure for licenses; however, USD 1.0 billion of this was used to buy back outstanding callable bonds. In December 2014, T-Mobile US also issued Mandatory Convertible Preferred Stock worth USD 1.0 billion.

Repayments totaling EUR 4.0 billion in bonds, medium-term notes, and promissory notes will be due in 2015.

At the end of 2014, the rating agencies Standard & Poor's, Fitch, and Moody's rated us as a solid investment grade company at BBB+/BBB+/Baa1. The outlook from all three rating agencies was "stable." In order to retain secure access to the international financial markets in the future, a solid investment grade rating from A– to BBB is part of our finance strategy. A sound rating also helps us to manage our planned capital expenditure flexibly over the next few years and thus to contribute to future growth.

As of the end of 2014, we had a comfortable liquidity reserve of around EUR 20.4 billion. For 2015, too, we plan to maintain a liquidity reserve that is able to cover all maturities of the next 24 months. To maintain our liquidity, we will borrow funds on the capital market in 2015. First and foremost, we will align the timing of our financing measures with the environments of the various international capital markets.

Expectations for Deutsche Telekom AG. The development of business at Deutsche Telekom AG as the parent company of the Group is reflected particularly in its commercial relationships with our subsidiaries, the results from our subsidiaries' domestic reporting units, and other income from subsidiaries, associated and related companies. In other words, the future development of Deutsche Telekom AG's figures is mainly shaped by our subsidiaries' operating results and by the opportunities and challenges they face. Accordingly, in addition to our expectations for the Group, the expectations described on the following pages concerning the operating segments' revenue and profit developments – such as strong competition, regulatory intervention, market and economic expectations, etc. – have an impact on our expectations concerning the development of Deutsche Telekom AG's future income after taxes.

Based on the described expectations for our operating segments and the resulting effects, and taking existing retained earnings into account, Deutsche Telekom AG also expects to distribute a dividend of at least EUR 0.50 per dividend-bearing share for the financial years 2015 to 2018, subject to approval by the relevant bodies and the fulfillment of other legal requirements. Relative growth of free cash flow is also to be taken into account when measuring the amount of the dividend for the specified financial years.

In relation to the dividend for the 2014 financial year, we are considering once again offering our shareholders the choice of converting their dividend into Deutsche Telekom AG shares instead of having it paid out in cash.

Expectations up to 2016 and ambition up to 2018. The expectations for the Group and the operating segments up to 2016 are shown in TABLES 044 and 045, and assume a comparable consolidated group structure and constant exchange rates. The same applies for the ambition until 2018. Expectations may change if the macroeconomic situation deteriorates and/or there is any unforeseen government or regulatory intervention. All trends denote year-on-year changes.

To show the intensity and trends of our forecasts, we use the following assessment matrix: strong decrease, decrease, slight decrease, stable trend, slight increase, increase, strong increase.

T 044

Financial performance indicators

		Results in 2014	Pro-forma in 2014[a]	Expectations for 2015[b]	Expectations for 2016[b]	Ambition up to 2018[b]
NET REVENUE						
Group	billions of €	62.7	62.8	increase	increase	CAGR 1–2 %[f]
Germany	billions of €	22.3	22.3	slight decrease	stable trend	
United States (in local currency)	billions of USD	29.7	29.7	strong increase	increase	
Europe	billions of €	13.0	13.1	decrease	stable trend	
Systems Solutions	billions of €	8.6	8.6	slight increase	stable trend	
Of which: Market Unit	billions of €	6.9	6.9	increase	slight increase	
PROFIT (LOSS) FROM OPERATIONS (EBIT)	billions of €	7.2	7.2	strong decrease	strong increase	
EBITDA	billions of €	17.8	17.8	strong decrease	strong increase	
EBITDA (ADJUSTED FOR SPECIAL FACTORS)						
Group	billions of €	17.6	17.6	around 18.3	increase	CAGR 2–4 %[f]
Germany	billions of €	8.8	8.8	around 8.8	stable trend	
United States (in local currency)	billions of USD	5.7	5.7	around 7.0	strong increase	
Europe	billions of €	4.4	4.5	around 4.3	slight increase	
Systems Solutions	billions of €	0.8	0.8	around 0.9	increase	
ROCE	%	5.5		strong decrease	strong increase	ROCE > WACC[g]
CASH CAPEX[c]	billions of €					
Group	billions of €	9.5	9.5	around 9.8	slight increase	CAGR 1–2 %[f]
Germany	billions of €	3.8	3.8	stable trend	slight increase	
United States (in local currency)	billions of USD	4.3	4.3	slight increase	slight increase	
Europe	billions of €	1.6	1.6	increase	stable trend	
Systems Solutions	billions of €	1.2	1.2	decrease	decrease	
FREE CASH FLOW (BEFORE DIVIDEND PAYMENTS AND SPECTRUM INVESTMENT)	billions of €	4.1	4.1	around 4.3	strong increase	CAGR ≈ 10 %[f]
RATING						
Standard & Poor's, Fitch		BBB+		from A– to BBB	from A– to BBB	from A– to BBB
Moody's		Baa1		from A3 to Baa2	from A3 to Baa2	from A3 to Baa2
OTHER						
Dividend per share[d, e]	€	0.50		Dividend based on free cash flow growth Minimum € 0.50	Dividend based on free cash flow growth Minimum € 0.50	Dividend based on free cash flow growth Minimum € 0.50
EPS (adjusted for special factors)	€	0.54		strong increase	strong increase	≈ 1
Equity ratio	%	26.3		25 to 35	25 to 35	25 to 35
Relative debt		2.4 x		2 to 2.5 x	2 to 2.5 x	2 to 2.5 x

[a] Significant changes in the composition of the Group included up to the date of preparation of the consolidated financial statements and the combined management report.
[b] On a like-for-like basis.
[c] Before any spectrum investment.
[d] The indicated expectation regarding the dividend per share refers to the respective financial year indicated.
[e] Subject to approval by the relevant bodies and the fulfillment of other legal requirements.
[f] Average annual growth rates in the period between 2014 and 2018.
[g] Weighted average cost of capital.

T 045

Non-financial performance indicators

		Results in 2014	Expectations for 2015	Expectations for 2016
GROUP				
Customer satisfaction (TRI*M index)		65.9	slight increase	slight increase
Employee satisfaction (commitment index)[a]		4.0	stable trend	stable trend
FIXED-NETWORK AND MOBILE CUSTOMERS				
GERMANY				
Mobile customers	millions	39.0	increase	increase
Fixed-network lines	millions	20.7	slight decrease	decrease
Of which: retail IP-based	millions	4.4	strong increase	strong increase
Broadband lines	millions	12.4	slight increase	slight increase
Television (IPTV, satellite)	millions	2.4	strong increase	strong increase
UNITED STATES				
Branded postpaid	millions	27.2	strong increase	increase
Branded prepay	millions	16.3	increase	increase
EUROPE				
Mobile customers	millions	56.0	slight increase	stable trend
Fixed-network lines	millions	9.0	decrease	decrease
Of which: IP-based	millions	3.5	strong increase	strong increase
Retail broadband lines	millions	5.0	strong increase	increase
Television (IPTV, satellite, cable)	millions	3.7	strong increase	strong increase
SYSTEMS SOLUTIONS				
Order entry	millions of €	7,456	slight increase	stable trend
ESG KPIs				
CO_2 Emissions ESG KPI	thousands of tons	3,872	slight decrease	slight decrease
Energy Consumption ESG KPI[b, c]	MPEI	118	decrease	slight decrease
Sustainable Procurement ESG KPI	%	72	75	slight increase

[a] Commitment index according to the most recent employee survey in 2012.
[b] Calculated using fact-based estimates and/or extrapolations.
[c] MPEI describes electricity consumption in thousands of MWh/revenue in billions of euros.

We are aiming to achieve a slight improvement in the development of our customer retention/customer satisfaction in 2015 and 2016 respectively, measured in terms of the TRI*M index performance indicator.

Having already achieved a high level on the **commitment index** of 4.0 – on a scale of 1.0 to 5.0 – following the 2012 employee survey and the results of the pulse survey performed in 2014, we expect the positive response of our employees regarding our Company to remain stable in the next employee survey. The next employee survey is scheduled for April/May 2015.

See **PAGE 116 ET SEQ.**

Sustainability at Deutsche Telekom

For detailed information on our ESG KPIs and our expectations, please refer to the section "Corporate responsibility."

Our plans are based on the exchange rates assumed in TABLE 046.

T 046

Exchange rates

Croatian kuna	HRK	7.64/€
Polish zloty	PLN	4.19/€
Czech koruna	CZK	27.54/€
Hungarian forint	HUF	308.70/€
U.S. dollar	USD	1.33/€

The following TABLE 047 contains a summary of our model calculations and analyses of the key potential external factors.

T 047

Factors that may impact results

Premises	Expected trend	Impact on results
ECONOMY:		
Macroeconomic trends in Europe (incl. Germany)	improvement	+
Macroeconomic trends in the United States	improvement	+
Inflation in Europe (incl. Germany) and the United States	same	O
Development of USD exchange rate	improvement	+
Development of exchange rates of European currencies	same	O
REGULATORY/STATE INTERVENTION:		
Regulation of mobile communications in Europe (incl. Germany)	intensification	–
Regulation of the fixed network in Europe (incl. Germany)	same	O
Additional taxes (in Europe/the United States)	intensification	–
MARKET DEVELOPMENT:		
Intensity of competition in telecommunications sector in Europe (incl. Germany) and the United States	intensification	–
Price pressure in telecommunications markets	intensification	–
ICT market	improvement	+
Data traffic	improvement	+

+ positive O unchanged – negative

EXPECTATIONS FOR THE OPERATING SEGMENTS

GERMANY

We have launched a comprehensive transformation program in the Germany operating segment. The project is set to run for five years and aims to secure market leadership: We want to remain the leading integrated telecommunications provider in Germany.

Optical fiber represents the infrastructure of the future. It enables all customer requirements to be realized in the fixed network. We are paving the way for this with our integrated network strategy. We are building a new network so that in the future, we can offer our customers competitive high-speed lines, e.g., by migrating our VDSL network to vectoring technology. In addition, we are investing massively to offer greater coverage and even more speed.

We want to be the number 1 in terms of growth in the TV market. To this end, we are investing in our IPTV platform and thereby winning new customers. In addition, more and more customers in the housing sector are using our television offering.

The mobile Internet continues to grow unabated. We intend to participate in this growth. With attractive LTE-enabled devices, a simple price structure and brands for premium and smart shoppers, we are addressing the entire market. Fixed-network and mobile package offerings represent the supreme discipline for an integrated provider. Ultimately, customers who use package offerings are more loyal. Our portfolio covers an integrated fixed-network/mobile offering (FMC). We increasingly offer bundled products like this: Thus families can, for example, subscribe to special mobile rate plans in addition to DSL. Entertain customers can manage their television recordings using their smartphones and “Entertain to go” lets them watch television programs on their tablets. We win over our customers with Deutsche Telekom’s best network with a simple logic of rate plans and benefits. Hence in fall 2014, we launched MagentaEINS and MagentaMobil on the market.

The IP transformation is a requirement for being able to bring innovative, competitive offers to the market more quickly. We will therefore migrate all customers to IP products by 2018. This will put us in a position to develop new products such as FMC or self-service offerings quickly, flexibly, and at low cost. Once the IP migration is complete, we can switch off our legacy platforms, save operating costs and, in this way, make our Group fit for the future – with the best customer experience and highest level of customer satisfaction.

We want to remain the market leader in both mobile communications and the fixed network. Demand for bandwidth will continue to grow rapidly. We will therefore invest considerably more in the coming years in broadband networks, innovative products and customer service. The success of these investments will be reflected in our network quality and the TRI*M customer satisfaction index. Another milestone in the migration to all IP is the use of innovative hybrid technology. This technology bundles the transmission capacities of the fixed and mobile networks and allows additive use to be made of the maximum bandwidth.

In the Germany operating segment, we expect revenue to undergo a slight decrease year-on-year in 2015. A major reason for this lies in the trend in voice telephony, where revenues continue to decline in both the fixed network and in mobile communications, while revenue from bundled product increases. The wholesale business is also declining in terms of prices and volumes. The positive effect of what is known as the contingent model is not able to compensate this trend. On top of that are the substitution effects on text messaging, which is increasingly being replaced by free-of-charge IP messaging services such as WhatsApp. Revenue will also be negatively impacted by regulatory price cuts, e.g., in roaming in 2015. We expect mobile data services and demand for handsets to continue to develop positively. In the next few years, the further propagation of smartphones and tablets in particular will have a positive impact on mobile data and Internet usage – and thus also on our revenues. At the same time, we will continue to expand our fiber-optic services, including business models with wholesale products such as the contingent model and further collaboration, for example in the housing sector. In addition, together with partners, we will provide new services for our customers.

From 2016, we aim to stabilize revenues. Thanks to our outstanding network quality, we expect mobile service and handset revenues to increase year-on-year due to higher demand. Our multiple-brand strategy will also have a positive impact. This trend will be supported by our IT revenues from the SME initiative and technical support services. Wholesale revenues are stabilizing due to a positive development driven by high demand for the contingent model.

For our Germany operating segment, we expect adjusted EBITDA to remain stable for 2015 and 2016. This will be achieved primarily through savings in indirect costs, e.g., lower IT costs, reduction in shared functions, and increased productivity. We expect a slight increase in the adjusted EBITDA margin to something in the range of around 40 percent in both 2015 and 2016.

We are laying the foundation for innovation and growth: While we will continue to drive forward investments in new technologies with even greater intensity in the future, we are reducing investments in old technologies. Thus we will increase our investment in our network infrastructure in the coming years, particularly in the build-out of our vectoring/fiber-optic and LTE networks. As a result, cash capex will remain stable in 2015 and increase slightly in 2016.

Our expectations for the medium term for the Germany operating segment, as to be announced at our Capital Markets Day event in February 2015, are shown in TABLE 048:

UNITED STATES

In 2015, T-Mobile US will continue to execute on its Un-carrier promise to deliver the best value experience in the U.S. wireless industry. Key elements of the Un-carrier promise include delivering distinctive value for consumers in all customer segments by eliminating customer pain points and providing excellent 4G services through a strong mid-band spectrum position supplemented by low-band spectrum in key metropolitan areas and a nationwide fourth-generation LTE network. Additionally, the Un-carrier initiatives focus on attracting and retaining a loyal customer base by offering devices when and how they want them, and plans that are simple, affordable and without unnecessary restrictions to deliver the best value in wireless.

T-Mobile US expects a strong increase in branded postpaid customers in 2015 and a further increase in 2016. Branded prepay customers are expected to increase in 2015 and 2016. However, competitive pressures and unforeseen changes in the wireless communications industry in the United States may significantly affect the expected ability to attract and retain branded postpaid and prepay customers.

T-Mobile US expects a strong increase in total revenues in U.S. dollars in 2015 and a further increase in 2016. Results in 2015 are expected to be positively impacted by continued customer growth momentum and increases in equipment revenues, including those with installment plan financing.

T 048

Mid-term ambition level

MARKET	No. 1 in FMC with MagentaEINS	3 million customers	2018
	No. 1 in mobile service revenues	≈ EUR 6.7 billion/market share > 36 %	2018
	No. 1 in terms of broadband	≈ EUR 5.6 billion/market share > 40 %	2018
QUALITY	Customer loyalty index	≈ 64 points	2018
FINANCIAL FIGURES	Adjusted EBITDA margin	≈ 42 %	2018
	Growing adjusted EBITDA	CAGR 1 to 2 %	2014–2018
	Growing adjusted cash contribution	CAGR ≈ 2 %	2014–2018

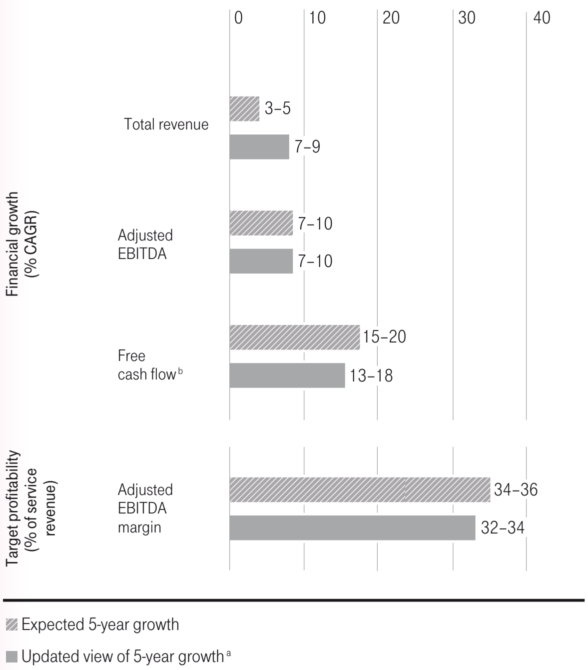
T-Mobile US also expects a strong increase in adjusted EBITDA – in U.S. dollars in 2015 and 2016. As a result of the significant growth in customers over the past year, revenue growth is expected to outpace increases in expense. Additionally, T-Mobile US expects continued focus on cost saving initiatives and realization of operational and network synergies from the business combination with MetroPCS. However, adjusted EBITDA is expected to be impacted by continued investment in the network and increased marketing of the T-Mobile US brand focused on attracting and retaining customers. Additionally, competitive pressures may significantly affect expected revenues and adjusted EBITDA in U.S. dollars and exchange rates may significantly affect revenues and adjusted EBITDA in euros in 2015 and 2016.

Excluding the expenditures relating to spectrum, T-Mobile US expects a slight increase in U.S. dollars in cash capital expenditures in 2015 and 2016 as it continues to roll out its 4G LTE network.

Our expectations, as updated compared with Capital Markets Day 2012, for the medium term up to 2017 for the United States operating segment, as to be announced at our Capital Markets Day event in February 2015, are shown in GRAPHIC 51:

G 51

Updated growth forecast for our United States operating segment[a]
%



[a] Updated view based on the actual figures for 2012–2014 and projections for 2015–2017.
[b] Free cash flow defined as EBITDA less capital expenditures.

EUROPE

In spite of the tough competitive conditions in most of our footprint countries in this operating segment, we intend to defend and extend our market position in each country. In the case of our integrated companies, we will work on maintaining our market leadership in both the fixed network and mobile communications or on using our strong position in the fixed network to push ahead with our mobile business, depending on the position of the respective company in its market. In particular through the acquisition of the GTS Central Europe group and the merger of the local business units of T-Systems Czech Republic and T-Mobile Czech Republic, we can offer our consumers and business customers in previously mobile-only companies, such as in Poland or the Czech Republic, a significantly expanded product portfolio and expand them into integrated companies.

On the road to becoming Europe's leading telecommunications provider, we are increasingly relying on technology leadership in the production model and in Next Generation Access. We want a simplified and standardized network. To this end, we will invest in the next few years in a pan-European all-IP network and migrate all networks in our national companies with fixed-network architecture to IP. In 2014, the migration was completed in the F.Y.R.O. Macedonia and Slovakia. Over the next few years, further national companies such as Croatia and Montenegro will follow suit, until we have migrated all our integrated companies in the Europe operating segment to IP by 2018. Building on this, we are harmonizing our network and IT architectures, so as to enable the centralized, cloud-based production of our services. Advantages of the new IP-based production model are that we create the best customer experience with our products and services, and that we achieve the greatest possible efficiency. Especially in broadband and TV, we can offer our customers a consistent and personalized user experience across all devices with products such as Broadband on Demand in the F.Y.R.O. Macedonia. This allows customers to change the features, e.g., speed, of their broadband line. In Romania, we can offer our customers a completely personalized product, for example, with the new IPTV platform. We will enrich the TV offering with exclusive premium content, one example being the broadcast of the UEFA Champions League in Greece. But we will also continue to offer our own channels as well as content in partnership with other companies, like Netflix. We are already working with partners for other digital content, such as the Internet services Spotify, Deezer, or Evernote.

Another technology milestone on the road to the network of the future is TeraStream, a concept that is based on a cloud-based IP architecture. This solution helps us create a completely new customer experience in terms of availability, personalization, reliability, and bandwidth. A pilot project is already successfully underway in Croatia. We also want to conduct similar pilot projects in other countries of our Europe operating segment. As a preliminary stage for TeraStream, we have started to introduce a broadband network gateway (BNG) in Greece and Hungary. We plan to complete this process in both countries before the end of 2015.

On the basis of our integrated network strategy, we will drive forward the fiber-optic roll-out in the fixed network at an even faster pace. In Greece, we continue to lay optical fiber up to the nearest cable distributor, which in the next step will enable us to add vectoring technology. In all other integrated companies, we have been investing for a number of years in the FTTH roll-out. We will continue and intensify our efforts in this respect in 2015, especially in Hungary, Croatia, and Romania.

In mobile communications, we are responding to the fast growing demand for bandwidth. We were able to acquire mobile spectrum for the roll-out of the mobile standard LTE in all countries. In the next few years, there will only occasionally be spectrum auctions. This allows us to focus our investments in mobile communications on two areas: extending reach and implementing LTE-advanced technology with transmission rates of more than 150 Mbit/s. Our national companies have various roll-out targets: We want to cover between 75 and 95 percent of the population with LTE by 2018. In order to achieve this high level of network coverage, further network partnerships are needed with other companies, as currently, for example, in Poland. Furthermore, we will invest to further improve our customer service and processes. We are developing and implementing new products and services in mobile communications, too. One example for this is the Mobile Wallet, which has already been successfully launched in Poland, Slovakia, and Hungary. Another innovation is the Ultimate APP application, which combines all services and applications for all Deutsche Telekom products – for mobile communications, fixed network, and television. Our test market for this is Romania.

With the increasing merging of broadband lines with different access technologies, we as an integrated telecommunications operator are driving forward the convergence of fixed-network and mobile communications: On the one hand, we offer our customers fixed-mobile-convergence (FMC) products, on the other, we are developing most of our national companies into an integrated business model. Of particular note in this regard is the acquisition of the GTS Central Europe group, which allows our companies in Poland and the Czech Republic to offer integrated products and services in the key business customer segment. In addition, all of our already integrated national companies now offer FMC products.

We also want win over business customers with our high-performance ICT products. We want to direct our offering not only at corporate customers, but also increasingly at small and medium-sized enterprises. We will continue to further expand our business with secure cloud solutions for this customer group in particular. To this end, we are increasingly working on standardized platforms, such as the international M2M platform. With this M2M partner program, we are positioning ourselves as a provider that offers its customers cross-industry M2M solutions as complete packages from a single source in cooperation with competent partners. Many countries of our Europe operating segment are already taking part in this program.

We expect to win more customers for our bundled products in our Europe operating segment. This will be reflected in a sharp increase in TV and broadband lines in 2015. We expect the number of mobile customers to increase slightly in the coming year. For 2016, we expect a sound mobile customer development – excluding the prepay registration regulations expected to be implemented in one of our countries. We also expect a decline in fixed-network lines in the next two years, due on the one hand to the fact that mobile communications are increasingly substituting the fixed network, and on the other to ongoing strong competition.

In the next few years, changes in legislation, such as taxes and duties, and national austerity programs could negatively impact our revenue and earnings. This could restrict our ability to invest locally. Exchange rate effects could also put pressure on our earnings on a euro basis.

Based on these assumptions and parameters, we expect revenues in our Europe operating segment to decrease on a like-for-like basis in 2015, assuming constant exchange rates and based on assumptions about regulation, new market players, spectrum auctions, and the same organizational structure. The transformation of our production model will strengthen our investments in the pan-European all-IP network and in the integrated network strategy. As a result, cash capex will increase in 2015. We plan to increase productivity and cut costs, including by reducing the headcount in some countries of our Europe operating segment. We want to invest some of these cost savings in the network upgrade. Consequently, we expect a temporary decline in adjusted EBITDA. For 2016, we expect revenues and cash capex to remain stable and adjusted EBITDA to increase slightly.

Our expectations for the medium term for the Europe operating segment, as to be announced at our Capital Markets Day event in February 2015, are shown in TABLE 049:

T 049

Mid-term ambition level

TECHNOLOGY LEADERSHIP	Start of PANNET implementation, migration of first platform	2015
	All-IP Transformation: All integrated national companies 100 % IP-based	2018
	Next generation accesses: 75–95 % LTE pop coverage, 50 % household coverage[a] with FTTx with up to 100 Mbit/s	2018
BEST CUSTOMER EXPERIENCE	Realization of customer experience initiative “eTransformation”: between 30 % and 99 % eService share in our national companies	2018
	Implementation of innovative FMC & TV experiences	2015–2018
	Continuation of revenue transformation: 38 % of revenues with pockets of growth	2018
SUPERIOR CASH PERFORMANCE	Superior cash performance: Return to 2014 level by 2018	2018
	Reduction of indirect cost by € 0.4 billion	2018 vs. 2014
	Operative ROCE improvement by almost +2 %pts	2018 vs. 2014

[a] In our integrated national companies.

SYSTEMS SOLUTIONS

The T-Systems Market Unit focuses on the ICT services growth market, offering solutions for corporate customers. We also concluded major deals in Germany and abroad in 2014, for example, with the automotive manufacturer Daimler, the steel and technology company ThyssenKrupp, the British brewery group SABMiller, or the Swiss WICOR group. We also extended our contract with the insurance group ERGO and in Belgium we were awarded a contract to set up and operate a satellite-based toll system for trucks.

Furthermore, our standard solutions in the growth area of cloud computing succeeded in the face of strong competition, winning us contracts with many of our corporate customers. We further expanded our dynamic resources from the cloud accordingly in the reporting year. This will pay off for our customers in the future: They receive bandwidth, computing capacity, storage, and software as they need them, while sharing infrastructure and paying only for what they actually use. We have complemented our offers through partnerships with, for example, salesforce.com (Software as a Service), Cisco Systems (cloud services), FireEye (cyber security), and Siemens (Industry 4.0).

The T-Systems Market Unit continues to work on its business model and will invest in new digital innovation areas to support customers in the ongoing digitization of their business. In addition to traditional ICT business, platform-based services and cloud services will play an increasing role. These include, for example, cyber security, M2M, and big data, as well as the further expansion of intelligent network services. Another important component in the implementation of our business model is the targeted expansion of our strategic partnerships. We want to complete the transformation towards digital innovation areas by 2016. Growth in these areas is then intended to compensate for lower-margin business with traditional outsourcing.

As a service provider for the Group, Telekom IT constantly develops our Group’s IT landscape, thus making an important contribution to our Company’s competitiveness. Standardized and optimized systems and processes contribute to systematic efficiency management and to reducing the Group’s IT costs further. The reduction of IT expenditure for our Group is reflected in falling revenues. We therefore expect revenues at Telekom IT to continue to decline in subsequent years.

We expect order entry, revenue, and adjusted EBITDA in the Systems Solutions operating segment to increase slightly in 2015. For 2016, we expect order entry to remain stable, revenue to remain stable, and adjusted EBITDA to increase.

In order to continue growing sustainably and profitably, we will expand and evaluate our business model. We will drive forward this transformation with the aim of generating growth with scalable, cloud-based services, changing traditional ICT elements to make them more profitable, and identifying services that we no longer want to perform ourselves. Thus we will continue to intensify our efforts to promote and sell products from our growth areas. The aim is to achieve double-digit growth rates in the growth areas. The newly-established Digital Division, which bundles growth areas within T-Systems, is to support these activities. We also want to grow in traditional ICT with products that generate a high margin.

We expect the Market Unit to generate revenue growth in 2015, and slight growth again in 2016, due to the described development and the successful launch of the realignment. We expect the Systems Solutions operating segment's cash capex to decrease year-on-year for the next two years.

Our expectations for the medium term for the Systems Solutions operating segment, as to be announced at our Capital Markets Day event in February 2015, are shown in TABLE 050:

T 050

Mid-term ambition level for 2018

TSI REVENUE	> 1 % CAGR expected
MARKET UNIT REVENUE	Above market growth, 3 % CAGR expected
QUALITY	Maintain TRI*M index above peer average and > 83 points
ADJUSTED EBIT MARGIN	Systems Solutions: around 6 %
	Market Unit: around 7 %

GROUP HEADQUARTERS & GROUP SERVICES

We are currently realigning our Digital Business Unit as the Group's central innovation unit. In the future, the focus will be on innovation and products developed on behalf of and in close dialog with our operating segments. The needs of the segments, their markets and customers are the crucial factors for these activities. The Digital Business Unit will focus more on business with platforms such as M2M or Smart Home.

Over the next two years, we will resolutely continue our cost management in Group Services and in the area of innovation. Furthermore, we will continue to pursue structural measures in 2015, which will contribute to improved earnings from 2016.

[1] The forecasts contain forward-looking statements that reflect management's current views with respect to future events. Words such as "assume," "anticipate," "believe," "estimate," "expect," "intend," "may," "could," "plan," "project," "should," "want," and similar expressions identify forward-looking statements. These forward-looking statements include statements on the expected development of revenue, EBIT, EBITDA, adjusted EBITDA, ROCE, cash capex, and free cash flow. Such statements are subject to risks and uncertainties, such as an economic downturn in Europe or North America, changes in exchange and interest rates, the outcome of disputes in which Deutsche Telekom is involved, and competitive and regulatory developments. Some uncertainties or other imponderabilities that might influence Deutsche Telekom's ability to achieve its objectives, are described in the section "Risk and opportunity management," PAGE 146 ET SEQ. of the combined management report, and the "Disclaimer," PAGE 284 at the end of the Annual Report. Should these or other uncertainties and imponderabilities materialize or the assumptions underlying any of these statements prove incorrect, the actual results may be materially different from those expressed or implied by such statements. We do not guarantee that our forward-looking statements will prove correct. The forward-looking statements presented here are based on the current structure of the Group, without regard to significant acquisitions, dispositions, business combinations or joint ventures Deutsche Telekom may choose to undertake. These statements are made with respect to conditions as of the date of this document's publication. Without prejudice to existing obligations under capital market law, we do not intend or assume any obligation to update forward-looking statements.

RISK AND OPPORTUNITY MANAGEMENT

- Risk early warning system
- Identification of opportunities

RISK AND OPPORTUNITY MANAGEMENT SYSTEM

As one of the world's leading providers in the telecommunications and information technology industry, we are subject to all kinds of uncertainties and change. In order to operate successfully in this ongoing volatile environment, we need to anticipate any developments at an early stage and systematically identify, assess and manage the resulting risks. It is equally important to recognize and exploit opportunities. A functioning risk and opportunity management system is therefore a central element of value-oriented corporate governance.

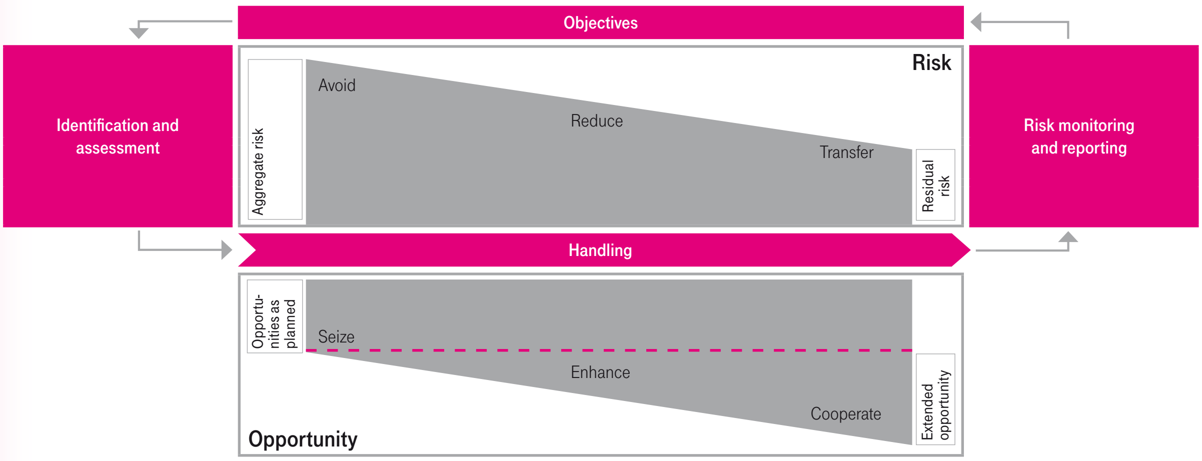
In addition to business management requirements, a risk management system is required by regulations and by law, in particular § 91 (2) of the German Stock Corporation Act (Aktiengesetz – AktG). The Audit Committee monitors the effectiveness of the internal control system and the risk management system as required by § 107 (3) sentence 2 AktG.

Our Group-wide risk and opportunity management system covers all strategic, operational, financial, and reputational risks as well as the corresponding opportunities for our fully consolidated entities. The aim is to identify these early on, monitor them, and manage them in accordance with the desired risk profile.

As GRAPHIC 52 shows, we base our system on an established standard process. Once risks and opportunities have been identified, we move on to analyze and assess them in more detail. The effects of risks and opportunities are not offset against each other. This is followed by a decision on the actual action to be taken, e.g., reducing risks or seizing opportunities. The respective risk owner implements, monitors, and evaluates the associated measures. All steps are repeatedly traversed and modified to reflect the latest developments and decisions.

G 52

The risk and opportunity management system



Our risk and opportunity management system is based on the globally applicable risk management standard of the International Standards Organization (ISO). ISO standard 31 000 "Risk management – Principles and guidelines" is regarded as a guideline for internationally recognized risk management systems.

Our Internal Audit unit reviews the functionality and effectiveness of our risk management system at regular intervals. The external auditor mandated by law to audit the Company's annual financial statements and consolidated financial statements in accordance with § 317 (4) of the German Commercial Code (Handelsgesetzbuch – HGB) examines whether the risk early risk warning system is able to identify at an early stage risks and developments that could jeopardize the Company's future. The system complies with the statutory requirements for risk early warning systems and conforms to the German Corporate Governance Code.

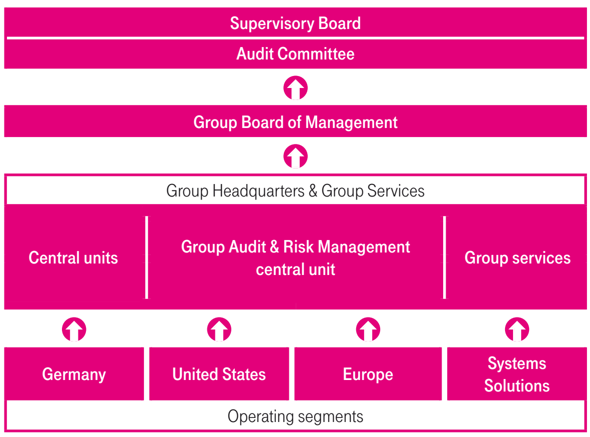
In addition, our Group Controlling unit specifies a series of Group guidelines and processes for the planning, budgeting, financial management and reporting of investments and projects. These guidelines and processes guarantee the necessary transparency during the investment process and the consistency of investment planning and decisions in our Group and operating segments. They also provide decision-making support for the Board of Management and the Board of Management Assets Committee. This process additionally includes the systematic identification of strategic risks and opportunities.

ORGANIZATION OF RISK MANAGEMENT

The Group Risk Management & Insurance unit has central responsibility for the methods and systems used in an independent risk management system that has been standardized across the Group, and the associated reporting. Our Germany, United States, Europe, and Systems Solutions operating segments are connected to the central risk management via their own risk management. The relevant risk owners in the operating segments and central Group units are responsible for managing and reducing risks.

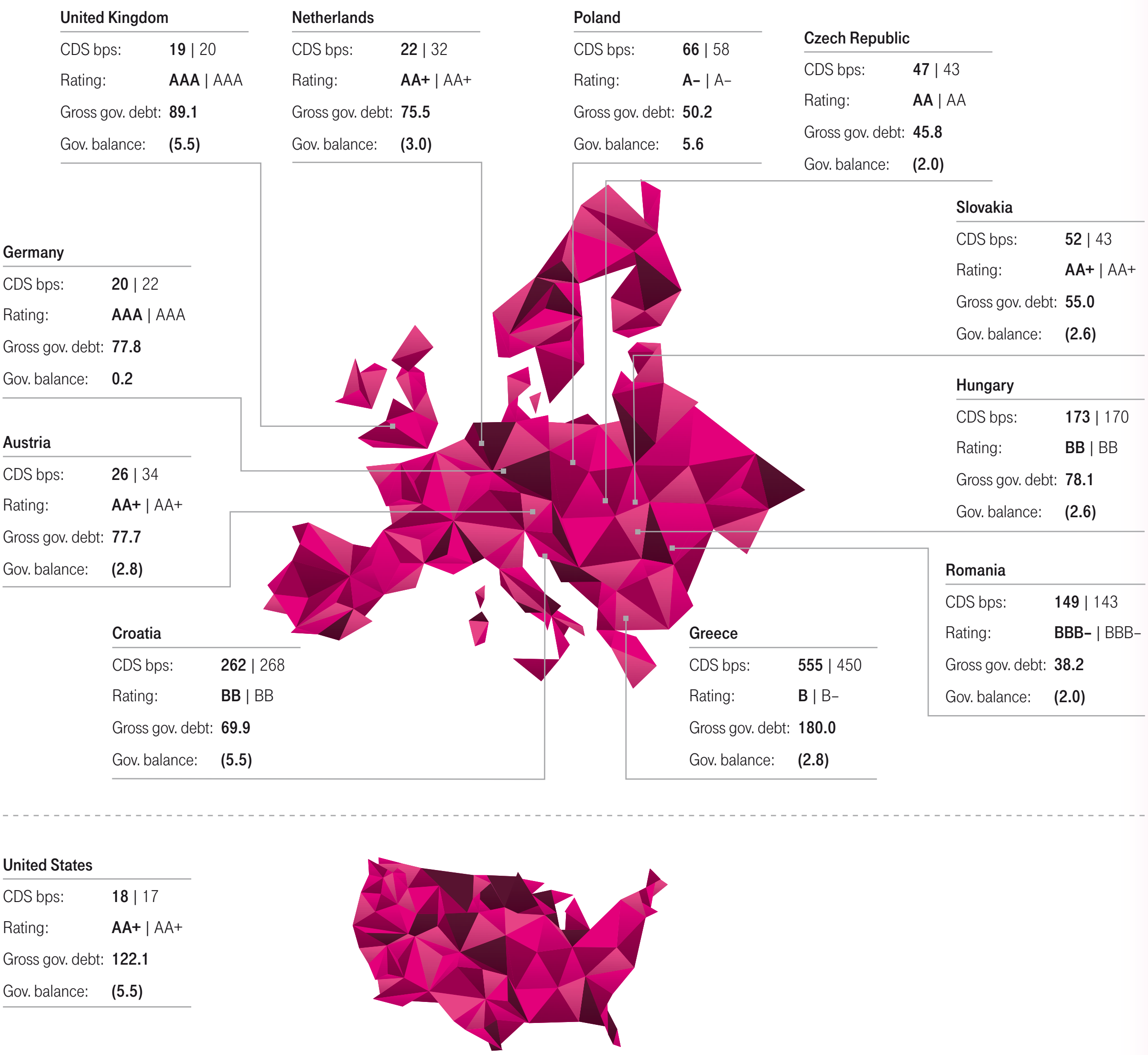
G 53

Risk management



G 54

Extract from the risk cockpit: Map showing national debt



Source: Bloomberg, Standard & Poor's, Oxford Economics, last revised: October 2014.

RISK IDENTIFICATION AND REPORTING

Each operating segment produces a quarterly risk report according to the standards laid down by the central Risk Management unit and based on specific materiality thresholds. These reports assess risks, taking into account their extent in terms of impact on results of operations or financial position, as well as their probability of occurrence, and they identify action to be taken and suggest or initiate measures. The assessment additionally includes qualitative factors that could be important for our strategic positioning and reputation and also determine the aggregate risk. We base our assessment of risks on a period of two years. This is the same forecast period as that of our company-specific forecast.

The Group risk report, which presents the main risks, is prepared for the Board of Management on the basis of this information. The Board of Management informs the Supervisory Board. The Audit Committee of the Supervisory Board also examines this report at its meetings. If any unforeseen risks arise outside regular reporting of key risks, they are reported ad hoc.

In addition to the quarterly risk report, we use our risk cockpit, which we developed in response to the financial and sovereign debt crisis and continuously refine, as an additional tool for monitoring and analyzing risks. In the risk cockpit we collect a large number of early warning and economic indicators each quarter, e.g., on macroeconomic, political and legal developments in our markets. When analyzing economic indicators, we use leading, coincident and lagging indicators. The

OECD's composite leading indicators, for example, as the product of several upstream sub-indicators, can map economic developments overall. The fact that a large number of early indicators are generated on a monthly basis allows economic activity to be measured more quickly than, for instance, with gross domestic product, which is published once per quarter. GRAPHIC 54 on the left shows a sample extract from our risk cockpit.

We create various scenarios based on the entire system of indicators of macroeconomic parameters and taking into account political and legal developments, and analyze potential effects. With the risk cockpit, we have developed a tool that creates greater transparency about our risks, assesses the relevance of these risks, and prioritizes them.

IDENTIFICATION OF OPPORTUNITIES THROUGH THE ANNUAL PLANNING PROCESS

In addition to the systematic management of risks, the Company's long-term success must be secured through integrated **opportunities management.** The identification of opportunities and their strategic and financial assessment play a major role in our annual planning process.

Our operating segments and Group Headquarters identify and make use of opportunities in our business throughout the year as part of the short-term monitoring of results and medium-term planning processes. While short-term monitoring of results mainly targets opportunities for the current financial year, the medium-term planning process focuses on opportunities that are strategically important for our Group. We distinguish between two types of opportunities:

- Opportunities with external causes over which we have no influence, for example, the revocation of additional taxes in Europe.
- Opportunities created internally, for example by focusing our organizational structure on innovations (e.g., T-Labs and the newly established Deutsche Telekom Capital Partners), growth areas and products, and business relationships and collaborations from which we expect synergies.

We have continuously increased the efficiency of our planning process so as to give us greater scope. This puts the organization in a position to identify and seize new opportunities and generate new business. The preliminary plans of our operating segments form the basis for a concentrated planning phase during which members of the Board of Management, business leaders, senior executives, and experts from all business areas intensively discuss the strategic and financial focus of our Group and our operating segments on a daily basis and ultimately produce an overall picture. The identification of opportunities from innovation and their strategic and financial assessment play a major role throughout this phase. During the daily decision-making rounds, possible results of this "brainstorming" lead to opportunities being rejected, passed back to the working groups for revision, or adopted and transferred to the organization.

RISK ASSESSMENT AND RISK CONTAINMENT

ASSESSMENT METHOD

Risks are assessed on the basis of "probability of occurrence" and "risk extent." The following assessment yardsticks apply:

T 051

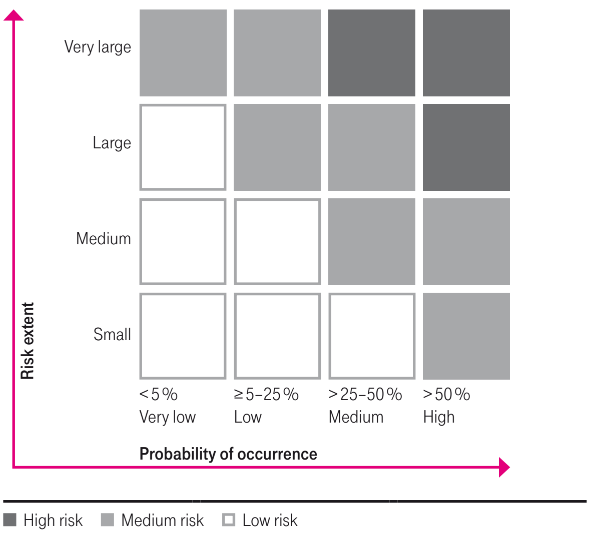
Probability of occurrence	Description
< 5 %	very low
≥ 5 to 25 %	low
> 25 to 50 %	medium
> 50 %	high

Risk extent	Description
Small	Limited negative effects on business activities, results of operations, financial position, and reputation; individual EBITDA risk < € 100 million
Medium	Certain negative effects on business activities, results of operations, financial position, and reputation; individual EBITDA risk ≥ € 100 million
Large	Significant effects on business activities, results of operations, financial position, and reputation; individual EBITDA risk ≥ € 250 million, and/or affects more than one Group entity
Very large	Damaging negative effects on business activities, results of operations, financial position, and reputation; individual EBITDA risk ≥ € 500 million, and/or affects more than one Group entity

By assessing risks according to the aspects of probability of occurrence and risk extent, we can classify them into low, medium and high risks, as shown in GRAPHIC 55.

G 55

Risk level



Once risks have been categorized in this way, all risks classified as "high" and "medium" are reported. Exceptions are possible in specific cases: For the sake of reporting continuity, for example, we also report risks from prior years that are classified as low for the current reporting period.

It should be noted that risks with an extent currently assessed as being small may in the future acquire a larger extent than risks that are currently assessed as having a larger extent. This may be due to uncertainties that cannot be assessed at present and over which we have no influence. Likewise, on account of uncertainties that cannot be assessed at present, risks that are currently unknown to us, or those that we currently consider to be insignificant, may affect our business activities in the future.

RISK CONTAINMENT MEASURES

Risk management and insurance. To the extent possible and economically viable, we take out adequate Group-wide insurance cover for insurable risks. Group Risk Management & Insurance is supported by DeTeAssekuranz GmbH as an insurance broker. DeTeAssekuranz GmbH works for the Group as a wholly owned subsidiary of Deutsche Telekom AG and supports insurance risk management in the Group. It develops and implements solutions for the Group's operational risks using insurance and insurance-related tools and places them on the national and international insurance markets.

Taking out insurance cover is an essential option for our external risk transfer. The coverage of risks in our Group insurance programs requires a risk transfer for the purpose of protecting the Group's financial position (i.e., the possible risk extent reaches a volume "relevant for the Group") or for risks to be bundled and managed at Group level to protect the Group's interests (opportune reasons/cost optimization/risk reduction).

Business Continuity Management (BCM). BCM is a support process within operational risk management that protects business processes from the consequences of damaging incidents and disruptions, and ensures the continuation of business processes through ongoing analysis, assessment, and management of relevant risks for people, processes, technology, and information. The aim of BCM is therefore to identify potential threats and to reduce the impact and duration of a disruption of critical business processes to an acceptable minimum by ensuring appropriate resilience in the organization plus the ability to effectively cope with threats.

For this, BCM identifies critical business processes and business processes needing protection including any supporting processes, process steps, and assets (employees, business processes, information, and technology). Appropriate precautionary measures are also defined. Specifically, the possible consequences of external and internal threats with relevance for security (natural disasters, vandalism, sabotage, etc.) need to be analyzed by Security Management in coordination with the relevant units and process owners. Once the extent of the damage and the probability that damage will occur have been evaluated, the basis is created for implementing preventive measures and developing emergency plans.

Further measures for containing risks are introduced and implemented by risk owners according to their quality and nature. A wide range of measures are available, depending on the risk type. A few examples of these measures are:

- We tackle market risks with comprehensive sales controlling and intensive customer management.
- We manage interest and currency risks with the help of our systematic risk management and hedge them using derivative and non-derivative financial instruments.
- We also take a large number of measures for dealing with operational risks: For example, we improve our networks through continuous operational and infrastructural measures. We continuously enhance our quality management, the related controls, and quality assurance. We offer systematic training and development programs for our employees.
- We deal with risks from the political and regulatory environment through an intensive, constructive dialog with authorities and politics.
- We endeavor to minimize risks in connection with legal disputes by ensuring suitable support for proceedings and designing contracts appropriately in the first place.
- The Group Tax unit identifies potential tax-related risks at an early stage and systematically records, assesses and monitors them. Measures to minimize tax-related risks are taken as necessary and coordinated with the Group companies affected. The unit also draws up and communicates policies for overcoming or avoiding tax risks.

RISKS AND OPPORTUNITIES

In the following section, we present all risks and opportunities that have been identified as significant for the Group and, as things currently stand, could affect the results of operations, financial position, and/or reputation of Deutsche Telekom and, via the subsidiaries' results, the results of operations, financial position and/or reputation of Deutsche Telekom AG. We describe the majority of the risks before the measures for risk containment are taken. If any remaining risks have been identified despite such measures for risk containment, they are labeled as such. If risks and opportunities can be clearly allocated to an operating segment, this is subsequently presented.

As of the reporting date and the time of preparing the statement of financial position, there were no risks that jeopardize Deutsche Telekom AG's and key Group companies' continued existence as a going concern.

In order to make it easier to understand and explain their effects better, we have allocated the individually assessed risks to the following categories:

T 052

Corporate risks

	Probability of occurrence	Risk extent	Risk level	Change against prior year
INDUSTRY, COMPETITION AND STRATEGY				
Economic risks, Germany	low	small	low	unchanged
Economic risks, United States	low	medium	low	improved
Economic risks, Europe	low	medium	low	improved
Risks relating to the market and environment, Germany	medium	small	low	improved
Risks relating to the market and environment, United States	low	large	medium	deteriorated
Risks relating to the market and environment, Europe	medium	medium	medium	improved
Risks relating to innovations (substitution)	medium	medium	medium	improved
Risks relating to strategic transformations and integration	medium	medium	medium	unchanged
REGULATION	see page 153 et seq.			
OPERATIONAL RISKS				
Personnel, Germany and Systems Solutions	medium	small	low	unchanged
Risks relating to IT/NT network operations, Germany	very low	very large	medium	unchanged
Risks relating to IT/NT network operations, United States	very low	large	medium	unchanged
Risks relating to IT/NT network operations, Europe	very low	large	low	unchanged
Risks relating to existing IT architecture, United States	medium	medium	medium	deteriorated
Future viability of the IT architecture, United States	medium	large	medium	deteriorated
Procurement	low	small	low	unchanged
Data privacy and data security	medium	medium	medium	unchanged
BRAND, COMMUNICATION AND REPUTATION				
Brand and reputation (reporting in the media)	low	small	low	unchanged
Sustainability risks	very low	small	low	improved
Health and environment	low	medium	low	unchanged
LITIGATION AND ANTI-TRUST PROCEEDINGS	see page 158 et seq.			
FINANCIAL RISKS				
Liquidity, credit, currency, interest rate risks	low	small	low	unchanged
Tax risks	see page 163			
Other financial risks	see page 163			

improved unchanged deteriorated

RISKS AND OPPORTUNITIES FROM INDUSTRY, COMPETITION AND STRATEGY

Risks and opportunities relating to the macroeconomic environment. The economic development and outlook for our markets have improved, in part through the ECB's expansive monetary policy. However, a renewed intensification of the sovereign debt crisis and the possibility that the banking crisis will flare up again remain the greatest economic risks for our European countries in particular. A radical escalation of the current or future geopolitical crises may also have an adverse effect on the economies of the countries in which we operate. The economic recovery in Greece could be adversely affected by a substantial deviation from the budget policy agreed with the Troika.

Risks to economic development could manifest themselves in different ways in some of our countries, where consumers and business customers could rein in their consumption if the economy slows again sharply and uncertainty continues to rise. Government austerity measures could also have negative effects on demand for telecommunications services – caused by reduced public demand and lower disposable incomes in the private sector. On account of national efforts at consolidation, our operational business also faces the risk of further, unannounced tax rises or special taxes, particularly in our Southern and Eastern European markets. Furthermore, the risks arising from the sovereign debt crisis also give rise to volatile exchange rate fluctuations.

By contrast, a clear improvement in the economic situation in the countries in which we operate may lead to a further increase in consumer behavior as well as in business and public investment activity and, as a result, to a moderate increase in demand for telecommunications and ICT services from consumers, business customers, and the public sector.

For further information, please refer to the section "The economic environment," **PAGE 76 ET SEQ.**

Risks relating to the market and environment. The main market risks we face are the consistently falling price levels for voice and data services in the fixed network and in mobile communications. In addition to price reductions imposed by regulatory authorities, this is primarily attributable to intensive competition in the telecommunications industry, cannibalization effects due to new products and services, and technological progress. Consolidations and partnerships that resulted in stabilization in the market helped to reduce the risks compared with the prior year and could have further positive effects in the future.

Competitive pressure is expected to continue, especially in the fixed network in Germany and Europe. In the broadband market, we continue to observe growing market shares of cable network operators in the new customer business, especially in Germany. Furthermore, regional telecommunications carriers may further increase their market coverage. In certain regions, our competitors are extending their own fiber-optic network to the home so that they are independent of our network in the local loop, too. Another competitive risk lies in the fact that we are increasingly faced with competitors who are not part of the telecommunications sector as such, but rather major players in the Internet and consumer electronics industries. We continue to be exposed to the risk of a further loss of market share and falling margins.

We also expect prices in mobile voice telephony and mobile data services to decline further, which could adversely affect our mobile revenue. Among the main reasons for the decrease in prices are discount operators that are expanding in Germany and other European markets. The pure eSIM smartphone offerings from major smartphone manufacturers could also further push down prices in mobile voice telephony and for mobile data services. Our national companies in Europe continue to operate in a highly competitive environment. On the one hand, consolidations (e.g. in Austria) and partnerships provide impetus for stabilization. On the other hand however, competition remains intense due to new market players as a result of frequency auctions and wholesale agreements (especially in mobile communications). In addition, there is also the risk that smaller competitors will take unforeseen, aggressive pricing measures.

During the reporting year, we were the smallest of the four national mobile providers in the United States and the third largest in the prepay segment. Our relative market position in the United States entails particular risks, especially in connection with our market shares, brand positioning, network coverage – including in roaming agreements – and network quality. We expect joint ventures, mergers, acquisitions, and strategic business combinations in the U.S. mobile industry to result in increased competition in the U.S. market. Thanks to their market position and market shares, our three strongest competitors (Verizon Wireless, AT&T, Sprint-Nextel) can react faster and more effectively to market opportunities and invest more in customer acquisition. In the future, T-Mobile US will require additional spectrum in order to meet the rising demand for capacity. If spectrum is not acquired, risks include a deterioration in the quality of services due to saturation of frequency capacities. T-Mobile US participated in the FCC frequency auction, which ended on January 29, 2015. We expect that these and further transactions will improve network coverage of broadband spectrum and enable the expansion of LTE coverage. In 2015, T-Mobile US will try to acquire more spectrum to enhance its portfolio. T-Mobile US is also pursuing the option of acquiring spectrum from other providers and to conclude agreements on sharing network capacity with other network operators.

Our Systems Solutions operating segment also faces challenges. After all, the information and communications technology market is dominated by continuing strong competition, persistent price erosion, long sales cycles, and restrained awarding of projects. This creates a potential risk of revenue losses and declining margins at T-Systems.

Opportunities relating to the market and environment. In the following section, we present opportunities for each business segment which we believe will allow us to achieve above-average market growth and which could be significant for us in terms of our future financial position and results.

The telecommunications and IT market is highly dynamic and characterized by intense competition. The economic conditions affect our actions and impact on our Company indicators. We generally expect the situation to develop as described in the section "Market expectations".

See the section "Forecast," PAGE 134 ET SEQ.

One opportunity in the German market could arise from customer demand for broadband connections being significantly higher than our planning assumptions. The marketing of convergent products comprising fixed network and mobile communications in the consumer and business customer segments could also increase the high-value customer base beyond our planning assumptions. Higher investments in high-performance broadband networks based on LTE by all national competitors and the ongoing consolidation of the mobile and fixed-network markets could lead to increased competition on the basis of performance, and reduce the substantial price erosion of the last few years. Further opportunities could result from a stronger trend beyond our expectations for tablets and smartphones with mobile data connections, which are becoming increasingly good value for end customers thanks to strong competition among manufacturers.

Higher net immigration leads to a growing population, which has a positive impact on the telecommunications market, especially the mobile market. However, this also offers additional opportunities, especially for those industrial nations that are aging and in some cases already shrinking: By admitting migrant workers, they can maintain their levels of productivity and counter the shortage of skilled labor.

The improved market situation of T-Mobile US could have a positive effect on the monetization of data services. This could be stimulated in particular by the constant introduction of innovative rate plans. Moreover, it could be possible to improve the margin in the lower and middle segment's terminal equipment business if procurement volumes can be bundled and specifications simplified. In addition, the momentum brought about by the Un-carrier strategy in the U.S. mobile market may continue in 2015 and thereby generate revenues and customer growth for T-Mobile US beyond our expectations. The momentum in the U.S. market is also supported by significant net immigration in the U.S. population.

Risks relating to innovations. Ever shorter innovation cycles confront the telecommunications sector with the challenge of bringing out new products and services at shorter and shorter intervals. New technologies are superseding existing technologies, products, or services in part, in some cases even completely. This could lead to lower prices and revenues in both voice and data traffic. In the future, the effects of new technological developments, such as WebRTC (Web Real Time Communication) could have a significant impact on the telecommunications market. For example, customers may only demand pure data rates. These substitution risks could impact our revenue and earnings, in particular in the Europe and United States operating segments. We deal with the impact of substitution risks by offering package rates, which provide new and existing customers with an integrated solution from Deutsche Telekom's communications portfolio.

Risks relating to strategic transformations and integration. We are in a continuous process of strategic adjustments and cost cutting initiatives. If we are unable to implement these transformations and integration measures as planned, we will be exposed to risks. In other words, the benefit of the measures could be less than originally estimated, or they could take effect later than expected, or not at all. Each of these factors, on their own or combined with others, could have a negative impact on our business situation, financial position, and results of operations.

Opportunities relating to strategic initiatives, innovations, and partnerships. In the following section, we present the opportunities which we believe will allow us to achieve above-average market growth and which could be significant for us in terms of our future financial position and results.

Deutsche Telekom is redesigning its processes on the basis of a new ERP platform. This transformation covers the areas of Finance, Procurement, Human Resources, Production, Service & Logistics and their master data. Processes, data and IT are being standardized Group-wide and raised to a new level. This gives rise to a high level of quality and agility, making it possible to realize savings. It also provides a new basis for carrying out business management, which can thus be optimized. There are further advantages in the improved support for our programs to expand our network infrastructure and in the simplified implementation of partnerships.

For T-Mobile US, a stronger strategic focus on the business customer market can bring with it the opportunity for a larger market share in this segment. This also creates higher revenue and earnings potential.

RISKS AND OPPORTUNITIES RESULTING FROM REGULATION

In the following section, we describe our main regulatory and political risks and opportunities which, as things currently stand, could affect our results of operations, financial position, or cash flows, and/or our reputation.

Our German and international companies remain subject to sector-specific market regulation. The national regulatory authorities have extensive powers to intervene in our product design and pricing, with significant effects on our operations. We can only to a limited extent anticipate such regulatory interventions, which may additionally increase existing price and competitive pressure.

There are concerns that regulation in Germany and other European countries may continue to impact the revenue trend in the fixed network and in mobile communications in the medium and long term.

We are always subject to strict regulation in cases where national regulatory bodies consider us to have "significant market power" in the relevant telecommunications market. This means the national regulatory bodies can compel us to grant competitors access to our networks. On the other hand, they can also regulate specific wholesale products and the rates to be paid for these.

In relation to the types of rates regulation, a distinction must be made between ex-ante and ex-post regulation. In ex-ante regulation, prices must be submitted to the regulatory bodies for approval – before they take effect. In Germany, a strict cost review is performed for our wholesale services for access to unbundled local loop lines (ULLs) and for the termination of voice calls in our fixed and mobile networks. The second type of rate regulation is ex-post regulation, which does not involve a strict cost review; however, investigations whether prices are abusively excessive or too low can be launched at any time. In Germany, bitstream products are subject to ex-post rate regulation with a notification requirement. This means that we must announce rate measures to the Federal Network Agency before they take effect and the latter may initiate a more extensive review. Decisions by the Federal Network Agency may on the one hand lead to lower prices and thus lower revenue and, in ex-post proceedings, to delays in the introduction of pricing measures. On the other hand, opportunities arise if the Federal Network Agency approves stable or rising rates. Longer-term approvals ultimately increase our planning reliability.

For more information on the administrative court proceedings, see the section "Litigation," PAGE 158 ET SEQ.

Assignment of frequencies. In terms of risks and opportunities regarding spectrum regulation, particular note should be made of the spectrum allocation processes currently in preparation or being planned in some countries. The allocation procedures mainly relate to the auctioning of spectrum in the 0.8 GHz, 1.8 GHz, and 2.6 GHz ranges. Risks could arise from the fact that inappropriate auction rules and frequency usage requirements, excessive launch price demands and disproportionately high annual spectrum fees could jeopardize the acquisition of our target spectrum. By contrast, we see an opportunity in particular in the fact that via such spectrum allocation procedures, mobile operators can acquire sufficient spectrum that is ideal for their purposes. We would thus be equipped for further growth and innovation. Allocation procedures are currently being prepared in Albania, Germany, Poland, and the Czech Republic, which are expected to start in the first half of 2015. Frequency auctions will also be held in the medium term in Montenegro, the United Kingdom, the Netherlands and the United States.

For information on frequency auctions that are currently ongoing or were completed in 2014, please refer to the section "The economic environment," PAGE 76 ET SEQ.

Consumer protection. In February 2014, the Federal Network Agency presented a draft regulation designed to achieve more transparency and greater cost control in telecommunications services. The extensive requirements will give consumers and other end users the opportunity to check their Internet speeds in the mobile and fixed network on request, for example. Warnings in the event of high data consumption and new regulations for avoiding bill shocks are also envisaged. These new regulations will entail significant adjustments for Telekom Deutschland. In parts, the draft regulation addresses considerations being discussed at EU level in the context of the regulation on the single market for electronic communications which may apply across the EU at a later date. At present, the Federal Network Agency's draft is being agreed with the government ministries involved, following which it must be agreed with the German national parliament, the Bundestag. The regulation will enter into force after a six-month transposition period. An extended transposition period of twelve months is envisaged for individual rules.

Retrospective new ruling on rate approvals. In Germany, in addition to the general regulatory risks already described, there are also uncertainties arising from the fact that administrative courts can reverse rate rulings made by the national regulatory authority. The regulatory authority then has to decide again on the rates for past periods. It is generally not clear at all, whether, to what extent, and in which direction rates will be revised.

At EU level, the relevant regulatory framework is largely determined by regulations to be applied directly by the member states, by directives to be transposed into national law by the member states, and by recommendations by the European Commission that, while not directly binding, must be taken into account by the national regulatory authorities. Examples of important regulations and recommendations:

- The **Roaming Regulation,** which entered into force on July 1, 2012, specifies price caps for retail roaming services through 2017. Risks arise from possible early new regulations on roaming as part of the draft regulation by the European Commission on the single market for electronic communications. For example, the draft envisages abolition of roaming premiums compared with national rates from 2016. The introduction of Roam Like at Home, as it is called, could give rise to substantial revenue losses as well as significant implementation costs.

- The European Commission Recommendation of May 7, 2009 on the Regulatory Treatment of Fixed and Mobile Termination Rates in the EU set out that termination rates across the European Union are to be set on the basis of a new costing approach from January 1, 2013. As a result, the termination rates of our subsidiaries in Europe and in Germany were substantially reduced and will be reduced further in 2015 through regulatory decisions and preliminary drafts by the relevant regulatory authorities. The European Commission had also announced that in the event of non-compliance with the recommendation to change the cost standard, it would consider legal action with regard to the final decisions by the Federal Network Agency on the mobile and fixed-network termination rates.

- In the revision of the Recommendation on Relevant Markets published on October 9, 2014, various product markets are defined in which regulatory measures are to apply in general. According to the revised recommendation, the number of markets to be regulated has been reduced from seven to four. The new recommendation offers the opportunity for deregulation of the telephony service markets, such as retail rates for the telephone line as well as wholesale products, such as Call by Call. The recommendation also allows the waiving of an obligation to "physically unbundle" access networks in favor of more efficient "active" wholesale services for fiber-optic lines. On the other hand, the recommendation carries the risk of an increase in regulation for individual wholesale services for business customer markets. The national regulatory authorities have to take the recommendation into account in future market analysis procedures. The opportunities and risks described can only take effect when taken into consideration in national decisions.

Further development of the European legal framework in the form of new EU regulations or directives provides opportunities for greater legal certainty; however, risks of additional regulatory restrictions also arise.

- In addition to positive proposals on spectrum policy and regulatory principles, the original draft regulation by the European Commission on the single market for electronic communications envisaged regulatory cuts in roaming fees and the international call rates within Europe. At the same time, customer protection regulations are expected to be harmonized further and regulations on Net neutrality enshrined at EU level. In the ongoing legislative procedure in the European Parliament and the European Council, the draft has already been changed significantly. For example, the European Council is no longer discussing the proposed regulations on spectrum policy, but has moved on to the abolition of premiums for roaming services for 2016. We expect that the regulation will not be passed until the second quarter of 2015 at the earliest, possibly even in the second half of 2015.

- Depending on how they are implemented, the planned EU regulations on Net neutrality might significantly curtail our freedom in product design. The regulations in the form agreed by the European Parliament would only allow "special services" to be offered under strict conditions – for example, data traffic management in set cases; on the other hand, they would impede optional calling plans in mobile communications, limit access to certain Internet services and applications, or exclude them from volume restrictions. The European Council is currently debating a less restrictive, more principles-based approach. The European Council and the Parliament have to agree on a joint text. In mobile communications in particular, there is a risk arising from EU legislation that numerous business models that differentiate between services and applications can no longer be legally offered.

- A complete overhaul of the applicable EU legal framework for telecommunications will be initiated by the European Commission next year. Opportunities, such as a reduction in "ex-ante" regulation, and risks, such as in the area of universal service obligations or customer protection, cannot yet be conclusively assessed at the present time.

Glossary, PAGE 277 ET SEQ.

OPERATIONAL RISKS AND OPPORTUNITIES

Personnel. In 2014, we once again used socially responsible measures to restructure the workforce in the Group, essentially by means of voluntary redundancies, partial and early retirement, and employment opportunities for civil servants and employees offered by Vivento, especially in the public sector. Staff restructuring will continue in the coming financial year. If it is not possible to implement the measures as planned or at all, this may have negative effects on our financial targets and profitability. The right of civil servants to return to Deutsche Telekom also carries risks: When Group entities that employ civil servants are disposed of, it is generally possible to continue to employ them at the Group entity to be sold, provided the civil servant agrees or submits an application to be employed at the respective unit in future. However, there is a risk that they may return to us from a sold entity, for instance after the end of their temporary leave from civil servant status, without the Company being able to offer them jobs.

There are currently around 2,200 civil servants who are entitled to return to Deutsche Telekom in this way (as of December 31, 2014). On the assumption that all these civil servants had returned to us in the reporting year, the maximum risk would be around EUR 0.1 billion per year. This risk could be reduced by compensation payments, for example, but not completely eliminated.

For information on major litigation in connection with personnel, please refer to the section "Litigation," PAGE 158 ET SEQ.

Risks relating to IT/NT network operations. We have an increasingly complex information/network technology (IT/NT) infrastructure, which we constantly expand and modernize. Outages in the current and also future technical infrastructure cannot be completely ruled out. Any such disruptions could in certain circumstances result in revenue losses or increased costs, since our IT/NT resources and structures are the main organizational and technical backbone for our operations.

Risks could arise in this area relating to all IT/NT systems and products that require Internet access. For instance, faults between newly developed and existing IT/NT systems could cause interruptions to business processes, products and services, such as smartphones and Entertain. In order to avoid the risk of failures, e.g., arising from natural disasters or fire, we use technical early warning systems and duplicate IT/NT systems. Our Computer Emergency Response Team (CERT) at T-Systems provides security for our corporate customers' servers. In cloud computing, all data and applications are stored at a data center. Deutsche Telekom's data centers have security certification and meet strict legal data protection provisions and EU regulations. All data relating to companies and private persons are protected from external access. Constant maintenance and automatic updates keep the security precautions up to date at all times. Based on a standardized Group-wide Business Continuity Management process, we are also taking organizational and technical measures to prevent any damage or to minimize the effects. Furthermore, we have Group-wide insurance cover for insurable risks.

Sustainability at Deutsche Telekom

Risks relating to the existing IT architecture. T-Mobile US is exposed to risks in relation to its IT infrastructure: Systems for sales and service have become less efficient over time, leading to interruptions or outages. For as long as it takes to upgrade our IT systems, T-Mobile US will have to continue to expect limitations in the sales process and in service.

Future viability of the IT architecture. If T-Mobile US is not ready in time to exploit the benefits of technological advances, we will have reason to fear a decline in demand for our services. System failures, security breaches, data protection violations, disruption of operations, and unauthorized use or impairment of our network and other systems could damage our reputation and adversely impact our financial situation. In 2014, T-Mobile US began to introduce a new billing system which, once implemented successfully, is to substantially support the transformation. The integration of the new billing system entails operational risks. In addition, T-Mobile US must take long-term measures in the area of IT in 2015 in order to maintain its ability to act quickly on the market and ensure compliance with recognized standards for authorization management and access protection.

Opportunities arising from the IT architecture. T-Mobile US is making significant investments in the IT infrastructure, including optimizing the customer service systems. If these investments succeed in considerably improving sales and service processes, there is an opportunity to save more costs than currently expected.

We provide regular reports on the latest developments in these areas on our websites **www.telekom.com/dataprotection** and **www.telekom.com/security**.

Procurement. As a service provider and an operator and provider of telecommunications and IT products, we cooperate with a variety of suppliers of technical components, such as software, hardware, transmission systems, switching systems, outside plant, and terminal equipment.

Supply risks cannot be entirely ruled out. Delivery bottlenecks, price increases, changes in the prevailing economic conditions or suppliers' product strategies may have a negative impact on our business processes and our results. Risks may result from the dependence on individual suppliers or from individual vendors' defaulting as a direct result of the economic crisis. We employ organizational, contractual, and procurement strategy measures to counteract such risks.

Data privacy and data security. Our products and services are subject to risks in relation to data privacy and data security, especially in connection with unauthorized access to customer, partner, or employee data.

The security and privacy of customer data are always our top priority. This also applies to the growing cloud computing business, which is subject to the same rigorous requirements for security and data privacy as all our other products. In order to maintain these high standards and largely exclude risks, we support the view that European data protection rules should be made mandatory where a company offers its services on the European market. This would provide consumers with the same rights all over Europe. Loopholes in data protection in Europe could also be closed and uniform competitive conditions created.

With regard to IT security, we are faced with numerous new challenges. In recent years, the focus has shifted from prevention to analysis. This is where our early warning system comes in: It detects new sources and types of cyber attack, analyzes the behavior of the attackers while maintaining strict data privacy, and identifies new trends in the field of security. Along with the honeypot systems, which simulate weaknesses in IT systems, our early warning system includes alerts and analytical tools for spam mails, viruses, and Trojans. The information we obtain from these sensors is exchanged with public and private bodies to enable new attack patterns to be detected and new protection systems to be developed.

Cyber crime and industrial espionage are on the rise. We are addressing these risks with comprehensive security concepts, and we are increasingly doing so in partnerships, for example with public and private organizations. This allows us to create greater transparency and thus be better able to tackle the threats. With Security by Design we have established security as a fixed development component for new products and information systems. In addition, we carry out intensive and mandatory digital security tests.

RISKS AND OPPORTUNITIES ARISING FROM BRAND, COMMUNICATION AND REPUTATION

Negative media reports. An unforeseeable negative media report on our products and services or our corporate activities and responsibilities can have a huge impact on the reputation of our Company, our standing, and our brand image. Social networks have made it possible that such information and opinions can spread much more quickly and extensively than they could just a few years ago.

Ultimately, negative reports can impact on our revenue and brand value. In order to avoid negative reports, we seek out a constant, intensive and constructive dialog, in particular with our customers, the media, and the financial world. Keeping our stakeholders happy and thereby upholding our reputation is a priority for us.

Ongoing media reports concerning the surveillance of telephone and Internet traffic by intelligence agencies. In light of the ongoing public coverage of the monitoring of telephone and Internet traffic by secret services, surveys from Germany show that the German public's trust in Internet services has been undermined. For network operators, indirect damage to their reputation and therefore commercial risks cannot be ruled out since, like all network operators, Deutsche Telekom is obliged to cooperate with national security agencies and based on non-disclosure obligations may speak publicly thereof only to a limited extent.

Sustainability risks. For us, comprehensive risk and opportunities management also includes considering the risks and opportunities of corporate responsibility (CR). As part of our CR management, we pursue a strategy in which the different stakeholder groups are systematically involved in identifying current and potential risks and opportunities. To this end, we participate in a number of committees and initiatives. Continuous monitoring of CR topics enables us to systematically identify stakeholder positions on relevant sustainability issues. To this end, we use, for example, our NGO Radar, which summarizes the activities, research projects, publications, and opinions of relevant NGOs and assesses them for us. In addition, we ask our stakeholders on an annual basis as part of our CR reporting which sustainability issues are important to them.

- Climate protection. At present, we do not see any severe risks to the achievement of our climate protection targets within our reference period. Deutsche Telekom sees climate protection above all as an opportunity: ICT products and services have the potential to save seven times as many carbon emissions in other industries as the ICT industry emits itself (SMARTer2020 study). Examples of resulting external opportunities include changed customer expectations, political measures to implement the energy revolution, the growing consideration of sustainable criteria in tenders and in procurement, as well as the interest of sustainable investors (socially responsible investing – SRI). The Carbon Disclosure project, for example, manages 767 institutional investors (approx. USD 92 trillion), selecting investments in climate-friendly assets. Opportunities that Deutsche Telekom can develop itself are the continuous reduction in its own electricity consumption and emissions, as well as a reduction in carbon emissions by means of climate-friendly products and services, thus also tapping into new target groups.
- Suppliers. We see more sustainability in our supply chain as an opportunity. It helps to enhance our reputation and our economic success. Thus through a development program, we help strategic suppliers to introduce business practices that are socially and ecologically acceptable and economically efficient. The program launched in 2014 has already produced measurable initial successes and is to be rolled out further in 2015. At the same time, our global procurement activities can expose us to country- and supplier-specific risks. These include, for example, the use of child labor, the conscious acceptance of environmental damage or inadequate working and safety conditions in the local supplier factories. However, the reporting of NGOs or media can give rise to risks to the Company's reputation, but also to supply risks. We reduce these risks by systematically reviewing suppliers.

See section "Corporate responsibility," PAGE 116 ET SEQ.

In the important sustainability ranking SAM, Deutsche Telekom was rated very positively for its supplier management in the last few years. In 2014, we improved further (from 88 points in 2013 to 93 points). Our partnerships with suppliers that comply with international sustainability standards ensure a high level of product quality and reliability in procurement.

Health and environment. Mobile communications, or the electromagnetic fields used in mobile communications, regularly give rise to concerns among the general population about potential health risks. There is intense public, political, and scientific debate of this issue. Acceptance problems among the general public concern both mobile communications networks and the use of mobile handsets. In mobile communications, this affects projects like the build-out of the mobile communications infrastructure and the use of mobile handsets. In the fixed network, it affects sales of traditional DECT (digital cordless) phones and devices that use Wi-Fi technology. There is a risk of regulatory interventions, such as reduced thresholds or the implementation of precautionary measures in mobile communications (e.g., amendments to building law or labeling requirements for handsets).

Sustainability at Deutsche Telekom

Over the past few years, recognized expert organizations such as the World Health Organization (WHO) and the International Commission on Non-Ionizing Radiation Protection (ICNIRP) have repeatedly reviewed the current limit values for mobile communications and confirmed that if these values are complied with the use of mobile technology is safe based on current scientific knowledge. In 2011, despite a lack of scientific evidence, the International Agency for Research on Cancer (IARC), a WHO agency, classified high-frequency electromagnetic fields as "possibly carcinogenic" as a precautionary measure on the basis of isolated indications. This is the weakest category indicating a potential carcinogenic effect. Drinking coffee is also included in the same category. However, the classification provoked an increase in media coverage, as well as controversy among experts. The German Commission on Radiology Protection criticized the IARC's classification on the basis that there is insufficient scientific evidence for it in the Commission's view. There is still agreement among all institutions and expert committees that there is so far no scientific evidence of a health risk from high-frequency electromagnetic fields but there is a need for more research into this issue.

See section "Forecast," PAGE 134 ET SEQ.

We are convinced that mobile communications technology is safe if specific threshold values are complied with. We are supported in this conviction by the assessment of the recognized bodies. The basis of our responsible management of mobile communications is Deutsche Telekom's EMF Policy. With this policy we are committing ourselves to more transparency, information, participation, and financial support of independent research on mobile communications, far beyond that which is stipulated by legal requirements. We aim to overcome uncertainty among the general public by pursuing an objective, scientifically well-founded, and transparent information policy. Thus, we remain committed to maintaining our trust-based, successful communication with local authorities over and above the statutory requirements. The same applies even after the longstanding cooperation with local authorities in connection with the build-out of the mobile network, which in the past was implemented on the basis of voluntary commitments by the network operators, was enshrined in law in 2013.

LITIGATION

Major ongoing litigation. Deutsche Telekom is party to proceedings both in and out of court with government agencies, competitors, and other parties. The proceedings listed below are of particular importance from our perspective. If, in extremely rare cases, required disclosures on the significance of individual litigation and anti-trust proceedings are not made, we conclude that these disclosures may seriously undermine the outcome of the relevant proceedings.

T 053

Major ongoing litigation

Toll Collect arbitration proceedings
Prospectus liability proceedings
Claims for damages concerning the provision of subscriber data
Claims by partnering publishers of telephone directories
Claims for damages due to price squeeze
Claims relating to charges for shared use of cable ducts
Litigation concerning decisions by the Federal Network Agency
Monthly charges for the unbundled local loop
Auction of LTE frequencies
Reduced pay tables
Claim for compensation against Slovak Telekom
Claim for compensation against OTE
Patents and licenses
Reduction of the Company's contribution to the civil service pension of the former Deutsche Bundespost

- **Toll Collect arbitration proceedings.** The principal members of the Toll Collect consortium are Daimler Financial Services AG and Deutsche Telekom AG. In the arbitration proceedings between these principal shareholders and the consortium company Toll Collect GbR on one side and the Federal Republic of Germany on the other concerning disputes in connection with the truck toll collection system, Deutsche Telekom received the Federal Republic of Germany's statement of claim on August 2, 2005. In this statement, the Federal Republic claimed to have lost toll revenues of approximately EUR 3.51 billion plus interest owing to a delay in the commencement of operations. The total claims for contractual penalties amount to EUR 1.65 billion plus interest; these claims are based on alleged violations of the operator agreement: alleged lack of consent to subcontracting, allegedly delayed provision of on-board units and monitoring equipment. In a letter dated May 16, 2008, the Federal Republic recalculated its claim for damages for lost toll revenues and reduced it by EUR 169 million. The claim is now approximately EUR 3.33 billion plus interest. The main claims by the Federal Republic – including the contractual penalty claims – thus amount to around EUR 4.98 billion plus interest. Further hearings took place in spring and fall 2014. In connection with the hearing in spring 2014, the proceedings and the share of the risk borne by Deutsche Telekom were reexamined and, as a result, appropriate provisions for risk were recognized in the statement of financial position.

- **Prospectus liability proceedings.** There are around 2,600 ongoing actions filed by around 16,000 alleged buyers of T-Shares sold on the basis of the prospectuses published on May 28, 1999 (second public offering, or DT2) and May 26, 2000 (third public offering, or DT3). The complainants assert that individual figures given in these prospectuses were inaccurate or incomplete. The amount in dispute totals approximately EUR 80 million. Some of the actions are also directed at KfW and/or the Federal Republic of Germany as well as the banks that handled the issuances. The Frankfurt/Main Regional Court has issued certified questions to the Frankfurt/Main Higher Regional Court in accordance with the German Capital Investor Model Proceedings Act (Kapitalanleger-Musterverfahrensgesetz – KapMuG) and has temporarily suspended the initial proceedings. In the model proceedings ("Musterverfahren") on the second public offering (DT2) on July 3, 2013, the Frankfurt/Main Higher Regional Court issued a decision and ruled that the disputed stock exchange prospectus did not contain any errors. On May 16, 2012, the Frankfurt/Main Higher Regional Court had ruled in the model proceedings ("Musterverfahren") on the third public offering (DT3) that there were also no errors in the prospectus for Deutsche Telekom AG's third public offering. The Frankfurt/Main Higher Regional Court therefore believes there is no basis for holding Deutsche Telekom AG liable. In its decision on October 21, 2014, the Federal Court of Justice revoked this ruling, determined that there was a mistake in the prospectus, and referred the case back to the Frankfurt/Main Higher Regional Court. A decision on possible liability for damages was not made. We continue to hold the opinion that there are compelling reasons why Deutsche Telekom AG should not be liable for damages. It is currently not possible to estimate the financial impact with sufficient certainty.

- Claims for damages concerning the provision of subscriber data. In 2005, Deutsche Telekom AG received a claim for damages of approximately EUR 86 million plus interest from telegate AG. telegate AG alleges that Deutsche Telekom AG charged excessive prices for the provision of subscriber data between 1997 and 1999, resulting in telegate AG not having sufficient funds available for marketing measures, thus preventing it from reaching its target market share. Also in 2005, Deutsche Telekom AG received a claim for damages of approximately EUR 329 million plus interest from Dr. Harisch, the founder of telegate AG. Dr. Harisch alleges that the excessive prices for the provision of subscriber data between 1997 and 1999 caused telegate AG's equity ratio to decrease significantly on several occasions, resulting in the need for capital increases. This required Dr. Harisch and another shareholder to release shares from their own holdings, which diluted their remaining shareholdings. The complainant has since lodged an increased claim for EUR 612 million plus interest. The Cologne Regional Court dismissed both actions in its rulings on May 28, 2013. Both Dr. Harisch and telegate AG have appealed against the rulings. In its ruling on July 2, 2014, the Düsseldorf Higher Regional Court dismissed the appeal filed by Dr. Harisch. Dr. Harisch filed a complaint against the non-allowance of appeal with the Federal Court of Justice on July 8, 2014. A further claim for approximately EUR 14 million plus interest was filed in 2006 by klickTel AG, which is now part of telegate AG, on the grounds that the company had lost substantial profits because, without the allegedly excessive prices, it would have launched online directories as early as in 1999. The Cologne Regional Court dismissed the action in its ruling on November 27, 2012, too. In its ruling on December 11, 2013, the Düsseldorf Higher Regional Court dismissed the appeal filed by the complainant against this. The decision is final and legally binding.

- Claims by partnering publishers of telephone directories. Several publishers that had set up joint ventures with DeTeMedien GmbH, a wholly owned subsidiary of Deutsche Telekom AG, to edit and publish subscriber directories, filed claims against DeTeMedien GmbH and/or Deutsche Telekom AG at the end of 2013. The complainants are claiming damages or refund from DeTeMedien GmbH and to a certain extent from Deutsche Telekom AG as joint and several debtor next to DeTeMedien GmbH. The complainants base their claims on allegedly excessive charges for the provision of subscriber data in the joint ventures. In 2014, further partnering publishers made claims for compensation or refund against DeTeMedien GmbH. At the end of 2014, several plaintiffs further quantified the amounts claimed. Thus the claimed amounts currently total around EUR 470 million plus interest. Hearings were held regarding two actions filed against DeTeMedien GmbH at the Frankfurt/Main Regional Court on July 16, 2014 which the Court rejected in rulings on October 22, 2014. The decisions are not final and legally binding yet. The complainants have filed an appeal with the Frankfurt/Main Higher Regional Court against the rulings. We expect decisions in the numerous other cases in 2015. Deutsche Telekom has recognized appropriate provisions for risks in 2014 in the statement of financial position.

- Claims for damages due to price squeeze. Various competitors had filed actions against Deutsche Telekom AG or Telekom Deutschland GmbH seeking damages on the grounds of a price squeeze between wholesale and retail prices in the local network after a squeeze was identified by the European Commission in 2003 as part of a decision to impose fines. In the appeal proceedings launched by EWE Tel with a claim of approximately EUR 82 million plus interest, the Düsseldorf Higher Regional Court issued a ruling on January 29, 2014 revising the ruling of the Cologne Regional Court, particularly with regard to the scale of the claims that had lapsed, and referred the case back to the Cologne Regional Court regarding the amount of compensation awarded – not allowing the appeal. Both EWE Tel GmbH and Telekom Deutschland GmbH filed complaints with the Federal Court of Justice against the non-allowance of the appeal. In the appeal proceedings brought by Versatel GmbH with a claim of around EUR 70 million, the Federal Court of Justice rejected Versatel's complaint against the non-allowance of appeal in a ruling dated September 23, 2014. The decision is final and legally binding. With the exception of the claim of EWE Tel no further proceedings are pending in this matter.

- Claims relating to charges for shared use of cable ducts. With an action filed in spring 2012, Kabel Deutschland Vertrieb und Service GmbH (KDG) is asserting two claims: first, Telekom Deutschland GmbH is to reduce the annual charge for the rights to use cable duct capacities in the future; second, it is to partially refund payments made in this connection since 2004. KDG quantified the amount of the claims incurred up to and including 2012 at approximately EUR 340 million plus interest. In its ruling on August 28, 2013, the Frankfurt/Main Regional Court dismissed the complaint. In the appeal proceedings, KDG also quantified its claims for 2013 through an extension of claim and is now seeking a refund of charges allegedly paid in excess of approximately EUR 407 million as well as alleged net interest received of around EUR 34 million, plus interest in each case. On December 9, 2014, the Frankfurt/Main Higher Regional Court rejected the appeal and disallowed a further appeal. KDG has filed a complaint against the non-allowance of appeal with the Federal Court of Justice. On January 23, 2013, Telekom Deutschland GmbH also received a claim filed by Unitymedia Hessen GmbH & Co. KG, Unitymedia NRW GmbH, and Kabel BW GmbH, demanding that Telekom Deutschland GmbH cease charging the complainants more than a specific and precisely stated amount for the shared use of cable ducts. For charges allegedly paid in excess for the shared use of cable ducts from 2009 up to and including 2012, Unitymedia Hessen GmbH & Co. KG is currently demanding payment of approximately EUR 36.5 million plus interest, Unitymedia NRW GmbH EUR 90.8 million plus interest, and Kabel BW GmbH EUR 61.5 million plus interest. It is currently not possible to estimate the financial impact of either of the proceedings with sufficient certainty.

- **Litigation concerning decisions by the Federal Network Agency.** Several competitor companies have requested the revocation of decisions by the Federal Network Agency that had been in favor of Deutsche Telekom or Telekom Deutschland GmbH. If these applications were to be successful, they would normally require a new decision by the Federal Network Agency. The proceedings listed below are of particular importance from our point of view:

  - **Monthly charges for the unbundled local loop.** With the exception of the approval of one-time charges from 1999, 2001, 2005, and 2010, approvals in connection with unbundled local loop lines (ULLs) are not binding for companies demanding ULLs, having applied to have them revoked by the competent courts. Certain approvals have been revoked with final and binding effect, so the Federal Network Agency has to decide again on the charges in relation to the former complainants. Currently, this applies specifically to the approvals of the ULL monthly charges from 1999, 2001, 2003, 2005, and 2007 and to the new ruling on the ULL one-time charges from 2002 with regard to the cancellation charges.

  - **Auction of LTE frequencies.** In 2010, the Federal Network Agency auctioned off additional frequencies in the 800 MHz, 1.8 GHz, 2.0 GHz and 2.6 GHz ranges, with all four German mobile network operators participating in the auction. Several companies appealed against the rulings of the Federal Network Agency with regard to the auction. Alongside the complaints brought by broadcasters and cable network operators that were dismissed with final and legally binding effect, the complaint by a telecommunications company that was still pending was recently dismissed by the Cologne Administrative Court in a ruling on September 3, 2014. This decision is not yet final and legally binding. The complainant had filed a complaint against the non-allowance of appeal with the Federal Administrative Court. All complainants have also appealed against the allocation of frequencies to Telekom Deutschland GmbH; however, this has not yet been ruled upon.

- **Reduced pay tables.** With the entry into force of the reform of civil service law (Dienstrechtsneuordnungsgesetz), in 2009 the legislator integrated the previous year-end bonus paid annually in accordance with the German Federal Act on Bonus Payments into the basic monthly salary for all federal civil servants. In accordance with § 78 of the Federal Civil Service Remuneration Act (Bundesbesoldungsgesetz – BBesG), this does not apply for civil servants employed by the successor companies to Deutsche Bundespost. Several appeals against the new, reduced pay tables were filed, including at the Stuttgart Administrative Court. After the Federal Constitutional Court issued an order for reference advising that it deems this provision to be constitutional, the majority of the appeals were withdrawn or dismissed by the Stuttgart Administrative Court. We thus consider it unlikely that recourse will be taken to the courts in the cases still pending.

- **Claim for compensation against Slovak Telekom.** In 1999, an action was filed against Slovak Telekom based on the accusation that the legal predecessor of Slovak Telekom had ceased broadcast of an international radio program contrary to the underlying contract. The claimant originally demanded approximately EUR 100 million plus interest for damages and lost profit. On November 9, 2011, the Bratislava Regional Court ruled partly in favor of the claimant and ordered Slovak Telekom to pay approximately EUR 32 million plus interest. On December 27, 2011, Slovak Telekom appealed to the Supreme Court against this judgment. In case of a final and legally binding court ruling against Slovak Telekom, Deutsche Telekom AG can assert recourse claims against third parties for a part of the sum demanded.

- **Claim for compensation against OTE.** In May 2009, Lannet Communications S.A. filed an action against OTE claiming compensation for damages of EUR 176 million plus interest arising from an allegedly unlawful termination of services by OTE – mainly interconnection services, unbundling of local loops, and leasing of dedicated lines. A hearing took place on May 30, 2013; a ruling has not yet been issued.

- **Patents and licenses.** Like many other large telecommunications and Internet providers, Deutsche Telekom is exposed to a growing number of intellectual property rights disputes. There is a risk that we may have to pay license fees and/or compensation; there is also a risk of cease-and-desist orders, for example relating to the sale of a product or the use of a technology.

- **Reduction of the Company's contribution to the civil service pension of the former Deutsche Bundespost.** Deutsche Telekom complies with its obligation to pay contributions to the Civil Service Pension Fund in accordance with the German Act on the Legal Provisions for the Former Deutsche Bundespost Staff (Postpersonalrechtsgesetz). The Act on the Legal Provisions for the Former Deutsche Bundespost Staff states that the obligation to contribute to the Civil Service Pension Fund may be reduced to a level that is in line with the market and a peer company if a former Deutsche Bundespost company bound by such payment obligations can provide evidence to the German government that the payment would constitute an unreasonable burden on its competitiveness. Deutsche Telekom previously filed an application with the responsible Federal Ministry of Finance to have its contribution obligations reduced, which was rejected. After the application had been rejected, Deutsche Telekom filed an appeal with the responsible administrative court seeking reimbursement of a portion of the paid contributions and a reduction of the contributions to be paid in future.

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

Proceedings concluded

- **MetroPCS.** In October 2012 and subsequently, Deutsche Telekom obtained knowledge of several class actions filed in the United States against the business combination of MetroPCS Communications Inc. (MetroPCS) and T-Mobile USA. By the end of 2014, all pending actions against the business combination of MetroPCS and T-Mobile USA had been settled. The body of cases has been concluded.

- **Extension of GSM frequency usage.** In July 2009, the Federal Network Agency extended the usage period of the GSM frequencies assigned to T-Mobile Deutschland GmbH (today Telekom Deutschland GmbH), which were originally assigned until December 31, 2009, until December 31, 2016. A number of companies appealed to the Federal Network Agency against this decision. In its ruling on October 9, 2014 in the only proceedings still pending, the Münster Higher Administrative Court dismissed the complaint against non-allowance of appeal filed by Airdata against the ruling by the Cologne Administrative Court on November 28, 2013 in which it rejected Airdata's claim. The ruling of the Administrative Court thus became legally binding.

- **LTE frequency allocation auction, T-Mobile Austria.** On December 6, 2013, T-Mobile Austria had filed a complaint with the Austrian Administrative Court against an assignment and payment notice from the Austrian regulatory authority TKK. In the notice in dispute, the regulatory authority assigned the spectrum won in the frequency auction on October 21, 2013 to T-Mobile Austria and set down the charge to be paid. In a ruling on December 11, 2014, the Austrian Administrative Court dismissed the complaint in a final and legally binding decision.

- **Billing for premium SMS content.** In July 2014, a lawsuit was filed by the FTC against T-Mobile US that alleged unauthorized billing for premium SMS content provided by third parties. In addition to this lawsuit, the FCC and other U.S. authorities began investigations and inquiries against T-Mobile US regarding billing for premium SMS content. The proceedings and investigations against T-Mobile US ended on December 19, 2014 through the conclusion of a settlement with the FCC, FTC, and other U.S. authorities.

ANTI-TRUST PROCEEDINGS

Like many other companies, our Group is subject to the regulations of anti-trust law. In some countries, Deutsche Telekom and its subsidiaries, joint ventures, and associates are subject to various proceedings under anti-trust or competition law, which may also lead to civil follow-on claims. Deutsche Telekom believes the respective allegations are unfounded. The major anti-trust and consumer protection actions are described below.

Proceedings by Anti-Monopoly Commission in Poland. On November 23, 2011, the Anti-Monopoly Commission in Poland (UOKiK) concluded investigations started in 2010. It decided that T-Mobile Polska (formerly PTC) and other Polish telecommunications companies had fixed prices in breach of anti-trust law and imposed a fine on T-Mobile Polska of PLN 34 million (approximately EUR 8 million). T-Mobile Polska continues to believe these allegations are unfounded and thus complained in a lawsuit against the decision. As a result, the fine is not yet due. The same applies to another fine of PLN 21 million (approximately EUR 5 million) imposed by UOKiK on T-Mobile Polska on January 2, 2012 for an alleged breach of consumer protection law. The court has not yet made a decision.

European Commission proceedings against Slovak Telekom and Deutsche Telekom. The European Commission announced its finding on October 15, 2014 that Slovak Telekom had abused its market power on the Slovak broadband market and as a result imposed fines on Slovak Telekom and Deutsche Telekom. The European Commission is of the opinion that Slovak Telekom refused unbundled access to its local loop and had margins squeezed for alternative providers. The fines amount to EUR 38.8 million for Slovak Telekom and Deutsche Telekom and a further EUR 31.1 million for Deutsche Telekom because a fine had already been imposed on Deutsche Telekom in 2003 for a margin squeeze in Germany. We continue to see no basis for holding Deutsche Telekom liable for the alleged breach of anti-trust law by Slovak Telekom. Furthermore, we are convinced that Slovak Telekom complies with applicable law. Intense competition and the ongoing price erosion on the Slovak broadband market argue against any obstruction of competitors by Slovak Telekom. For this reason, Deutsche Telekom and Slovak Telekom challenged the European Commission's decision before the Court of the European Union on December 29, 2014. The fines are included in other liabilities as of December 31, 2014.

FINANCIAL RISKS

With regard to its assets, liabilities and planned transactions, Deutsche Telekom is particularly exposed to liquidity risks, credit risks, and the risk of changes in exchange and interest rates. Financial risk management aims to limit these risks through ongoing operational and finance activities. Simulation calculations on the basis of different worst-case and market scenarios allow us to estimate the effects of different conditions. Depending on the risk assessment, we use selected derivative and non-derivative hedging instruments (hedges) to mitigate the risks. However, Deutsche Telekom only hedges the risks that affect the Group's cash flow. We use derivatives exclusively as hedging instruments, i.e., not for trading or other speculative purposes. The following risk areas of liquidity, credit, currency, and interest rate risks are evaluated after implementation of risk limitation measures.

For the evaluation, see TABLE 052, **PAGE 151.**

Liquidity risks. To ensure the Group's and Deutsche Telekom AG's solvency and financial flexibility at all times, a liquidity reserve is maintained in the form of credit lines and cash. The primary instruments used for medium- to long-term financing are bonds and medium-term notes (MTNS) issued in a variety of currencies and jurisdictions. These are generally issued via Deutsche Telekom International Finance B.V. (DTIF) and are forwarded within the Group as internal loans.

GRAPHIC 56 below shows the development of the liquidity reserve in relation to maturity dates. As of the end of 2014 and in the preceding quarters, we clearly met our targets for the liquidity reserve to cover maturities due in the next 24 months.

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

In addition to the reported liabilities to banks, Deutsche Telekom had standardized bilateral credit agreements with 21 banks for a total of EUR 12.3 billion at December 31, 2014. As of December 31, 2014, EUR 0.2 billion of these credit lines had been utilized. Pursuant to the credit agreements, the terms and conditions depend on Deutsche Telekom's rating. The bilateral credit agreements have an original maturity of 36 months and can, after each period of twelve months, be extended by a further twelve months to renew the maturity of 36 months. From today's perspective, access to the international debt capital markets is not jeopardized. Deutsche Telekom did not issue any bonds in 2014. T-Mobile US issued bonds worth a total USD 3.0 billion in the 2014 financial year, a bond worth USD 1 billion was repaid prematurely. In December 2014, T-Mobile US issued Mandatory Convertible Preferred Shares worth USD 1.0 billion, which will be converted into T-Mobile US shares after a period of three years. The nominal volume of the mandatory convertible preferred stock is also recognized under the bonds.

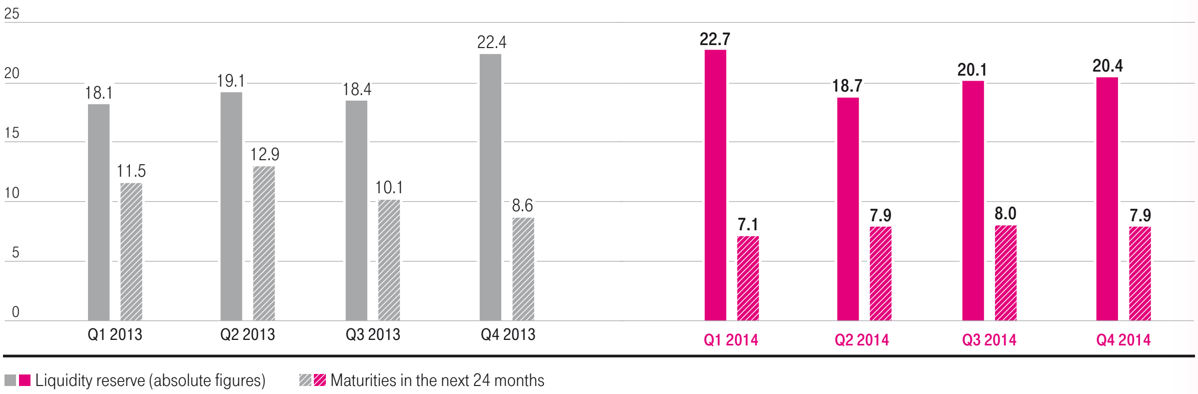
Credit risks. Through its operating business and certain financing activities, Deutsche Telekom is exposed to a credit risk, i.e., the risk that a counterparty will not fulfill its contractual obligations. As a rule, transactions with regard to financing activities are only concluded with counterparties that have at least a credit rating of BBB+/Baa1, in connection with an operational credit management system. At the level of operations, the outstanding debts are continuously monitored in each area, i.e., locally. The solvency of the business with corporate customers, especially international carriers, is monitored separately.

For derivative transactions, it was agreed with counterparties as part of collateral agreements that, in the event of insolvency, all existing contracts will be netted and only a receivable or liability in the amount of the balance will remain. The credit risk arising from derivative transactions is further reduced through the exchange of collateral. For existing receivable balances for existing collateral agreements, Deutsche Telekom receives security from the counterparty in the form of readily available cash, and in return provides such security in the event of liability balances.

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

G 56

Liquidity reserve and maturities in 2014 compared with 2013
billions of €



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

For additional explanations, please refer to Note 37 "Financial instruments and risk management" in the notes to the consolidated financial statements, PAGE 248 ET SEQ.

Tax risks. In many countries, Deutsche Telekom is subject to the applicable legal tax regulations. Risks that affect tax expenses and income as well as tax receivables and liabilities can arise from changes in local taxation laws or jurisdiction and different interpretations of existing regulations.

Other financial risks

This section contains information on other financial risks that we consider to be immaterial at present or cannot evaluate based on current knowledge.

Rating risk. As of December 31, 2014, Deutsche Telekom's credit rating with Moody's was Baa1, while Fitch and Standard & Poor's rated us BBB+. All three agencies gave us a "stable" outlook. If our rating fell below certain defined levels, interest rates for some of the bonds and MTNs issued would rise.

Sales of shares by the Federal Republic or KfW Bankengruppe. As of December 31, 2014, the Federal Republic and KfW Bankengruppe jointly held approximately 31.7 percent in Deutsche Telekom AG.

It is possible that the Federal Republic will continue its policy of privatization and sell further equity interests in a manner designed not to disrupt the capital markets and with the involvement of KfW Bankengruppe. There is a risk that the sale of a significant volume of Deutsche Telekom AG shares by the Federal Republic or KfW, or any speculation to this effect, could have a negative impact on the price of the T-Share.

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

For a detailed explanation, please refer to the section "Summary of accounting policies – Judgments and estimates" in the notes to the consolidated financial statements, PAGE 193 ET SEQ.

Sale of the SI business unit at T-Systems France. When selling the Systems Integration business unit of T-Systems France in the middle of 2013, a 15-month guarantee had to be issued to the responsible works council. The purpose of the guarantee was to compensate employees in the event of insolvency of the buyer. The 15-month guarantee period expired in early September 2014 without incident.

MANAGEMENT'S ASSESSMENT OF THE AGGREGATE RISK AND OPPORTUNITIES POSITION

The assessment of the aggregate risk position is the outcome of the consolidated analysis of all material areas of risk or individual risks. The aggregate risk position did not change fundamentally in 2014 compared with the previous year. Our major challenges particularly include the regulatory factors, intense competition, and price erosion in the telecommunications business. As it stands today, Deutsche Telekom's management sees no risk to the Company's continued existence as a going concern. We are convinced that we will also be able to exploit future opportunities and challenges without having to take on any unacceptably high risks.

We strive to achieve a good balance between opportunities and risks, with the aim of increasing added value for our Company and our shareholders by analyzing new market opportunities.

ACCOUNTING-RELATED INTERNAL CONTROL SYSTEM

Deutsche Telekom AG's internal control system (ICS) is based on the internationally recognized COSO (Committee of Sponsoring Organizations of the Treadway Commission) Internal Control – Integrated Framework, COSO I, as amended on May 14, 2013.

The Audit Committee of Deutsche Telekom AG monitors the effectiveness of the ICS as required by § 107 (3) sentence 2 AktG. The Board of Management has the responsibility to define the scope and structure of the ICS at its discretion. Internal Audit is responsible for independently reviewing the functionality and effectiveness of the ICS in the Group and at Deutsche Telekom AG, and, to comply with this task, has comprehensive information, audit, and access rights. In addition, the external auditors conduct a risk-oriented audit to verify the effectiveness of those parts of the ICS that are relevant to financial reporting.

The accounting-related ICS comprises the principles, methods, and measures used to ensure appropriate accounting. It is continuously being refined and aims to ensure the consolidated financial statements of Deutsche Telekom are prepared in accordance with the International Financial Reporting Standards (IFRS) as adopted by the European Union, as well as with the regulations under commercial law as set forth in § 315a (1) HGB. Another objective of the accounting-related ICS is the preparation of the annual financial statements of Deutsche Telekom AG and the combined management report in accordance with German GAAP.

It is generally true of any ICS that regardless of how it is specifically structured there can be no absolute guarantee that it will achieve its objectives. Regarding the accounting-related ICS, there can therefore only ever be relative, but no absolute certainty, that material accounting misstatements can be prevented or detected.

Group Accounting manages the processes of Group accounting and management reporting. Laws, accounting standards, and other pronouncements are continuously analyzed as to whether and to what extent they are relevant and how they impact on financial reporting. The relevant requirements are defined in the Group Accounting Manual, for example, communicated to the relevant units and, together with the financial reporting calendar that is binding throughout the Group, forms the basis of the financial reporting process. In addition, supplementary process directives such as the Intercompany Policy, standardized reporting formats, IT systems, as well as IT-based reporting and consolidation processes support the process of uniform and compliant Group accounting. Where necessary, we also draw on the services of external service providers, for example, for measuring pension obligations. Group Accounting ensures that these requirements are complied with consistently throughout the Group. The staff involved in the accounting process receive regular training. Deutsche Telekom AG and the Group companies are responsible for ensuring that Group-wide policies and procedures are complied with. The Group companies ensure the compliance and timeliness of their accounting-related processes and systems and in doing so, are supported and monitored by Group Accounting.

Operational accounting processes at the national and international level are increasingly managed by our shared service centers. Harmonizing the processes enhances their efficiency and quality and in turn, improves the reliability of the internal ICS. The ICS thus safeguards both the quality of internal processes at the shared service centers and the interfaces to the Group companies by means of adequate controls and an internal certification process.

Internal controls are embedded in the accounting process depending on risk levels. The accounting-related ICS comprises both preventive and detective controls, which include:

- IT-based and manual data matching
- The segregation of functions
- The dual checking principle
- Monitoring controls
- General IT checks such as access management in IT systems, and change management.

We have implemented a standardized process throughout the Group for monitoring the effectiveness of the accounting-related ICS. This process systematically focuses on risks of possible misstatements in the consolidated financial statements. At the beginning of the year, specific accounts and accounting-related process steps are selected based on risk factors. They are then reviewed for effectiveness in the course of the year, generally by way of external audits. If control weaknesses are found, they are analyzed and assessed, particularly in terms of their impact on the consolidated financial statements and the combined management report. Material control weaknesses, the action plans for eradicating them, and ongoing progress are reported to the Board of Management and additionally to the Audit Committee. In order to ensure a high-quality accounting-related ICS, Internal Audit is closely involved in all stages of the process.

OTHER DISCLOSURES

CORPORATE GOVERNANCE STATEMENT IN ACCORDANCE WITH § 289a HGB

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

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

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

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

LEGAL STRUCTURE OF THE DEUTSCHE TELEKOM GROUP

Deutsche Telekom AG, Bonn, is the parent of the Deutsche Telekom Group. Its shares are traded on the Frankfurt/Main Stock Exchange as well as on other German stock exchanges.

SHAREHOLDERS' EQUITY

Each share entitles the holder to one vote. These voting rights are restricted, however, in relation to treasury shares and shares allocable to Deutsche Telekom in the same way as treasury shares (at December 31, 2014: around 21 million in total). The "trust" shares, as they are known, (at December 31, 2014 around 19 million) relate to the acquisition of VoiceStream and Powertel (now T-Mobile US) in 2001 and are allocable to Deutsche Telekom at December 31, 2014 in the same way as treasury shares. As regards the shares issued to trusts, the trustee waived voting rights and subscription rights and, in general, dividend rights for the duration of the trusts' existence.

Capital increase. The resolution on the dividend payout of EUR 0.50 per share for the 2013 financial year gave shareholders the choice between payment in cash or having their dividend entitlement converted into Deutsche Telekom AG shares. Dividend entitlements of Deutsche Telekom AG shareholders amounting to EUR 1.0 billion for shares from authorized capital (2013 authorized capital) were contributed in June 2014 and thus did not have an impact on cash flows. Deutsche Telekom AG carried out an increase in issued capital of EUR 0.2 billion against contribution of dividend entitlements for this purpose in June 2014. This increased capital reserves by EUR 0.8 billion, the number of shares by 84,396,144.

The Statement is available to the public on Deutsche Telekom's website **(www.telekom.com).**

Treasury shares. The shareholders' meeting resolved on May 24, 2012 to authorize the Board of Management to purchase shares in the Company by May 23, 2017, with the amount of share capital accounted for by these shares totaling up to EUR 1,106,257,715.20, provided the shares to be purchased on the basis of this authorization in conjunction with the other shares of the Company which the Company has already purchased and still possesses or are to be assigned to it under § 71d and § 71e AktG do not at any time account for more than 10 percent of the Company's share capital. Moreover, the requirements under § 71 (2) sentences 2 and 3 AktG must be complied with. Shares shall not be purchased for the purpose of trading in treasury shares. This authorization may be exercised in full or in part. The purchase can be carried out in partial tranches spread over various purchase dates within the authorization period until the maximum purchase volume is reached. Dependent Group companies of Deutsche Telekom AG within the meaning of § 17 AktG or third parties acting for the account of Deutsche Telekom AG or for the account of dependent Group companies of Deutsche Telekom AG within the meaning of § 17 AktG are also entitled to purchase the shares. The shares are purchased through the stock exchange in adherence to the principle of equal treatment (§ 53a AktG). Shares can instead also be purchased by means of a public purchase or share exchange offer addressed to all shareholders, which, subject to a subsequently approved exclusion of the right to offer shares, must also comply with the principle of equal treatment.

For information on the composition of capital stock in accordance with § 289 (4) HGB and direct and indirect equity investments, please refer to Note 15 "Shareholders' equity" in the notes to the consolidated financial statements, **PAGES 227** and **228.**

The shares may be used for one or several of the purposes permitted by the authorization granted by the shareholders' meeting on May 24, 2012 under item 7 on the agenda. The shares may also be used for purposes involving an exclusion of subscription rights. They may also be sold on the stock market or by way of an offer to all shareholders, or withdrawn. The shares may also be used to fulfill the rights of Board of Management members to receive shares in Deutsche Telekom AG, which the Supervisory Board has granted to these members as part of the arrangements governing the compensation of the Board of Management, on the basis of a decision by the Supervisory Board to this effect.

Under the resolution of the shareholders' meeting on May 24, 2012, the Board of Management is also authorized to acquire the shares through the use of equity derivatives.

On the basis of the above authorization by the shareholders' meeting on May 24, 2012 and a corresponding authorization by the shareholders' meeting on May 12, 2011, 110 thousand shares were acquired in June 2011, 206 thousand shares in September 2011, and 268 thousand shares in January 2013. The total volumes amounted to EUR 2,762 thousand in the 2011 financial year, and EUR 2,394 thousand in the 2013 financial year (excluding transaction costs). This increased the number of treasury shares by 316 thousand and 268 thousand, respectively. As part of the Share Matching Plan, a total of 2 thousand shares were transferred free of charge to the depots of eligible participants in the 2012 and 2013 financial years.

Furthermore, a total of 90 thousand shares were reallocated in April, June and December 2014 and transferred free of charge to the depots of eligible participants of the Share Matching Plan.

As part of the acquisition of VoiceStream Wireless Corp., Bellevue, and Powertel, Inc., Bellevue, in 2001 Deutsche Telekom issued new shares from authorized capital to a trustee, for the benefit of holders of warrants, options, and conversion rights, among others. These options or conversion rights fully expired in the 2013 financial year. As a result, the trustee no longer has any obligation to fulfill any claims in accordance with the purpose of the deposit. The 18,517 thousand deposited shares are accounted for in the same way as treasury shares in accordance with § 272 (1a) HGB.

Authorized capital and contingent capital. The **authorized capital 2009/II** approved by the shareholders' meeting on April 30, 2009 served the purpose of granting shares to employees of Deutsche Telekom AG and lower-tier affiliated companies (employee shares). The authorization of the Board of Management was valid for the period until April 29, 2014. On August 28, 2014, the Supervisory Board resolved to strike the 2009/II authorized capital from the Articles of Incorporation of Deutsche Telekom AG (change of version). The change in the Articles of Incorporation was entered in the commercial register on September 19, 2014.

The shareholders' meeting on May 16, 2013 authorized the Board of Management to increase the share capital with the approval of the Supervisory Board by up to EUR 2,176,000,000 by issuing up to 850,000,000 no par value registered shares against cash and/or non-cash contributions in the period ending May 15, 2018. The authorization may be exercised in full or on one or more occasions in partial amounts. The Board of Management is authorized, subject to the approval of the Supervisory Board, to exclude residual amounts from shareholders' subscription rights. Furthermore, the Board of Management is authorized, subject to the approval of the Supervisory Board, to disapply shareholders' subscription rights in the event of capital increases against non-cash contributions when issuing new shares for business combinations or acquisitions of companies, parts thereof or interests in companies, including increasing existing investment holdings, or other assets eligible for contribution for such acquisitions, including receivables from the Company. Further, the Board of Management is authorized, subject to the approval of the Supervisory Board, to determine the further content of share rights and the conditions under which shares are issued **(authorized capital 2013).** Following the increase in share capital against contribution of dividend entitlements, the 2013 authorized capital amounted to EUR 1,959,945,871.36. The remaining 2013 authorized capital was entered in the commercial register on June 11, 2014.

The **2010 contingent capital** granted by the shareholders' meeting on May 3, 2010, was issued to service any options or conversion rights or obligations arising as a result of the authorization granted at the same shareholders' meeting and valid until May 2, 2015, for the issue of convertible bonds, bonds with warrants, profit participation rights and/or participating bonds. This authorization, which has not been utilized, would have expired immediately before the date of the 2015 shareholders' meeting. The shareholders' meeting of May 15, 2014 therefore resolved to annul the 2010 contingent capital and create a new 2014 contingent capital.

As of December 31, 2014, the capital stock was contingently increased by up to EUR 1,100,000,000 composed of up to 429,687,500 no par value shares **(2014 contingent capital).** The contingent capital increase will be implemented only to the extent that

a) the holders or creditors of bonds with warrants, convertible bonds, profit participation rights, and/or participating bonds (or combinations of these instruments) with options or conversion rights, which are issued or guaranteed by Deutsche Telekom AG or its direct or indirect majority holdings by May 14, 2019, on the basis of the authorization resolution granted by the shareholders' meeting on May 15, 2014, make use of their option and/or conversion rights or

b) those obligated as a result of bonds with warrants, convertible bonds, profit participation rights, and/or participating bonds (or combinations of these instruments) which are issued or guaranteed by Deutsche Telekom AG or its direct or indirect majority holdings by May 14, 2019, on the basis of the authorization resolution granted by the shareholders' meeting on May 15, 2014, fulfill their option or conversion obligations

and other forms of fulfillment are not used. The new shares shall participate in profits starting at the beginning of the financial year in which they are issued as the result of the exercise of any option or conversion rights or the fulfillment of any option or conversion obligations. The Supervisory Board is authorized to amend § 5 (3) of the Articles of Incorporation in accordance with the particular usage of the contingent capital and after the expiry of all the option or conversion periods.

Main agreements including a change of control clause

The main agreements entered into by Deutsche Telekom AG, which include a clause in the event of a change of control, principally relate to bilateral credit lines and several loan agreements. In the event of a change of control, the individual lenders have the right to terminate the credit line and, if necessary, serve notice or demand repayment of the loans. A change of control is assumed when a third party, which can also be a group acting jointly, acquires control over Deutsche Telekom AG.

In addition, the other members of the Toll Collect consortium (Daimler Financial Services AG and Cofiroute S.A.) have a call option in the event that the ownership structure of Deutsche Telekom AG changes such that over 50 percent of its share capital or voting rights are held by a new shareholder and this change was not approved by the other members of the consortium.

The Hellenic Republic shall have the right to purchase all of Deutsche Telekom AG's shares in the Hellenic Telecommunications Organization S.A., Athens, Greece (OTE), from Deutsche Telekom AG or to demand that they be transferred to a third party named by it if Deutsche Telekom AG were to be taken over by another company that is not a telecommunications company based in the European Union or the United States of a similar size and stature to Deutsche Telekom AG. For this purpose, a change of control over Deutsche Telekom shall be deemed to have taken place if one or several entities, with the exception of the Federal Republic of Germany, directly or indirectly acquire 35 percent of the voting rights in Deutsche Telekom AG.

When establishing the EE joint venture in the United Kingdom, Deutsche Telekom AG and France Télécom S.A. agreed in the joint venture agreement that if Deutsche Telekom comes under the controlling influence of a third party, France Télécom will be exempted from all the restrictions imposed on the shareholders with regard to a transfer of their shares for a period of one year. Transferring shares to competitors would remain prohibited even in this situation, however.

In the master agreement establishing the procurement joint venture BuyIn in Belgium, Deutsche Telekom AG and France Télécom S.A./Atlas Services Belgium S.A. (a subsidiary of France Télécom S.A.) agreed that if Deutsche Telekom or France Télécom comes under the controlling influence of a third party or if a third party that is not wholly owned by the France Télécom group of companies acquires shares in Atlas Services Belgium S.A., the respective other party (France Télécom and Atlas Services Belgium only jointly) can terminate the master agreement with immediate effect.

Changes in the consolidated group

56 German and 197 foreign subsidiaries are fully consolidated in Deutsche Telekom's consolidated financial statements (December 31, 2013: 67 and 177). 13 associates (December 31, 2013: 13) and 6 joint ventures (December 31, 2013: 9) are also included using the equity method.

The principal subsidiaries of Deutsche Telekom AG are listed in the notes to the consolidated financial statements in the section "Summary of accounting policies" under "Principal subsidiaries," PAGE 200 ET SEQ.

Business combinations

The business combinations are presented in the notes to the consolidated financial statements in the section "Changes in the composition of the Group and transactions with owners."

See PAGE 196 ET SEQ.

COMPENSATION OF THE BOARD OF MANAGEMENT AND THE SUPERVISORY BOARD

Basis of Board of Management compensation. On February 24, 2010, the Supervisory Board resolved on a new system for the compensation of the Board of Management members, taking into account the provisions specified in the German Act on the Appropriateness of Management Board Remuneration (Gesetz zur Angemessenheit der Vorstandsvergütung – VorstAG) that has been in effect since August 5, 2009. The shareholders' meeting of Deutsche Telekom AG on May 3, 2010 approved this new system. As at December 31, 2014, all current members of the Board of Management were covered by the new Board of Management compensation system.

For more information on the compensation of the Board of Management and on the disclosures required by § 314 HGB, as well as German Accounting Standard No. 17 (GAS 17), please refer to Note 40 "Compensation of the Board of Management and the Supervisory Board" in the notes to the consolidated financial statements, PAGE 261 ET SEQ.

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

The fixed remuneration is determined for all Board of Management members based on market conditions in accordance with the requirements of stock corporation law. It is ensured that Board of Management compensation is oriented toward the sustained development of the Company and that there is a multi-year measurement base for the variable components. The variable compensation elements include clear upper limits, while the amount of compensation was capped overall. The short- and long-term variable components (Variable I and Variable II) are each capped at a target achievement of 150 percent. Under the Share Matching Plan, the cap is set at triple the share price throughout the term of the plan. Ordinary members of the Board of Management may therefore not receive more than EUR 4.5 million in annual compensation. The Chairman of the Board of Management may not receive more than EUR 7.5 million in annual compensation.

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

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

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

The following TABLE 054 is based on model table 1 recommended by the German Corporate Governance Code, which presents the total compensation granted for the reporting year.

Benefits granted

T 054

Compensation of the Board of Management
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	Timotheus Höttges Function: Chairman of the Board of Management (CEO) since January 1, 2014			
	2013	2014	2014 (min.)	2014 (max.)
Fixed remuneration	1,037,500	1,450,000	1,450,000	1,450,000
Fringe benefits	23,972	22,359	22,359	22,359
	1,061,472	**1,472,359**	**1,472,359**	**1,472,359**
One-year variable remuneration	760,500	1,092,000	0	1,638,000
Multi-year variable remuneration	**964,259**	**1,405,339**	**0**	**3,276,000**
Of which: 2013 Variable II (4-year term)	760,500			
Of which: 2014 Variable II (4-year term)		1,092,000	0	1,638,000
Of which: 2013 Share Matching Plan (4-year term)	203,759			
Of which: 2014 Share Matching Plan (4-year term)		313,339	0	1,638,000
	2,786,231	**3,969,698**	**1,472,359**	**6,386,359**
Service cost	582,852	818,212	818,212	818,212
TOTAL COMPENSATION	**3,369,083**	**4,787,910**	**2,290,571**	**7,204,571**

	Dr. Thomas Kremer Function: Data Privacy, Legal Affairs and Compliance since June 1, 2012			
	2013	2014 [a]	2014 (min.)	2014 (max.)
Fixed remuneration	700,000	700,000	700,000	700,000
Fringe benefits	60,508	60,983	60,983	60,983
	760,508	**760,983**	**760,983**	**760,983**
One-year variable remuneration	550,000	550,000	0	825,000
Multi-year variable remuneration	**697,360**	**707,817**	**0**	**1,650,000**
Of which: 2013 Variable II (4-year term)	550,000			
Of which: 2014 Variable II (4-year term)		550,000	0	825,000
Of which: 2013 Share Matching Plan (4-year term)	147,360			
Of which: 2014 Share Matching Plan (4-year term)		157,817	0	825,000
	2,007,868	**2,018,800**	**760,983**	**3,235,983**
Service cost	253,723	243,743	243,743	243,743
TOTAL COMPENSATION	**2,261,591**	**2,262,543**	**1,004,726**	**3,479,726**

[a] The Supervisory Board exercised its discretion to award a special bonus of EUR 250,000 to Dr. Thomas Kremer for the 2014 financial year. With this payment, the Supervisory Board rewards the extraordinary performance of Dr. Thomas Kremer who, as a result of the departure of Prof. Marion Schick for health reasons, assumed responsibility for the Board department for Human Resources for the full 2014 financial year in addition to his own duties in the area of Data Privacy, Legal Affairs and Compliance. This special bonus is disclosed in the table of benefits allocated (model table 2) in the line Other, since this payment was awarded for performance in 2014. Dr. Thomas Kremer had no contractual entitlement to this payment, hence it is not necessary to disclose it in the table of benefits granted.

Reinhard Clemens				Niek Jan van Damme				Thomas Dannenfeldt			
Function: T-Systems since December 1, 2007				Function: Germany since March 1, 2009				Function: Finance (CFO) since January 1, 2014			
2013	2014	2014 (min.)	2014 (max.)	2013	2014	2014 (min.)	2014 (max.)	2013	2014	2014 (min.)	2014 (max.)
840,000	840,000	840,000	840,000	794,355	850,000	850,000	850,000	0	700,000	700,000	700,000
22,366	17,350	17,350	17,350	24,555	26,758	26,758	26,758	0	22,433	22,433	22,433
862,366	**857,350**	**857,350**	**857,350**	**818,910**	**876,758**	**876,758**	**876,758**	**0**	**722,433**	**722,433**	**722,433**
650,000	650,000	0	975,000	550,000	628,333	0	942,500	0	550,000	0	825,000
824,153	**836,512**	**0**	**1,950,000**	**697,360**	**820,378**	**0**	**1,902,625**	**0**	**707,817**	**0**	**1,650,000**
650,000				550,000				0			
	650,000	0	975,000		640,083	0	960,125		550,000	0	825,000
174,153				147,360				0			
	186,512	0	975,000		180,295	0	942,500		157,817	0	825,000
2,336,519	**2,343,862**	**857,350**	**3,782,350**	**2,066,270**	**2,325,469**	**876,758**	**3,721,883**	**0**	**1,980,250**	**722,433**	**3,197,433**
605,603	599,763	599,763	599,763	305,199	288,661	288,661	288,661	0	246,151	246,151	246,151
2,942,122	**2,943,625**	**1,457,113**	**4,382,113**	**2,371,469**	**2,614,130**	**1,165,419**	**4,010,544**	**0**	**2,226,401**	**968,584**	**3,443,584**

Claudia Nemat				Prof. Marion Schick			
Function: Europe and Technology since October 1, 2011				Function: Human Resources until April 30, 2014			
2013	2014	2014 (min.)	2014 (max.)	2013	2014	2014 (min.)	2014 (max.)
900,000	900,000	900,000	900,000	700,000	233,333	233,333	233,333
49,602	65,900	65,900	65,900	23,272	5,743	5,743	5,743
949,602	**965,900**	**965,900**	**965,900**	**723,272**	**239,076**	**239,076**	**239,076**
675,000	675,000	0	1,012,500	550,000	0	0	0
855,851	**868,685**	**0**	**2,025,000**	**697,360**	**0**	**0**	**0**
675,000				550,000			
	675,000	0	1,012,500		0	0	0
180,851				147,360			
	193,685	0	1,012,500		0	0	0
2,480,453	**2,509,585**	**965,900**	**4,003,400**	**1,970,632**	**239,076**	**239,076**	**239,076**
275,014	247,026	247,026	247,026	245,791	0	0	0
2,755,467	**2,756,611**	**1,212,926**	**4,250,426**	**2,216,423**	**239,076**	**239,076**	**239,076**

Benefits allocated

The following TABLE 055 corresponds to model table 2 recommended by the German Corporate Governance Code, which discloses the total amount of benefits allocated for the reporting year. Unlike in the above table of benefits granted, this table contains not the target values for short- and long-term variable remuneration components, but rather the actual benefits allocated for the 2014 financial year. There is another difference between the following table and the table of benefits granted with regard to the presentation of the Share Matching Plan. The figures for the Share Matching Plan shown in this table present the value of the benefits allocated relevant under German tax law at the time of the transfer of matching shares, whereas the above table of benefits granted shows the fair values of remuneration at the grant date.

T 055

Compensation of the Board of Management
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	Timotheus Höttges		Reinhard Clemens		Niek Jan van Damme	
	Function: Chairman of the Board of Management (CEO) since January 1, 2014		Function: T-Systems since December 1, 2007		Function: Germany since March 1, 2009	
	2013	2014	2013	2014	2013	2014
Fixed remuneration	1,037,500	1,450,000	840,000	840,000	794,355	850,000
Fringe benefits	23,972	22,359	22,366	17,350	24,555	26,758
	1,061,472	**1,472,359**	**862,366**	**857,350**	**818,910**	**876,758**
One-year variable remuneration	953,667	1,307,124	755,950	714,350	647,900	708,760
Multi-year variable remuneration	**390,000**	**758,558**	**390,000**	**720,364**	**330,000**	**614,594**
Of which: 2010 Variable II (4-year term)	390,000		390,000		330,000	
Of which: 2011 Variable II (4-year term)		429,000		429,000		363,000
Of which: Share Matching Plan (4-year term)	0	329,558	0	291,364	0	251,594
Other	0	0	0	0	0	0
	2,405,139	**3,538,041**	**2,008,316**	**2,292,064**	**1,796,810**	**2,200,112**
Service cost	582,852	818,212	605,603	599,763	305,199	288,661
TOTAL COMPENSATION	**2,987,991**	**4,356,253**	**2,613,919**	**2,891,827**	**2,102,009**	**2,488,773**

[a] The Supervisory Board exercised its discretion to award a special bonus of EUR 250,000 to Dr. Thomas Kremer for the 2014 financial year. With this payment, the Supervisory Board rewards the extraordinary performance of Dr. Thomas Kremer who, as a result of the departure of Prof. Marion Schick for health reasons, assumed responsibility for the Board department for Human Resources for the full 2014 financial year in addition to his own duties in the area of Data Privacy, Legal Affairs and Compliance.

Basis of Supervisory Board compensation. Members of Deutsche Telekom AG's Supervisory Board receive fixed annual compensation of EUR 70,000. Furthermore, additional compensation is paid for the activities of the Chairman and Deputy Chairman of the Supervisory Board as well as for activities on Supervisory Board committees. The new compensation system that has been in place since January 1, 2013, no longer provides for performance-related compensation.

For further information, please refer to Note 40 "Compensation of the Board of Management and Supervisory Board" in the notes to the consolidated financial statements, PAGE 261 ET SEQ.

Thomas Dannenfeldt		Dr. Thomas Kremer		Claudia Nemat		Prof. Marion Schick	
Function: Finance (CFO) since January 1, 2014		Function: Data Privacy, Legal Affairs and Compliance since June 1, 2012		Function: Europe and Technology since October 1, 2011		Function: Human Resources until April 30, 2014	
2013	2014	2013	2014	2013	2014	2013	2014
0	700,000	700,000	700,000	900,000	900,000	700,000	233,333
0	22,433	60,508	60,983	49,602	65,900	23,272	5,743
0	**722,433**	**760,508**	**760,983**	**949,602**	**965,900**	**723,272**	**239,076**
0	641,300	627,000	606,650	722,925	764,775	568,150	0
0	**0**	**130,625**	**234,438**	**227,813**	**361,969**	**137,500**	**260,284**
0		130,625		227,813		137,500	
	0	0	234,438	0	361,969	0	0
0		0	0	0	0	0	260,284
0	0	0	250,000 [a]	0	0	0	0
0	**1,363,733**	**1,518,133**	**1,852,071**	**1,900,340**	**2,092,644**	**1,428,922**	**499,360**
0	246,151	253,723	243,743	275,014	247,026	245,791	0
0	**1,609,884**	**1,771,856**	**2,095,814**	**2,175,354**	**2,339,670**	**1,674,713**	**499,360**