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DEUTSCHE TELEKOM AT A GLANCE

To get right to the point: We achieved all of our main targets in 2015. Net revenue increased substantially as planned. And with adjusted EBITDA of EUR 19.9 billion and free cash flow of EUR 4.5 billion, we even exceeded the respective targets of around EUR 18.3 billion and EUR 4.3 billion.

Net revenue in our Group grew by a substantial 10.5 percent in the reporting year. This growth is and continues to be driven by the U. S. business, which saw revenue increase by 29.1 percent: In addition to continuing strong customer additions, T-Mobile US also profited from the development of the U. S. dollar. Revenue in the Germany operating segment, which was still in slight decline in 2014, edged up in 2015, mainly due to higher mobile revenues. Business in our Europe operating segment continued to come under pressure owing to regulation and competition, but here too revenue performed better than in the prior year. The same applies for our Systems Solutions operating segment, where, after its successful realignment, revenue was almost at the prior-year level.

Adjusted EBITDA increased substantially by 13.3 percent compared with 2014. As with revenue, the growth driver was our U. S. business, which recorded an increase of 54.9 percent. The U. S. dollar/euro exchange rate had a significant impact here as well. But even without taking the exchange rate effect into account, growth still stood at an impressive 30 percent. In our Germany operating segment, adjusted EBITDA remained more or less stable against the prior year, while in our Europe operating segment it decreased due to a decline in revenue. In our Systems Solutions operating segment, adjusted EBITDA declined; but this was due entirely to the reduced contributions from Telekom IT; in the Market Unit, we maintained the increase in adjusted EBITDA.

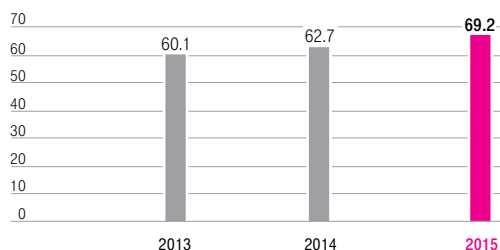
The adjusted EBITDA margin of 28.8 percent was up on the prior-year level. The operating segments with the strongest margins are still Germany with 39.2 percent and Europe with 33.7 percent.

Our **EBIT** declined slightly year-on-year, primarily due to income received in 2014 from the disposal of the Scout24 group (EUR 1.7 billion) and from the spectrum transaction with Verizon Communications (EUR 0.4 billion). In 2015, EBIT was increased by income from the disposal of part of our share package in Scout24 AG (EUR 0.3 billion) and from the sale of our online platform t-online.de and our digital marketing company InteractiveMedia (EUR 0.3 billion).

Despite the decline in EBIT, our **net profit** increased substantially by 11.3 percent, mainly driven by other financial income/expense. This primarily included dividend payments of EUR 0.4 billion which we received from the EE joint venture.

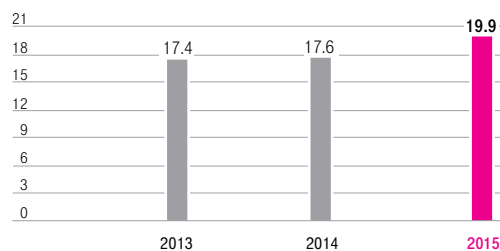
G 05

Net revenue
billions of €



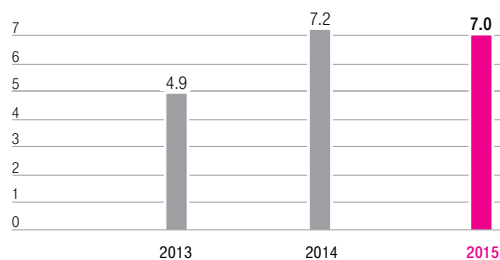
G 06

Adjusted EBITDA
billions of €



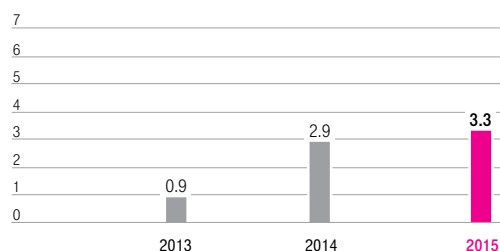
G 07

EBIT
billions of €



G 08

Net profit/loss
billions of €

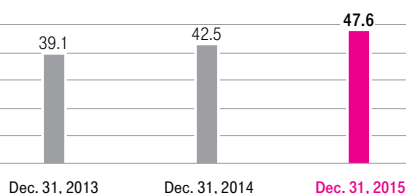


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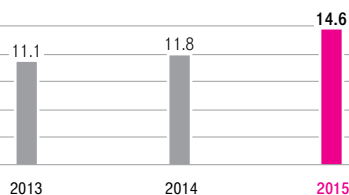
G 09

Net debt
billions of €



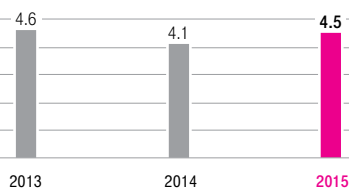
G 10

Cash capex
billions of €



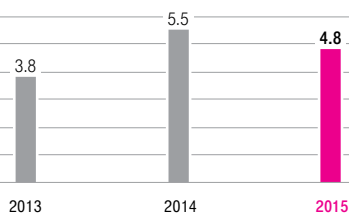
G 11

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



G 12

ROCE
%



Net debt increased in the reporting year by EUR 5.1 billion to EUR 47.6 billion, mainly due to the acquisition of mobile spectrum for EUR 3.8 billion, currency effects of EUR 1.9 billion, dividend payments – including to non-controlling interests – of EUR 1.3 billion, and the acquisition of the remaining shares in Slovak Telekom of EUR 0.9 billion. Free cash flow of EUR 4.5 billion only partially offset these effects.

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

Although cash capex increased, **free cash flow** improved to EUR 4.5 billion, thus exceeding the value that we forecast in 2014 of around EUR 4.3 billion. The generally good business development – recognizable from increased adjusted EBITDA – was reflected in an improvement in net cash from operating activities; this more than offset the increase in cash capex.

Our key performance indicator **ROCE** (return on capital employed) declined by 0.7 percentage points in the reporting year to 4.8 percent. This decline was due to both the decrease in net operating profit after taxes (NOPAT) and the increase in the average value of assets tied up in the course of the year (net operating assets, or NOA). In 2014, NOPAT was positively impacted by income from the disposal of the Scout24 group and income from the spectrum transaction with Verizon Communications. Although the aforementioned income in connection with the disposal of part of our share package in Scout24 AG and the sale of t-online.de and InteractiveMedia also had a positive impact on NOPAT in 2015, this effect was much smaller than in the prior year. The increase in average NOA is primarily attributable to the build-up of assets in our Germany and United States operating segments. In Germany, this is due to both investment under our integrated network strategy and the spectrum acquired through successful participation in the frequency auction. In the United States, the increase in NOA was down to currency effects as well as further network build-out and the acquisition of mobile licenses.

Our shareholders benefited from the business development as well: Apart from the dividend of EUR 0.50 per share paid out for the 2014 financial year, the value of the T-Share also increased by 26 percent as of December 31, 2015.



For a more detailed explanation, please refer to the section "Development of business in the Group," **PAGE 73 ET SEQ.**

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

HIGHLIGHTS IN THE 2015 FINANCIAL YEAR

DEVELOPMENTS AT SENIOR MANAGEMENT LEVEL

Dr. Christian P. Illek was appointed as the new Member of the Board of Management responsible for Human Resources and Labor Director, effective from April 1, 2015.

DIVIDEND

Our shareholders made even greater use than in previous years of the option of converting the dividend for the 2014 financial year into shares instead of receiving it as a cash payment. The acceptance rate stood at almost 49 percent of dividend-bearing shares in the reporting year after a good 45 percent in the prior year. Overall, 71.1 million new shares were issued, pushing up the total number of shares to just under 4,607 million. 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 2015 financial year.

CORPORATE TRANSACTIONS

Agreement on the sale of the 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. The transaction was approved by the United Kingdom's Competition and Markets Authority (CMA) in January 2016, unconditionally and without remedies. Since closing of the transaction on January 29, 2016 at a purchase price of GBP 13.2 billion, we are the largest shareholder in BT with a financial stake of 12 percent. The EE joint venture, which was part of our Group Headquarters & Group Services segment, had been reported under non-current assets and disposal groups held for sale until the transaction was closed.

Acquisition of residual non-controlling interest in Slovak Telekom. On May 19, 2015 we signed a purchase agreement for the acquisition of the remaining 49 percent of shares in Slovak Telekom which we did not yet own, for a purchase price of EUR 0.9 billion. Previously, the shares had been held by the National Property Fund of the Slovak Republic. As part of the agreement, EUR 0.1 billion of the purchase price was paid into a trust account for a certain period to hedge certain risks. The transaction was closed on June 18, 2015. It did not require approval from the supervisory authorities. The acquisition of the remaining shares in Slovak Telekom is in line with our Group strategy of becoming the leading European telecommunications provider. Slovak Telekom had already been fully consolidated in our Europe operating segment.

Scout24 AG initial public offering (IPO). In connection with the IPO of Scout24 AG on October 1, 2015, we sold a total of 13.3 million shares in the company at EUR 30.00 per share, for which we received around EUR 0.4 billion in cash. Income from the sale of this share amounted to around EUR 0.3 billion and is disclosed in other operating income. Our stake of around 13.4 percent in Scout24 AG will allow us to continue profiting from any growth in value. Our remaining stake in Scout24 AG continues to be included in the consolidated financial statements using the equity method and is still part of our Group Headquarters & Group Services segment.

Sale of our online platform t-online.de and our digital marketing company InteractiveMedia. On November 2, 2015, we consummated the sale of our online platform t-online.de and our digital marketing company InteractiveMedia to Ströer. The transaction took the form of a capital increase of Ströer in return for the non-cash contribution by us of the online platform t-online.de and InteractiveMedia. In return, we received newly issued shares in Ströer worth some EUR 0.3 billion: This corresponded to a stake of around 11.6 percent of the increased share capital after all closing conditions had entered into force. The total income from the divestitures amounted to EUR 0.3 billion; it was reported in other operating income. Our stake in Ströer is included in the consolidated financial statements using the equity method and is part of our Group Headquarters & Group Services segment.

EXPANSION OF BRAND PRESENCE

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

Our subsidiaries in the F.Y.R.O. **Macedonia**, Makedonski Telekom and T-Mobile Macedonia, became one company as of July 1, 2015. For this purpose, we merged T-Mobile Macedonia into Makedonski Telekom. Our **Albanian** subsidiary Albanian Mobile Communications (AMC) was renamed Telekom Albania in July 2015. With Albania, the 12th country in our European footprint has now turned "magenta" and taken on the identity and values of the Deutsche Telekom brand – innovation, competence and simplicity.

INVESTMENTS IN NETWORKS AND NEW SPECTRUM

We systematically forged ahead with the build-out of our network in 2015:

- We increased **fiber-optic** coverage in **Germany** from over 44 percent to just under 55 percent in the reporting year, which corresponds to around 23 million households. Our **LTE** network now covers 90 percent of the population and we now have more than 8 million LTE customers. These achievements form the basis for our bundled offers: Since the launch of MagentaEINS in fall 2014, we have acquired around 2 million MagentaEINS customers. We have also picked up the pace in the IP transformation: At the end of 2015, 9.5 million **fixed-network lines** (retail and wholesale) were already IP-based, which corresponds to a rate of 40 percent.
- In June 2015, we successfully participated in the **frequency auction in Germany**. Of the total 270 MHz from four ranges between 0.7 and 1.8 GHz that the Federal Network Agency put up for auction, we secured 100 MHz at a price of just under EUR 1.8 billion. The purchased frequencies will help us further advance digitization in Germany. We will primarily use the frequencies in the 1.5 and 1.8 GHz bands to expand broadband coverage in cities and metropolitan areas. The blocks acquired in the 0.7 GHz band will mainly be used for coverage in rural areas with mobile bandwidths. As a result, the goal of offering bandwidths of up to 50 Mbit/s in all of Germany is moving closer. We paid a deposit of EUR 0.6 billion to the Federal Network Agency in the course of the frequency auction. We made a further payment of EUR 1.0 billion at the end of June 2015. The remaining amount of

For further information on the closing of the transaction, please refer to the section "Significant events after the reporting period," PAGES 115 and 116.


Sustainability at Deutsche Telekom

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EUR 0.2 billion is scheduled to be paid by mid-2017 in accordance with the award rules.

- In our **Europe** operating segment, we increased the reach of our LTE coverage to 71 percent as of the end of 2015; overall, we now reach around 92 million inhabitants. Since September 2015, we have been offering 4G/LTE in all our European mobile markets: Telekom Albania kicked off with the market launch of 4G+ with speeds of up to 225 Mbit/s initially in seven major cities. In total, investments of some EUR 29 million were made in spectrum, primarily in Albania. Household coverage with optical fiber has reached 19 percent in the respective national companies, compared with only 15 percent a year ago. The number of mobile contract customers increased as well as the number of broadband lines and TV customers. Five national companies have adopted the MagentaONE logic, others are to follow.
- As part of our integrated pan-European **IP network strategy**, we connected the first three of our national companies with each other in March 2015: customers in Croatia, Hungary, and Slovakia can now buy standardized products via the centralized production model, with the business customer service Cloud VPN being the first product available. New TV services were added for our consumers in the course of 2015. As of the end of the year, 47.1 percent of all lines, i. e., 4.1 million lines, were IP-based. Our national companies in Croatia and Montenegro completed the IP migration in 2015.
- **T-Mobile US** picked up the pace in its network build-out. The T-Mobile US 4G/LTE network covered 304 million people at the end of the reporting year, up from 265 million at the end of 2014. Wide-band LTE was already available in 268 market regions as of the end of 2015. Tests of the download speeds of millions of users prove that T-Mobile US's 4G/LTE network is the fastest in the country.
- In January 2015, the U.S. Federal Communications Commission (FCC) announced that T-Mobile US was the winning bidder of **AWS-3 spectrum licenses** covering approximately 97 million people for an aggregate bid price of EUR 1.6 billion. T-Mobile US paid the FCC EUR 1.3 billion for the AWS spectrum licenses in the first quarter of 2015, which is in addition to a deposit of EUR 0.3 billion provided in connection with the auction in 2014. The FCC formally assigned the AWS-3 frequencies acquired at auction to us on April 8, 2015.

REGULATORY DECISIONS

The Federal Network Agency intends to allow **vectoring** roll-out in all local areas. On November 23, 2015, the Federal Network Agency published a draft ruling on our application, which grants us largely exclusive rights to roll-out vectoring in all local areas, thereby enabling broadband roll-out for another approximately 6 million households. This draft is currently out for consultation and is expected to take effect in the first quarter of 2016. 

PARTNERSHIPS

Partnerships are key to the success of our Group. In 2015, we entered into and expanded a large number of partnerships. We would like to present some of them in detail:

- In February 2015, we entered into a Europe-wide partnership with **Airbnb** – the established online marketplace for booking and letting accommodation. This alliance advances our strategic approach of also pursuing innovation through partnerships.
- At the Mobile World Congress in Barcelona in early March 2015, we announced our partnership with **Intel Security**. Now we can offer the True Key™ password and identity management solution to our customers across Europe. In June 2015, we joined with **Intel Security** to announce a research alliance for early-warning sensors for detecting cyber attacks – with the aim of developing even better sensors. These sensors, which are also known as “honeypots,” give users detailed, real-time information about attacks in the network.
- We also announced at the Mobile World Congress the expansion of our strategic partnership with **Microsoft**: We are now working together across Europe on sales and marketing of Lumia smartphones and intend to extend this collaboration to also include Microsoft online services. In addition, in November 2015, Microsoft named us as data trustee for its cloud offering. We control and monitor access to customer data that is hosted in Germany.
- We will work together with our partner **Huawei** not only on network components as hitherto, but also in the field of information technology. In March 2015 we extended our globally valid framework agreement to include IT infrastructure components and to develop new cloud solutions together. In addition, in October 2015, we signed another partnership agreement with Huawei for the development of a new public cloud platform: the Open Telekom Cloud is set for launch at CeBIT 2016.
- We won important new national and international partners for our e-reader **tolino** in 2015. In the Netherlands, for example, Libris is offering toline in its bookshops and via its webshops. We also expanded our toline alliance in Germany to include Mayersche, the biggest bookshop in North Rhine-Westphalia, and the Osiander chain in the South of Germany. Just in time for the Frankfurt book fair, two new e-readers were unveiled in October 2015: toline vision 3 HD and toline shine 2 HD.
- At the start of July 2015, we entered into a major partnership with **Readly**, the magazine flat rate that gives customers access to more than 1,100 national and international magazines in a single app. Readly can directly be subscribed to as an add-on to our mobile contracts.
- In September 2015, we entered into a new strategic partnership with **Inmarsat**, a provider for satellite communications. Together we intend to develop the European Aviation Network so that, in the future, we can offer passengers in European airspace broadband Internet access on board. Lufthansa will be the first European airline to use the new access options.



Sustainability at
Deutsche Telekom



For more details on regulatory decisions in the reporting year, please refer to the section “The economic environment,” **PAGE 67 ET SEQ.** Further regulatory developments, which we are not yet able to assess, are discussed in the section “Risk and opportunity management,” **PAGE 125 ET SEQ.**

- Together with our new partner **Wandera**, we are expanding our product portfolio in the area of enterprise mobility. Wandera is a leading provider of Enterprise Mobility Management (EMM) solutions. The partnership will enable us to provide our business customers with Wandera's Secure Mobile Gateway: the EMM solution from the cloud enables companies to protect, control, and manage their employees' mobile data usage across all devices.
- To further expand our network portfolio, in November 2015, T-Systems signed a partner agreement with **Akamai**, the world's largest provider of Content Delivery Network (CDN) services. The new offerings are aimed at globally operating business customers that are not connected to high-performance digital networks for voice and data and hence want to use Internet infrastructures. We have developed a solution that, with the help of technology from Akamai, constantly seeks out short-cuts on the data highways and thus provides much better data transmission quality.
- We won further partners from a range of sectors for our smart home platform **QIVICON** in 2015: including Assa Abloy, partner for building security solutions; Bosch Junkers, provider of efficient and resource-saving heating and hot water solutions; and Logitech, manufacturer of peripheral equipment such as cameras and universal remote controls. We also won our first international partner with the eww group, an Austrian utilities company, which launched a QIVICON-based product in Austria.
- At the end of 2015, **Union Investment** concluded a major service agreement with T-Systems for some EUR 350 million spread over a maximum of ten years, to migrate the traditional IT systems to the secure German cloud, strictly in accordance with the provisions of German data protection law. We are responsible for the IT infrastructure, for incorporating it into the existing system landscape, and for operating the applications.
- At the end of 2015, we signed a major contract in the clear double-digit millions with **Tech Data**, a global distributor of technology products and services. Under the contract, we will transfer the existing European IT systems from Tech Data to the cloud.

NEW PRODUCTS AND RATE PLANS

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

- Following a pilot with almost 10,000 customers, the new **mobile TV offering** from T-Mobile Polska was launched commercially in February 2015. Our customers in Poland can choose from two rate plans, with either 17 or 32 TV channels. We also offer a video service comprising a wide range of films. Customers can even use the TV offering on two devices at the same time, on a smartphone and a tablet, for instance.
 - With the new family app **myKIDIO**, we showcased for visitors of the Mobile World Congress how an entertainment program can be integrated in a car's infotainment system: The app provides access to high-quality audio books, films, and TV shows. The entertainment program is available for smartphones and tablets as well as in BMWs via BMW ConnectedDrive. BurdaNews markets myKIDIO and takes care of customer relationships. We are responsible for the app's functionality, operate the platform, and develop the technology for use in the car.
 - At CeBIT in March 2015, we presented five digitization packages specially designed for small and medium-sized enterprises (SMEs) under the motto "**Wirtschaftswunder 4.0 – Digitization made in Germany.**" Apart from MagentaEins Business, one of these packages is Industry 4.0 which allows small and medium-sized enterprises to connect their machines quickly and easily, and monitor production. This makes processes more efficient and productive; the energy requirement and resource consumption tend to fall. The package includes everything a machine needs to go online: hardware, **SIM card** with data rate plan, and access to the Cloud of Things platform, which records and processes equipment and sensor data. ☒
- NEW DEALS WITH CORPORATE CUSTOMERS**
- We continued our streak of success in the area of cloud services in the reporting year. But we also succeeded in concluding, extending and expanding various contracts in other areas in Germany and abroad. Examples of new corporate customer contracts:
- In May 2015, T-Systems consolidated the **SAP ERP** systems of the elevator and escalator manufacturer **KONE** in our cloud: To this end, T-Systems is providing globally standardized SAP applications from the cloud on a dynamic SAP platform.
 - In the same month, **Jet Aviation**, a subsidiary of the aircraft manufacturer General Dynamics, extended its agreement for SAP from the cloud with T-Systems by another four years; we have been managing all of Jet Aviation's SAP applications since 2007.
 - **The Swiss national railways (SBB)** commissioned T-Systems in Switzerland to migrate its IT services to the cloud. An agreement with a term until 2020 was concluded for this purpose, concerning the provision of Virtual Infrastructure Application Services. The two companies have enjoyed a successful trust-based partnership for more than 17 years.




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Deutsche Telekom


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- T-Mobile US kicked off a range of Un-carrier initiatives in 2015. In March 2015, Un-carrier 9.0 Business Freedom was launched: a simple, transparent and low-cost rate plan for business customers. At the same time, T-Mobile US launched two major initiatives for consumers: Un-contract and Carrier Freedom. **JUMP! On Demand** was launched in June 2015: A monthly payment covers the cost of a new device and gives customers the freedom to upgrade their device up to three times per year at no extra cost. In November 2015, T-Mobile US launched Phase 10.0 of its Un-carrier value proposition: The **Binge On™** option enables customers with a Simple Choice rate plan to use unlimited video services, e. g., from Netflix, HBO NOW, Hulu and many others, without additional costs and without using up their data volume. Additionally, Binge On™ allows customers to watch up to three times more video from their data plan.
- In May 2015, the green light was given to the new end-to-end encryption of **De-Mails** based on the globally recognized Pretty Good Privacy (PGP) standard. De-Mail providers Deutsche Telekom, Francotyp-Postalia and United Internet simplified PGP to such an extent that De-Mail users can give confidential messages and documents end-to-end protection against third-party access very easily and without specific previous knowledge.
- In May 2015, we launched a **Mobile Device Management (MDM)** solution specifically for smaller SMEs in collaboration with MobileIron and EBF: The "hosted MDM basic" software allows companies to manage their smartphones and tablets, including apps, on a central platform, upload new applications centrally, and protect stored data. The MDM solution is provided from the cloud and backed up in our protected data centers.
- Our new service **One Number** will allow our business customers in Germany to decide for themselves in the future which phone number – mobile or fixed network – is displayed when they call. One Number can be easily activated and deactivated, configured and customized, either online or using an app.
- The new **Enterprise Mobility Management Suite (EMM Suite)** from T-Systems allows companies not only to configure mobile devices, but also to manage applications and data securely. This comprehensive solution from the cloud enables employees, for example, to securely access company resources, and read, edit and share data from their mobile devices.
- Our new tablet **PULS** has been available since October 2015: It serves as a convenient control center for the Deutsche Telekom world in the home, offering our customers an overview of their fixed-network calls, voice messages, program information, and smart home applications at all times. One single log-in provides access to 14 pre-installed Deutsche Telekom apps.
- Since November 2015, we have been offering large and medium-sized companies defensive protection against industrial espionage: **Lauschabwehr** [counterespionage]. Our specialist technicians sweep offices and conference rooms for eavesdropping technology and check for vulnerabilities. We also offer training to improve the way sensitive information is handled, and tailored concepts to optimize information protection and protection against tapping and eavesdropping.
- In November 2015, our **TelekomCloud** portal opened its doors: This is where we bundle all of our cloud offerings for business customers. The portfolio includes select solutions from renowned partners for software, platforms, and infrastructure as services from the cloud. TelekomCloud is a compact solution providing our customers with all cloud services and expertise from a single source – including consultation and support services from our cloud specialists. Our portal meets the strict German data protection standards and is certified by TÜV Rheinland.
- Our new Android-based app **Message+** has been offering our mobile customers new call functions since December 2015: Before making a call, for example, users can notify the person they are calling of the urgency or subject of the call or send photos of their location and even during the call can share photos, videos, notes or their location.
- At the start of December 2015, we got the green light for our secure European **public cloud** on the basis of a Cisco cloud platform. T-Systems is in charge of operating and selling the new infrastructure service from its highly secure data center in Biere/Magdeburg. The offering is aimed at all of our business customers and can be ordered on our TelekomCloud portal.

AWARDS

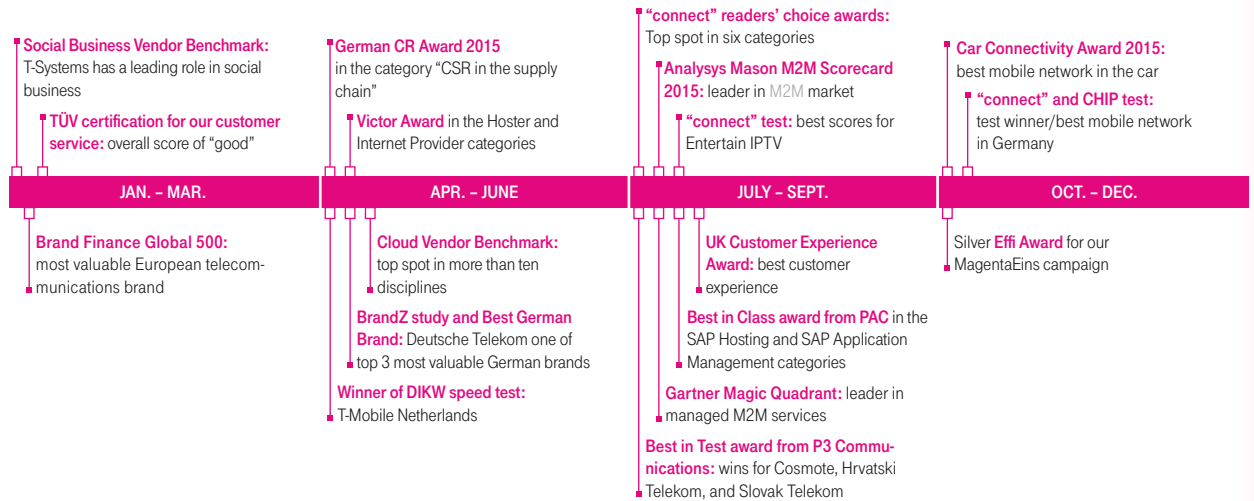
We received a large number of awards again in the reporting year – among other things for our outstanding networks, our excellent service, our innovative marketing concepts, and for our extremely valuable Telekom brand.

GRAPHIC 13 summarizes the main awards from 2015. 

 For details on more awards, please go to www.telekom.com/awards

 For information on awards received for our HR activities, please refer to the section "Employees," **PAGE 111 ET SEQ.**

Major awards in 2015



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 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: to be the leading European telecommunications provider. The basis for this is and remains our core business: setting up, operating, and marketing networks and communication services. At the same time we are intensively exploiting business areas that offer new growth opportunities.

The digital age is changing us fundamentally. A "gigabit society" is developing around us, in which high-speed Internet is taken for granted both at home and on the move. In technical terms, this means that increasingly large volumes of data need to be transported at increasingly fast speeds. But this calls for ever more powerful 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. We at Deutsche Telekom want to make this possible. In addition, we have set ourselves the goal of offering our customers fixed network, mobile communications, Internet, and Internet-based television from a single source, ensuring they have secure access to all private data – no matter where they are and what device they are using.

But it is about more than that: 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. A range of sector-specific

and general conditions are crucial to the success of business activities. These include qualified staff and excellent working conditions within our own Group but also at our suppliers, as well as first-rate quality at reasonable costs – with regard to data protection and security, customer service, network build-out, and in materials procurement. It is also important to consider the potential consequences of climate change for our business activities: for example, to construct our network infrastructure in such a way that it is protected from severe weather conditions, changes in temperatures, and higher wind speeds. We also help our customers to reduce their carbon footprint with innovative products and services. Furthermore, we are cutting back our own energy consumption. Beyond our core business, we do everything we can to ensure that our actions are socially acceptable. For us, this means conducting ourselves in a way that is ethical and compliant with the law and informing and involving our stakeholders in a transparent way. 

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

In other words, we want to be a sustainably growing company that delights its customers, creates value for its investors, and in which employees enjoy their work.

Business activities: leading integrated telecommunications provider. With more than 156 million mobile customers, 29 million fixed-network and around 18 million broadband lines, we are one of the leading integrated telecommunications companies worldwide. We offer our

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customers fixed-network/broadband, mobile communications, Internet, and Internet-based TV products and services for consumers, and ICT solutions for business and corporate customers. We have an international focus and are represented in more than 50 countries. □ In the 2015 financial year, we generated around 64 percent of net revenue, i. e., EUR 44.2 billion, outside Germany. Overall, we employ around 225,200 people (December 31, 2015).

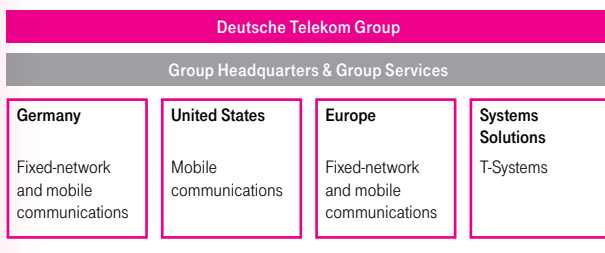
The fixed-network business encompasses all voice and data communications activities based on fixed-network and broadband technology. This includes the sale of terminal equipment and other hardware, as well as the sale of services to resellers. Our mobile communications business offers mobile voice and data services to consumers and business customers. When marketing these services, we also sell mobile handsets and other hardware. In addition, we also sell mobile services to resellers and to companies that buy network services and market them independently to third parties (mobile virtual network 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.

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

G 14

Organizational structure



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

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. In addition to consumer business, most of our national companies also offer ICT solutions to business customers. We have further expanded our business customer operations, in particular through the takeover of the GTS Central Europe group (GTS) in 2014. The units International Carrier Sales &

Solutions (ICSS), Group Technology, and Global Network Factory (GNF) also belong to the Europe operating segment: ICSS primarily provides wholesale telecommunications services for the operating segments in our Group. Group Technology ensures efficient and customized provision of technologies, platforms, and services for mobile and fixed-network communications. GNF designs and operates a global network for providing wholesale customers with voice and data communication.

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. In this way, T-Systems provides customers all over the world with integrated solutions for the digital age. But the operating segment also offers ICT solutions tailored to the needs of small and medium-sized enterprises. 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. Telekom IT focuses on the Group's internal national IT projects. The Market Unit mainly comprises business with external customers and since October 2015 has been divided into three divisions: the IT Division, the TC Division (Telecommunications), and the Digital Division. The new roles and responsibilities are more closely aligned to address the needs of our customers and enable us to grow as we improve efficiency and profitability.

Group Headquarters & Group Services comprises all Group units that cannot be allocated directly to one of the operating segments. As the organization that sets the direction and provides momentum, it defines strategic aims for the Group, ensures they are met, and becomes directly involved in selected Group projects. Group Services acts as service provider for the Group; in addition to typical services such as financial accounting, human resources services, and operational procurement, Group Services also includes Vivento, our personnel service provider. On the one hand, it is in charge of securing external employment opportunities for civil servants and employees predominantly in the public sector. On the other, Vivento also seeks to strategically place them internally, with the aim of retaining professional 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. In mid-2015, we realigned our central innovation unit, the Digital Business Unit: Since then, it has operated under the name of Group Innovation⁺, working to develop new business areas and products in close dialog with our operating segments. Due to the agreement concluded concerning the sale of the EE joint venture to the UK company BT, EE was reported under non-current assets and disposal groups held for sale until the transaction was closed effective January 29, 2016. ☒

□
 For information on our footprint, please visit www.telekom.com/worldwide

☐
 For more information, please refer to Note 32 "Segment reporting" in the notes to the consolidated financial statements, PAGE 218 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. The recommendations of the German Corporate Governance Code are complied with.

As of December 31, 2015, 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 and Technology
- T-Systems

Changes in the composition of the Board of Management. Dr. Christian P. Illek was appointed as the new Member of the Board of Management responsible for Human Resources and Labor Director, effective from April 1, 2015. Claudia Nemat was reappointed as Member of the Board of Management responsible for Europe and Technology for another five years effective October 1, 2016 as per a resolution of December 16, 2015.

Changes in the composition of the Supervisory Board (shareholder representatives). Dr. h. c. Bernhard Walter passed away on January 11, 2015. Ines Kolmsee was court-appointed to the Supervisory Board effective January 31, 2015 and resigned her position effective April 8, 2015. Prof. Michael Kaschke, who had been court-appointed to the Supervisory Board with effect from April 22, 2015, was elected to the Supervisory Board by the shareholders' meeting on May 21, 2015. The shareholders' meeting on May 21, 2015 elected Dr. Wulf H. Bernotat to the Supervisory Board for another term of office.

Changes in the composition of the Supervisory Board (employee representatives). There were no changes on the employee representative side in the 2015 financial year. Waltraud Litzenberger resigned her position effective midnight December 31, 2015. Nicole Koch was court-appointed to the Supervisory Board effective January 1, 2016.

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

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

Amendments to the Articles of Incorporation are made pursuant to §§ 179 and 133 AktG and § 18 and § 21 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. Christian P. Illek	Human Resources
Dr. Thomas Kremer	Data Privacy, Legal Affairs and Compliance
Claudia Nemat	Europe and Technology

GROUP STRATEGY

- Deutsche Telekom aims to be the leading telecommunications provider in Europe
- Group strategy successfully implemented again in 2015

OUR CORPORATE STRATEGY: LEADING EUROPEAN TELCO

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

As GRAPHIC 15 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.

G 15

Leading European Telco corporate strategy



Sustainability at Deutsche Telekom



For more information, please refer to the section "Corporate responsibility," PAGE 100 ET SEQ.




For details on the activities of the Supervisory Board in the 2015 financial year, please refer to the "Supervisory Board's report to the 2016 shareholders' meeting," PAGE 36 ET SEQ.

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STRATEGIC AREAS OF OPERATION

Integrated IP networks

Our core business is setting up, operating, and marketing networks and communication services. We aim to offer our customers the best network and fastest possible connection. Above-average **network quality** is therefore a differentiator for us, with which we can clearly set ourselves apart from the competition. We regularly perform outstandingly in independent network tests: proof that we are systematically upgrading our networks and remain quality leader, despite rising competitive pressure. The build-out 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 are migrating 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 meet our customers' wishes quickly, flexibly, and economically. The gradual migration to modern IP networks was completed in Croatia and Montenegro in 2015. In Germany and our other integrated national companies, this transformation is well underway and is set to be completed by 2018. 

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

In mobile communications, we intend 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, coverage is to reach 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 **4G/LTE network** covered more than 304 million people at the end of 2015.

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

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.


Fixed mobile convergence (FMC), i. e., the joint marketing of fixed-network and mobile communications in one product, offers our customers a seamless telecommunications experience – consistently and across different technologies. We therefore intend to significantly expand the range of convergent products we offer. Among other reasons, the aim

is to win new customers and retain existing customers, as well as to increase revenue. Around two million customers in Germany had opted for **MagentaEins** by the end of 2015. This puts us well on track to reach our target of three million FMC customers by 2018. In total, the integrated national companies of our Europe operating segment won around one million customers for our FMC products as of the end of 2015.


Our customers benefit from our **convergent product portfolio**, which shows them just how easy and uncomplicated telecommunications can be. As, for example, with the **EU flat rate**, which is only available to our **MagentaEINS** customers. We had launched our **hybrid router** in Germany in 2014. It combines the strengths of the fixed network – consistent high capacity – with those of mobile communications – high transmission rates. In the reporting year, we substantially expanded the coverage area for the hybrid router. In 2015, we began selling the **PULS tablet**, a device to easily control all telecommunications services.


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


We measure **customer retention/satisfaction** using the globally recognized **TRI*M** method. Based on this **TRI*M** performance indicator, we improve our customer contact processes, and our products and services. We determine the loyalty of our customers towards the Company in surveys. The results are presented as a performance indicator, the **TRI*M** index, which ranges between minus 66 and plus 134. In the reporting year, the value stood at 67.4 points, compared with 65.9 points in the prior year. We plan to achieve a slight increase each year until 2018. 

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. We also see data privacy and security as a growing business area, which we want to significantly expand with existing and new security solutions. To this end, in 2015 we bundled all security activities across the Group into a new organizational unit. 

Win with partners


We 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. In addition, these partnerships offer the chance to set ourselves apart from the competition. 

 For more information on our outstanding network, please refer to the section "Highlights in the 2015 financial year," **PAGE 54 ET SEQ.**

 For information on the current status of our network build-out, please refer to the section "Highlights in the 2015 financial year," **PAGE 54 ET SEQ.**

 **Sustainability at Deutsche Telekom**

 **Sustainability at Deutsche Telekom**

 For more information on our partnerships, please refer to the section "Highlights in the 2015 financial year," **PAGE 54 ET SEQ.**

We want to be the preferred telecommunications provider when it comes to innovative partners selling their products. For this reason, we have developed a **standardized platform**, which can be thought of as a power strip [Steckerleiste] that partners can simply plug in to integrate their services (see **GRAPHIC 16**). In fall 2015, we put our “Steckerleiste” into operation in the Czech Republic, Greece, and Croatia. Poland, Albania, Austria, and Montenegro among others will follow in 2016. The first partner to connect to the “Steckerleiste” will be FRAG, a portal for digital content such as music and e-books, in the Czech Republic. We are planning to incorporate more partners, for example, from the fields of cloud gaming and security.

G 16

Deutsche Telekom partnering platform



We are also further developing our **TV business** and want to drive growth here too. We make attractive content accessible across all screens. In order to ensure an even better TV experience, we are, for example, introducing a new TV platform in Germany in 2016: the next-generation television offers both a completely updated user interface and new, innovative product features. The product also continues to comprise the widest range of HD channels and the best on-demand content.

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

Lead in business

The strengthening of our position on the business customer market is an important element of our aim to be the leading telecommunications company in Europe. Business in IT and telecommunications services from the cloud is growing unabatedly and in response, we are constantly expanding our **cloud ecosystem** to include technology partners who are in turn market leaders. We are already one of the leading providers in Europe with our **scalable cloud platforms**; we are growing faster than the market in all business customer segments. To make our corporate customer arm, T-Systems, profitable in the long term, we have successfully aligned the Market Unit's previous business model, dividing it into three divisions: the IT Division, the TC Division (Telecommunications), and the Digital Division.

In addition to traditional IT and telecommunications business, we will continue to focus increasingly on platform-based services and cloud services, in the area of the **Industrial Internet/Internet of Things**, for example. In this regard, we will initiate forward-looking partnerships related to the connected car, for instance, with leading companies of the automotive industry, such as BMW or Bosch. The Digital Division in particular

will be a key growth engine within T-Systems: By 2018, we expect clear double-digit growth in the business areas of health, connected car, the Industrial Internet/Internet of Things, as well as in our own and partner cloud products. We plan to generate more than half of T-Systems' revenue in such **digital growth areas** by 2018. In 2015, the annual average stood at 37 percent.

SUPPORTING AREAS OF OPERATION

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

Transform portfolio. In 2015, we continued to develop our **portfolio of investments** with a view to our strategic target. For example, we and the French telecommunications operator Orange reached an agreement with the UK telecommunications operator BT on the sale of the EE joint venture, thereby creating the leading integrated telecommunications provider on the UK market. Following the closing of the transaction effective January 29, 2016, we are the largest shareholder in BT, with a financial stake of 12 percent, and thus will continue to participate in the development of BT and of the UK telecommunications market. We sold our online platform t-online.de and our digital marketing company InteractiveMedia to Ströer; in return, we received a stake of around 11.6 percent in Ströer. Hence we continue to focus on our core business, but at the same time, retain a presence in growth areas with strong partners.

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 to our strict cost discipline.

Encourage leadership & performance development. The digital transformation makes work more flexible, more virtual and more participative. Our managers are the architects of the digital transformation and support our employees as we move into the new digital age. They do so on the basis of our leadership principles “Collaborate,” “Innovate,” and “Empower to perform,” our Guiding Principles, and our leadership model “Lead to win,” which has been based for two years now on a continuous dialog between manager and employee. At the heart of this is feedback on performance and development, a direct link between performance assessment and incentives, and the determination of personal development paths. On top of that, HR work is being reorganized. 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.

GROWTH AREAS

At our 2012 Capital Markets Day, we communicated ambition levels for 2015 for five growth areas. In the fast-changing market environment of the subsequent years, we made various adjustments to the Group's strategy. For example, we decided on a strategic realignment of the Digital Business Unit and T-Systems, and have increasingly moved towards partner models in the area of Internet offerings. As a result, we have not reached the respective levels communicated in 2012 for the growth areas “**Intelligent network solutions**” and “**T-Systems (external revenue)**.” Due to the sale of 70 percent of the shares in the Scout24 group, completed in February 2014, and the sale of our online platform t-online.de and our digital marketing company InteractiveMedia to Ströer in November 2015, we have not continued to follow the ambition level previously announced for “**Internet offerings**.” By contrast, at EUR 13.5 billion, we have significantly

For more information on the priorities of our HR work, please refer to the section “Employees.”
PAGE 111 ET SEQ.

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exceeded the stated ambition level of some EUR 10 billion for the growth area Mobile Internet in particular. We almost achieved the ambition level for "Connected home" of around EUR 7 billion, with EUR 6.4 billion. We are no longer pursuing the approach of the five growth areas under our Leading European Telco strategy.

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

To be the leading European telecommunications provider.

- As one of the **leading providers**, we already have very high-performance networks and offer 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 consistently implemented again in 2015
- 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.

At our Capital Markets Day in February 2015 in Bonn, we again confirmed the basic structure of our existing finance strategy for subsequent years. 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 of the coming 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 success in the last two years, we again offered our shareholders the option of converting the dividend for the 2014 financial year 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 2015 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 the transformation of our Group through to the Leading European Telco.  In order to generate a sustainable increase in value, we intend to earn our cost of capital in the medium term. We aim to achieve this goal in part by optimizing the utilization of our non-current assets. For example, in the Germany operating segment, marketing of the **contingent model** was very successful again in 2015. In the Europe operating segment, for example, the migration of fixed-network customers to IP technology was completed in both Croatia and Montenegro. This brings the number of fully IP-based countries to four. We will continue to forge ahead with the IP migration; it will be completed in all national companies in 2018.

 See the section "Group strategy," PAGE 60 ET SEQ.

G 17

Our finance strategy until 2018

Equity	Leading European Telco strategy				Debt
<p>Reliable shareholder remuneration policy</p> <p>Dividend^a Following free cash flow growth Floor at EUR 0.50 per share and year</p> <p>Attractive option: choice of converting dividend entitlements into shares (dividend in kind)</p>	Integrated IP networks	Best customer experience	Win with partners	Lead in business	<p>Undisputed access to debt capital markets</p> <p>Rating: A-/BBB</p> <p>Netto debt/adj. EBITDA: 2 to 2.5x</p> <p>Equity ratio: 25 to 35%</p> <p>Liquidity reserve: covers maturities of coming 24 months</p>
Value creation: ROCE > WACC					
<ol style="list-style-type: none"> 1 Infrastructure transformation Support fast IP migration and transform network infrastructure 2 Cost transformation Reduce indirect cost 3 Portfolio management Deliver on preferred business model (integrated + B2C/B2B) and value generation 4 Risk management Maintain a low-risk country portfolio 					

^aSubject to approval by the relevant bodies and the fulfillment of other legal requirements.

We also intend to achieve our target of earning our cost of capital through strict cost discipline and improved cross-functional collaboration. For this purpose, the target costing method was rolled out internationally with the help of training programs and from 2016 must be used in all significant investment decisions. The aim of this is to move away from a historical view of our costs and to follow a consistent course oriented toward our target costs based on market prices achievable in the future. We also ensure our viability through further measures to enhance the efficiency of administrative functions. Since 2013, we have also additionally focused our steering on unadjusted EBIT. Taking investment costs into account, EBIT 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 2015 financial year, changes were successfully made to the portfolio, such as the agreement on the sale of the EE joint venture to the UK company BT, the sale of the portal business t-online.de and Interactive-Media to Ströer, and the acquisition of the minority interests in our subsidiary Slovak Telekom.

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 011 and 012).

T 011

Financial performance indicators

		2015	2014	2013	2012	2011
ROCE	%	4.8	5.5	3.8	(2.4)	3.8
Net revenue	billions of €	69.2	62.7	60.1	58.2	58.7
Profit (loss) from operations (EBIT)	billions of €	7.0	7.2	4.9	(4.0)	5.6
EBITDA (adjusted for special factors)	billions of €	19.9	17.6	17.4	18.0	18.7
Free cash flow (before dividend payments, spectrum investment) ^a	billions of €	4.5	4.1	4.6	6.2	6.4
Cash capex ^b	billions of €	(10.8)	(9.5)	(8.9)	(8.0)	(8.3)
Rating (Standard & Poor's, Fitch)		BBB+	BBB+	BBB+	BBB+	BBB+
Rating (Moody's)		Baa1	Baa1	Baa1	Baa1	Baa1

^aAnd before PTC and AT&T transactions and compensation payments for MetroPCS employees.

^bBefore spectrum investment.

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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 KPI for the entire Group. **Return on capital employed (ROCE)** has been our central KPI since 2009. ROCE is the ratio of operating result after depreciation, amortization and impairment losses plus imputed taxes (net operating profit after taxes (NOPAT)) to the average value of the assets tied up for this purpose in the course of the year (net operating assets (NOA)).


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

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

REVENUE AND EARNINGS

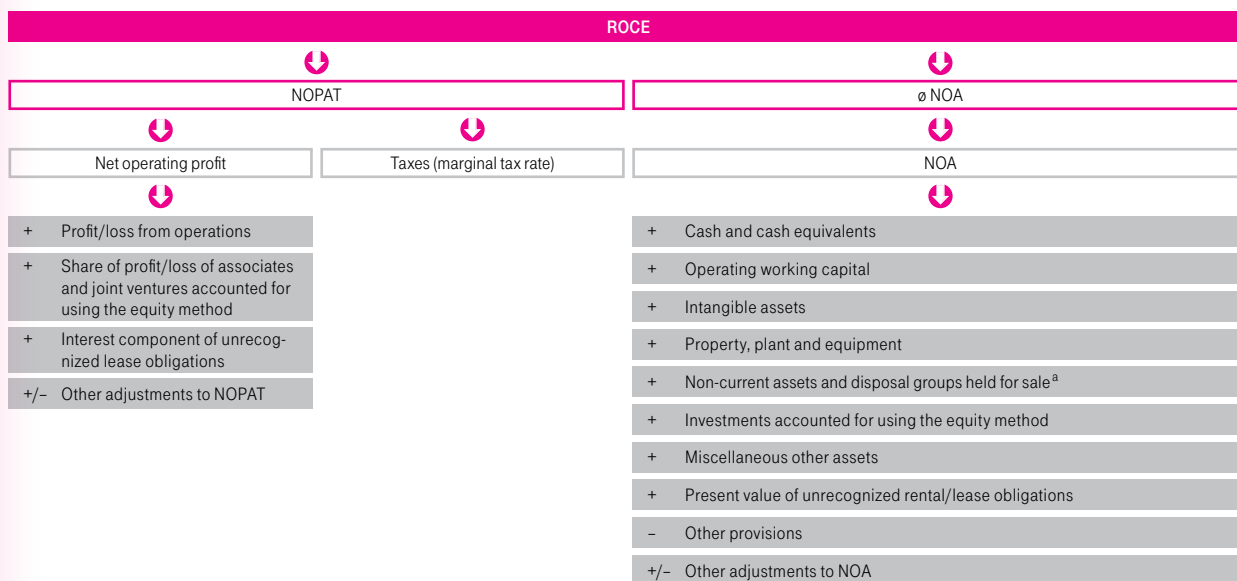
Revenue corresponds to the value of our operating activities. Absolute revenue depends on how well we are able to sell our products and services on the market. The development of our revenue is an essential indicator for measuring the Company's success. New products and services as well as additional 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. 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 77.

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Calculation of the financial performance indicator ROCE



^a Adjusted for investments accounted for using the equity method.

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

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

A **rating** is an assessment or classification of the creditworthiness of debt securities and its issuer according to uniform criteria. Assessment of creditworthiness by rating agencies influences interest rates on debt

securities and thus also our borrowing costs. As part of our finance policy, we have defined a target range for our ratings. We 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 long-term variable remuneration (Variable II) for our executives. It was also used as a parameter in the long-term incentive plan which ran again in 2015. We take the TRI*M 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.



Sustainability at
Deutsche Telekom



For more information on customer satisfaction, please refer to the section "Group strategy,"
PAGE 60 ET SEQ.

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Non-financial performance indicators

		2015	2014	2013	2012	2011
Customer satisfaction (TRI*M index)		67.4	65.9	64.9	-	-
Employee satisfaction (commitment index) ^a		4.1	4.0	4.0	4.0	-
FIXED-NETWORK AND MOBILE CUSTOMERS						
Mobile customers	millions	156.4	150.5	142.5	127.8	125.1
Fixed-network lines ^b	millions	29.0	29.8	30.8	32.1	34.7
Broadband lines ^{b,c}	millions	17.8	17.4	17.1	16.9	16.9
SYSTEMS SOLUTIONS						
Order entry ^d	millions of €	6,005	7,456	7,792	8,737	7,396

^aCommitment index according to the most recent employee surveys in 2015 and 2012.

^bThe 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.

^cExcluding wholesale.

^dThe 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 218 ET SEQ.

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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 most important feedback instruments across the Group (excluding T-Mobile US) 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). Employee feedback as one of four parameters has been relevant for Variable II since 2010, and for the newly launched long-term incentive plan since 2015. 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 environment in our markets positive
- Ongoing regulatory interventions into fixed-network and mobile business

MACROECONOMIC DEVELOPMENT

In 2015, the global economy slowed against the prior year: In its forecast from January 2016, the International Monetary Fund expects the global economy to have grown by just 3.1 percent in 2015 (2014: 3.3 percent). This lack of drive is primarily attributable to weak economic development in the emerging economies. By contrast, growth increased in Western industrial nations, which profited from the moderate recovery in the eurozone, lower oil prices, and the expansive monetary policy.

In our core markets, economic growth rates recorded positive trends in 2015. Gross domestic product (GDP) grew by 1.7 percent in Germany in the reporting year, bolstered in particular by a further increase in private consumption. Unemployment also remained low at an average 6 percent. The U.S. economy grew by 2.4 percent in 2015, driven by rising private consumption primarily as a result of a robust labor market – unemployment fell to 5.3 percent as of the end of 2015 – and the low-interest policy of the U.S. Federal Reserve. GDP growth rates continued to rise in almost all countries of our Europe operating segment in 2015, with the economies primarily profiting from the recovery in the eurozone and low oil prices. Greece continues to experience difficulties in emulating the growth seen in Europe as a whole. For many months, uncertainty prevailed over whether or not Greece would remain part of the eurozone; this had a substantial negative impact on the Greek economy.

The situation in the national labor markets continued to improve slightly in most countries thanks to positive economic growth. However, in some of our countries in Central and Eastern Europe such as Croatia, Poland and Slovakia, structural unemployment remained unabatedly high, especially among older persons of working age. The tough recession of the last few years and economic uncertainty in 2015 further weakened the labor market in Greece, where unemployment remained very high at 25.1 percent.

TABLE 013 shows the GDP growth rate trends and the unemployment rates in our most important markets.

High structural unemployment rates lead to reduced purchasing power among those affected and impact on their willingness to spend. Some customers have adapted their demand behavior. 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 telecommunications and ICT services. In some countries, the intense pressure to shore up state finances led to special taxes being maintained for telecommunications companies.



Sustainability at
Deutsche Telekom



For more information on employee satisfaction, please refer to the section "Employees," PAGE 111 ET SEQ.

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Development of GDP and the unemployment rate in our core markets from 2013 to 2015

%

	GDP for 2013 compared with 2012	GDP for 2014 compared with 2013	GDP estimate for 2015 compared with 2014	Unemployment rate in 2013	Unemployment rate in 2014	Estimated unemployment rate for 2015
Germany	0.3	1.6	1.7	6.9	6.7	6.4
United States	1.5	2.4	2.4	7.4	6.2	5.3
Greece	(3.2)	0.7	(0.3)	27.5	26.6	25.1
Romania	3.4	2.8	3.7	5.2	5.2	5.1
Hungary	1.9	3.7	2.7	9.8	7.6	6.8
Poland	1.3	3.3	3.5	13.5	12.3	10.6
Czech Republic	(0.5)	2.0	4.5	7.7	7.7	6.5
Croatia	(1.1)	(0.4)	1.6	20.3	19.7	17.8
Netherlands	(0.5)	1.0	2.0	8.9	9.0	8.7
Slovakia	1.4	2.5	3.3	14.2	13.2	11.6
Austria	0.3	0.4	0.8	5.4	5.6	5.7
United Kingdom	2.2	2.9	2.3	7.6	6.2	5.6

Sources: GDP: Consensus Economics; Unemployment rate: national statistical authorities; as of January 2016.

TELECOMMUNICATIONS MARKET

Worldwide, the market for information and communications technologies (ICT) grew by 3.8 percent in 2015 to EUR 2.81 trillion. This increase was due to strong demand for telecommunications equipment and services, especially in India, China, and the United States. The high-tech association BITKOM (Federal Association for Information Technology, Telecommunications and New Media) and the EITO (European Information Technology Observatory) expect the telecommunications market segment to record an increase of 4.3 percent to EUR 1.62 trillion and the information technology (IT) market segment to record an increase of 3.1 percent for 2015. The global market for telecommunications services increased by 2.2 percent. In Europe, however, telecommunications service revenues declined for the seventh year in a row. According to ETNO (European Telecommunications Network Operators' Association) and IDATE (a leading European ICT market research institute), revenue for the entire European telecommunications market (including Turkey, excluding Russia, Ukraine, and Georgia) stood at EUR 240 billion in 2015, down 1.1 percent against the prior-year figure of EUR 243 billion. This decline is attributable in part to regulatory interventions such as the reduction in roaming and termination charges. In addition, the substitution of traditional voice and messaging services with OTT 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 will grow exponentially. Demand is also rising 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 remains high in the European telecommunications industry, primarily as a result of declining revenues due to growing competition. At the same time, high investments are needed for the network build-out. In light of this, the failed consolidation plan in Denmark has given rise to continued uncertainty in the industry: In September 2015, Telenor and TeliaSonera canceled their merger plans after the companies were unable to agree suitable terms with the EU Commission. It remains to be seen what impact this decision will have on current and future consolidation plans in the European Union. Talks are currently taking place, for example, between Orange and Bouygues Telecom in France. Furthermore, the UK Competition and Markets Authority (CMA) approved the acquisition of EE by BT in January 2016, unconditionally and without remedies. Moves towards consolidation can also be seen in Italy, where VimpelCom and Hutchison are planning to merge their mobile activities. The EU Commission is also reviewing the planned mergers between Hutchison 3G and O₂ in the United Kingdom, and Liberty Global and BASE in Belgium.

European General Data Protection Regulation. In December 2015 an informal agreement was reached between the European Commission, the EU Council, and the European Parliament on the European General Data Protection Regulation; this reform of data protection is part of the strategy for the digital single market. The Regulation is expected to enter into force in the first quarter of 2016 and will be applicable from 2018 after a two-year transposition period. With this new data privacy law, the EU is closing a large gap in regulation relevant for service providers outside of the EU and essentially imposing the same rules for all market players operating in the EU. The Regulation ensures a high level of data protection in Europe and enables new digital business models.

Safe Harbor. In a judgment on October 6, 2015, the European Court of Justice (ECJ) declared the European Commission's Safe Harbor Decision to be void. Safe Harbor refers to an agreement between the European Commission and the U.S. Department of Commerce, which enabled the personal data of EU citizens to be stored and processed in the United States. The ECJ reasoned that the level of protection for personal data in the United States were inadequate: The data of European customers were not sufficiently protected from access by U.S. security agencies; in

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addition, legal protection in the United States for the affected European citizens were not ensured. The European Commission Directorate-General for Justice has just negotiated the EU-US Privacy Shield agreement with the United States. Details of this agreement still need to be worked out over the coming months. The agreement will only become effective once all member states have approved it.

Work on the new **Payment Service Directive 2** at EU level is complete. The Directive will replace Payment Directive 1 from 2007 and must be implemented by the member states by the start of 2018. Under the new rules, billing models for voice and non-voice services will cap the amounts that can be charged for third-party services through telephone bills (max. EUR 200 per month and EUR 50 per transaction), unless a payment service license is in place. Depending on the transposition into national law, this will lead to restrictions in business models for billing third-party services and to costs for implementing compliance with the thresholds. Furthermore, there will be additional obligations in terms of reporting to the Federal Financial Supervisory Authority (BaFin).

GERMANY

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

The German broadband market grew by more than 3.5 percent in 2015. There are some 31 million broadband lines in Germany. The main beneficiaries of the market growth were cable network operators, but we, the telecommunications operators, as well as traditional resellers and regional providers, who use the (V)DSL network, also gained. More and more lines with high bandwidths/transmission rates are being marketed, both in the cable network and in the VDSL/vectoring network; the products offered also include hybrid line technologies, which combine fixed-network and mobile communications. The availability of high bandwidths in Germany is also accelerating IPTV customer growth in the market (10 percent), driven in particular by wide-ranging HD content and video-on-demand services. Integrated offers comprising fixed-network and mobile communications offer customers numerous advantages and increase customer retention. The trend towards these kinds of integrated offers continued in Germany in 2015. We had launched our first integrated offering, MagentaEins, back in fall 2014. The telecommunications providers are constantly developing their offering further, for example, in the areas of connected home, security services, mobile payment, cloud, and IT services.

In the German mobile market, mobile service revenues decreased slightly by around 0.6 percent year-on-year to approximately EUR 18 billion, mainly due to regulatory effects, for example in connection with roaming and termination, and the improvement of the existing customer base in response to strong competition. The use of data services in the mobile Internet is growing exponentially, the percentage of voice and data rate plans is rising steadily. Traditional voice and text messaging services are increasingly being replaced by free IP messaging services like WhatsApp and social networks like Facebook; use of these services requires use of the mobile Internet and typically data flat rates. The growing popularity of connected products such as smartphones and tablets, but as of recently also watches, shoes, bicycles, etc., is pushing up demand for mobile broadband speeds and for growing data volumes in the rate plan portfolios.

Digitization continues to make progress and is taking hold in industry and in production processes. Companies are exploiting the opportunities of digitization to make their value chains more effective and energy-efficient, and to develop new business models. Connecting machines and production facilities requires extensive IT and cloud solutions. This market segment grew by 18 percent in 2015. Forward-looking business models that drive more market growth are also being established in the M2M (machine-to-machine) segment.

UNITED STATES

The mobile communications market in the United States continues to be divided between four major nationwide providers – and various regional network operators – AT&T, Verizon Wireless, Sprint, and T-Mobile US. In addition there are a number of mobile virtual network operators, which rely on the networks of one or more of the four national carriers to transport their mobile and data traffic. The two largest national network operators are AT&T and Verizon Wireless. The market continues to be very dynamic. A takeover attempt of Time Warner Cable by Comcast was prohibited. In July 2015, AT&T received permission for a USD 48.5 billion transaction to acquire DirecTV. The Dutch company Altice announced in September 2015 an acquisition of Cablevision Systems Corp. in the range of around USD 17.7 billion. The consolidation of the U.S. telecommunications market is expected to continue.

Growth has slowed as a result of the high market penetration. Voice revenues continued to decline slightly in 2015. However, the persistent data revenue surplus could more than compensate the decline. Mobile data usage remains at a high level, in line with the rapid development of LTE networks and the high use of smartphones, which now account for around 80 percent of all handsets. Data revenue is growing steadily year after year and is accompanied by tough price competition from the main market players.

The fierce competition is accompanied by regulatory announcements of the FCC (Federal Communications Commission). In June 2015, the FCC's Open Internet Order entered into force, updating the net neutrality rules it first established in 2010. The provisions define a standard, which in the future is to apply to the conduct of the affected companies. For the first time, this also includes interconnection agreements between Internet service providers (ISPs) and third parties. The FCC reserves the right to carry out case-by-case reviews with regard to the conduct of the affected companies.

The Broadcast Incentive Auctions for frequencies initiated by the FCC will be held in 2016. The underlying intention is for television providers to voluntarily hand back their licensed frequencies in exchange for a portion of the proceeds from the auction of the returned spectrum to mobile providers. In 2015, T-Mobile US has brought about a significant operational turnaround and intensified competition in the U.S. mobile market. This is mainly due to the improvements in their network, as well as the successful implementation of the Un-carrier initiatives, which contributed very successfully to customer satisfaction.

EUROPE

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

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

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

SYSTEMS SOLUTIONS

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

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

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

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The market for outsourcing business in the computing and **desktop services** (CDS) segment fell by 0.4 percent in the reporting year to EUR 59 billion. There are two contrary trends in particular at work here. On the one hand, there was a 6-percent decline in long-term, more traditional outsourcing agreements, and on the other, an 18-percent increase in the business in the cloud computing environment (the provision of IT services over the Internet).

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

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 2015. The focus was mainly on the regulation of services for wholesale customers and the corresponding charges as well as the award of mobile frequencies.

REGULATION OF SERVICES FOR WHOLESALE CUSTOMERS

Application for further vectoring roll-out. On February 23, 2015, we applied to the Federal Network Agency to be exempted from the obligation to give competitors access to the main distribution frames for the provision of VDSL lines. If the authority approves our request, we can create the necessary conditions to provide approximately 6 million more households with Internet surfing speeds of up to 100 Mbit/s. Going forward, transmission rates of up to 250 Mbit/s (super vectoring) will even be possible. By the end of 2018, high-speed access would be available to around 80 percent of households in Germany. The Federal Network Agency's current consultation draft largely grants us exclusive rights to local-area roll-out. We expect the regulatory process to be completed in the first quarter of 2016. However, the regulatory requirements for actual implementation will not be met until the reference offer has been adjusted, which is expected to be completed in the fourth quarter of 2016.

On October 28, 2015, the Federal Network Agency issued the **regulatory decision for the bitstream market**. In addition to the current ex-post regulation for Layer 3 **bitstream access** products, this decision requires an ex-ante license for Layer 2 bitstream products, although it does not require cost-based regulation of charges. We plan to offer a Layer 2 bitstream access product by July 1, 2016 at the latest.

Federal Network Agency proceedings on MagentaZuhause Hybrid. Since the start of 2015, we have been offering MagentaZuhause Hybrid rate plans to retail customers that combine fixed-network capacities (DSL) with mobile communications (LTE) in a single access product on the basis of innovative network technology. On July 6, 2015, 1&1 Telecom GmbH initiated proceedings with the Federal Network Agency for a review of our MagentaZuhause Hybrid rate plans with the aim of being provided with a corresponding wholesale product. The Federal Network Agency rejected 1&1's applications in rulings dated October 30, 2015 and December 23, 2015.

REGULATION OF PRICING AND SPECIAL TAXES

Rate application for Layer 2 bitstream access (BSA). In the first quarter of 2016, we will submit a rate application for the new Layer 2 BSA to the Federal Network Agency: The main rates we will apply for are the monthly charges for a VDSL retail line and for the handover point on the Broadband Network Gateway (BNG). A preliminary decision in the rates approval proceedings is expected at the start of the second quarter of 2016. This will then be followed by national and EU consultations, such that final approval of the rates can be expected as of July 1, 2016.

Application for ULL monthly charges. We submitted an application for monthly charges for unbundled local loop lines (ULLs) at the start of February 2016. We expect the consultation draft for the rate ruling to be available on April 15, 2016. This will be followed by national and international consultations. The new rates will apply from July 1, 2016.

Final Federal Network Agency rulings on interconnection rates in Germany published. On April 1 and April 24, 2015, the Federal Network Agency published its final rulings on fixed-network and **mobile termination rates**, thereby finally setting the charges that had already been provisionally approved as of December 1, 2014.

Additional special taxes affecting our international subsidiaries. In addition to the already known special taxes, e. g., in Greece, Hungary, Romania, and Croatia, a tax on mobile masts is currently being discussed in Austria. However, positive signs are currently coming out of Hungary, where the government has held out the prospect of a reduction in VAT and telecommunications tax.

MOBILE SPECTRUM AWARDS

TABLE 014 provides an overview of the main spectrum awards, such as auctions and license extensions, in 2015 in Germany and at our international subsidiaries. It also indicates spectrum to be awarded in the near future in various countries.

T 014

Main spectrum awards

	Start of award	End of award	Frequency ranges (MHz)	Award process	Acquired spectrum (MHz)	Spectrum investment
Albania	Q3/2014	Q1/2015	900/1,800	License extended until 2029	2 x 8/2 x 9	€ 11 million
Albania	Q1/2015	Q2/2015	1,800/2,600	Sealed bid ^a Sequential	2 x 6/2 x 20	€ 9 million/€ 3 million
Albania	Q1/2016	Q2/2016	2,100/2,600/ 3,500/3,700	Sealed bid ^a Sequential	tbd	tbd
Germany	Q2/2015	Q2/2015	700/900/ 1,500/1,800	Auction (SMRA ^b) Simultaneous	2 x 10/2 x 15/ 1 x 20/2 x 15	€ 1.8 billion Allocations from 2016
Greece	Q1/2016	Q2/2016	1,800	Details tbd	tbd	tbd
United Kingdom	Q2/2016	Q3/2016	2,300/3,500	Auction (SMRA ^b) (expected)	tbd	tbd
Montenegro	Q2/2016	Q3/2016	800/900/ 1,800/2,100/2,600	Details tbd	tbd	tbd
Netherlands	Q2/2014	Q2/2016	2,100	License extended until 2020	2 x 20	€ 24 million
Poland	Q1/2015	Q1/2016	800/2,600	Auction (SMRA ^b)/ Sealed bid ^a	2 x 5/2 x 15	PLN 2.1 billion (around € 0.5 billion ^c)
Slovakia	Q1/2016	Q2/2016	1,800	Auction (SMRA ^b) (expected)	tbd	tbd
Czech Republic	Q1/2016	Q2/2016	1,800/2,600/3,700	Auction (SMRA ^b) (expected)	tbd	tbd
Hungary	Q2/2016	Q3/2016	3,500/3,700	Details tbd	tbd	tbd
United States	Q4/2014	Q1/2015	1,700/2,100	Auction (SMRA ^b)	Regional licenses of different scope ^d	USD 1.77 billion (€ 1.6 billion)
United States	Q2/2016	Q3/2016	600	Incentive Auction ^e	tbd	tbd

^aSubmission of an individual bid in a sealed envelope, in some cases sequential, in several awards.

^bSimultaneous electronic multi-round auction with ascending, parallel bids for all ranges.

^cTotal of final bids. Allocation of spectrum expected for Q1 2016.

^dIn total, T-Mobile US acquired 151 out of 1,262 paired regional licenses with at least 2x5 MHz of spectrum each.

^eQuantity and prices of spectrum to be traded depends on spectrum surrendered by radio broadcasters.

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DEVELOPMENT OF BUSINESS IN THE GROUP

- Adjusted EBITDA of EUR 19.9 billion
- Free cash flow of EUR 4.5 billion

STATEMENT OF THE BOARD OF MANAGEMENT ON BUSINESS DEVELOPMENT IN 2015

Bonn, February 9, 2016

2015 was another successful financial year for us. We achieved our most important corporate targets and exceeded some of them: At EUR 19.9 billion, adjusted EBITDA even surpassed expectations. Free cash flow (before dividend payments and spectrum investment) stood at EUR 4.5 billion, thus exceeding the value forecast by us in 2014 and up 9.8 percent on the prior-year level. Our ROCE declined compared to 2014 – mainly due to the income recorded in the prior year from the disposal of the Scout24 group – by 0.7 percentage points to 4.8 percent, but surpassed our expectations nevertheless. 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 0.55 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 10.5 percent to EUR 69.2 billion. The driving force here was our United States operating segment, which recorded very strong revenue growth year-on-year of more than 29 percent, mainly thanks to unbroken strong mobile customer additions of 8.3 million as a result of T-Mobile us' successful Un-carrier initiatives.

In the reporting year, our profit from operations (EBIT) amounted to EUR 7.0 billion, which was slightly down on the prior-year figure. This decrease is mainly attributable to the income of EUR 1.7 billion recognized in 2014 from the disposal of the Scout24 group. The portfolio changes successfully completed in 2015, such as the sale of our online platform t-online.de and our digital marketing company InteractiveMedia to Ströer, as well as the sale of part of our share package to Scout24 AG had a positive effect on the development of EBIT. We managed to substantially attenuate the sharp decline that was forecast in the prior year. Nevertheless, our net profit increased significantly by 11.3 percent to EUR 3.3 billion, mainly due to the dividend payments of EUR 0.4 billion received from the EE joint venture.

Our net debt increased from EUR 42.5 billion to EUR 47.6 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 U. S. dollar exchange rate effects. The free cash flow and the sale of part of our share package in Scout24 AG 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. In order to continue mastering these challenges and remain viable in the long run, we continue to invest intensively in the basis of our success: our networks. In 2015, we made investments (before spectrum) of EUR 10.8 billion, EUR 1.3 billion more than in the previous year. In the fixed network, our focus was on investments in vectoring and fiber-optic roll-out in Germany, IPTV, and the continued migration to an IP-based network. In mobile communications, we invested in LTE, increased network coverage, and upgraded capacity to meet increasing demand for data volumes in all our operating segments. 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.

Employee satisfaction at Deutsche Telekom remains at a high level, as confirmed by the results of the employee survey conducted in November 2015. The satisfaction of our customers is likewise increasing. In the reporting year, we raised our TRI*M customer satisfaction score once again.

In view of the above, we would like to reaffirm our commitment to the strategic goal we have been pursuing since 2014: to be the Leading European Telco. With this goal in mind, we consistently translated our plans into action once again in the reporting year and see ourselves as a driving force for a modern and competitive digital Europe.

COMPARISON OF THE GROUP'S EXPECTATIONS WITH ACTUAL FIGURES

In the 2014 Annual Report, we outlined expectations for the 2015 financial year for our financial and non-financial key performance indicators anchored in our management system. TABLES 015 and 016 summarize the results in 2014, the results expected for the reporting year, and the actual results achieved in 2015. The performance indicators that we also forecast in the 2014 Annual Report and their development are presented in the individual sections.

T 015

Comparison of the expected financial key performance indicators with actual figures

		Results in 2014	Expectations for 2015	Results in 2015
ROCE	%	5.5	strong decrease	4.8
Net revenue	billions of €	62.7	increase	69.2
Profit (loss) from operations (EBIT)	billions of €	7.2	strong decrease	7.0
EBITDA (adjusted for special factors)	billions of €	17.6	around 18.3	19.9
Free cash flow (before dividend payments and spectrum investment)	billions of €	4.1	around 4.3	4.5
Cash capex ^a	billions of €	9.5	around 9.8	10.8
Rating (Standard & Poor's, Fitch)		BBB+	A-/BBB	BBB+
Rating (Moody's)		Baa1	A3/Baa2	Baa1

T 016

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

		Results in 2014	Expectations for 2015	Results in 2015
Customer satisfaction (TRI*M index)		65.9	slight increase	67.4
Employment satisfaction (commitment index) ^b		4.0	stable trend	4.1
FIXED-NETWORK AND MOBILE CUSTOMERS				
GERMANY				
Mobile customers	millions	39.0	increase	40.4
Fixed-network lines	millions	20.7	slight decrease	20.2
Broadband lines	millions	12.4	slight increase	12.6
UNITED STATES				
Branded postpaid	millions	27.2	strong increase	31.7
Branded prepay	millions	16.3	increase	17.6
EUROPE				
Mobile customers	millions	56.0	slight increase	52.2
Fixed-network lines	millions	9.0	decrease	8.7
Retail broadband lines	millions	5.0	strong increase	5.2
SYSTEMS SOLUTIONS				
Order entry	millions of €	7,456	slight increase	6,005

^a Before spectrum investment.^b Commitment index according to the most recent employee surveys in 2015 and 2012.

In the reporting year, we met or exceeded all of our financial key performance indicators forecast in the prior year. Our performance in 2015 was dominated by substantial growth in revenue and adjusted EBITDA, driven mainly by the U.S. business, which recorded growth on the back of the strong U.S. dollar as well as the persistently rapid rate of new customer acquisition as a result of the Un-carrier initiatives. Excluding the positive exchange rate effects, mainly from the U.S. dollar, revenue amounted to EUR 64.7 billion and adjusted EBITDA to EUR 19.0 billion in 2015. The expected figure for adjusted EBITDA did not include income of EUR 175 million from negotiations to settle an ongoing complaints procedure under anti-trust law or the new business model JUMP! On Demand at T-Mobile US which also had a positive effect on our adjusted EBITDA. The portfolio changes successfully completed in 2015, such as the sale of our online platform t-online.de and our digital marketing company InteractiveMedia to Ströer, as well as the sale of the share package in Scout24 AG had a positive effect on the development of EBIT and significantly attenuated the sharp decline forecast. Our cash capex was also higher than the figure of approximately EUR 9.8 billion in our forecast. In the United States and Germany operating segments, it increased as a result of the investments made in connection with the network build-out

and the network modernization. The surpassing of the expected level of free cash flow is also attributable to a payment received in connection with the settlement of a complaints procedure under anti-trust law.

Our key performance indicator ROCE (return on capital employed) declined by 0.7 percentage points year-to-year to 4.8 percent, but was still higher than our expectation as stated in the prior year. This decline was due to both the decrease in net operating profit after taxes (NOPAT) and the increase in the average value of assets tied up in the course of the year (net operating assets, or NOA). In 2014, NOPAT was positively impacted by income from the disposal of the Scout24 group and the income from the spectrum transaction with Verizon Communications. Although the income described above in connection with the disposal of part of our share package in Scout24 AG and the sale of t-online.de and InteractiveMedia also had a positive impact on NOPAT in 2015, this effect was much smaller than in the prior year. The increase in average NOA is primarily attributable to the build-up of assets in our Germany and United States operating segments. In Germany, this is due to both investment under our integrated network strategy and the spectrum acquired by auction. In the United States, the increase in NOA was down to currency

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effects as well as further network build-out and the acquisition of mobile licenses.


We are also well on track with our non-financial key performance indicators. Only in the Europe operating segment were we unable to achieve the forecast slight increase in the number of mobile customers. This was attributable to the prepaid business, especially in Poland, where around 3.8 million inactive prepaid SIM cards were deactivated in the reporting year. Nor did we achieve the originally planned slight increase in order entry in the Systems Solutions operating segment. This was due in part to the realignment of the business model with the goal of ensuring sustained profitable growth. In this context, we tightened up the profitability criteria for the acceptance of new orders. 


RESULTS OF OPERATIONS OF THE GROUP
NET REVENUE

In the reporting year, we generated net revenue of EUR 69.2 billion, which was well above the prior-year level with growth of EUR 6.6 billion. In addition to exchange rate effects, the business development of our United States operating segment contributed substantially to this positive trend: T-Mobile us' successful Un-carrier initiatives gave a strong boost to the number of new customers. By contrast, terminal equipment revenue was adversely affected. In connection with the JUMP! On Demand business model introduced by T-Mobile US in June 2015, customers

are increasingly choosing to lease high-value terminal equipment. Our Germany operating segment performed well, especially in the mobile market, and generated a small increase in revenue of 0.7 percent. In our Europe operating segment there was a decline in revenue of 2.0 percent; although the trend was an improvement on the prior year. Despite the consistent focus of our national companies on growth areas, revenue decreased due to decisions by regulatory authorities and competition-related price reductions, especially in mobile communications. In our Systems Solutions operating segment, the revenue increase at the Market Unit, i.e., essentially business with external customers, largely offset the planned decline in revenue at Telekom IT, which deals with internal IT projects. Revenue from our Group Headquarters & Group Services segment decreased compared with the prior year, mainly due to the continued efforts to optimize the use of land and buildings; added to this was the revenue lost in connection with the sale of 70 percent of the shares in the Scout24 group, which was consummated in February 2014, and the sale of our online platform t-online.de and our digital marketing company InteractiveMedia in November 2015.

Excluding the positive exchange rate effects of EUR 4.5 billion in total – in particular from the translation of U.S. dollars into euros – and positive effects of changes in the composition of the Group of EUR 0.1 billion, revenue increased by EUR 2.0 billion or 3.0 percent year-on-year. 

 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 83 ET SEQ.**

 For details on the revenue trends in our segments, please refer to the section "Development of business in the operating segments," **PAGE 83 ET SEQ.**

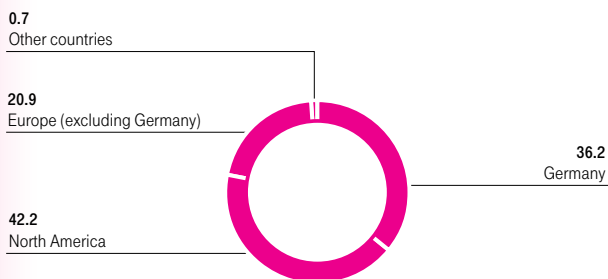
T 017

Contribution of the segments to net revenue
millions of €


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

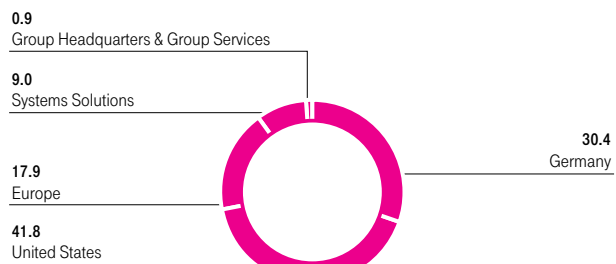
G 19


Breakdown of revenue by region
%



G 20

Contribution of the segments to net revenue  %



 For more information on net revenue, please refer to Note 32 "Segment reporting" in the notes to the consolidated financial statements, **PAGE 218 ET SEQ.**

T 018

Contribution of the segments to adjusted Group EBITDA

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



For further details, please refer to Note 30 "Depreciation, amortization and impairment losses" in the notes to the consolidated financial statements, **PAGE 216.**

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



For further information, please refer to Note 25 "Income taxes" in the notes to the consolidated financial statements, **PAGE 211 ET SEQ.**

EBITDA, ADJUSTED EBITDA

Excluding special factors, **adjusted EBITDA** increased year-on-year by EUR 2.3 billion to EUR 19.9 billion in the reporting year. This development was primarily driven by our United States operating segment, which recorded an increase in its adjusted EBITDA contribution of EUR 2.4 billion, mainly as a result of the continued success of the Un-carrier initiatives. The revenue effects from JUMP! On Demand also contributed to the increase in adjusted EBITDA as the related costs were depreciated over the lease term and thus were excluded from adjusted EBITDA. Exchange rate effects, primarily from the translation of U.S. dollars into euros, had a positive overall effect of EUR 0.9 billion on development. The agreement to settle an ongoing complaints procedure under anti-trust law resulted in income of EUR 175 million in the Group Headquarters & Group Services segment.

Our **EBITDA** increased by EUR 0.6 billion year-on-year to EUR 18.4 billion; this included negative net special factors of EUR 1.5 billion. They mainly comprised expenses incurred in connection with staff-related measures and non-staff related restructuring expenses of EUR 1.6 billion, which on a netted basis were EUR 0.4 billion higher than in 2014. In addition, expenses from the decommissioning of the MetroPCS CDMA network of around EUR 0.4 billion had a negative impact; in the prior year, these expenses amounted to EUR 0.3 billion. Income from the sale of part of our share package in Scout24 AG had an offsetting effect: The IPO of Scout24 AG was completed on October 1, 2015; in this connection, we sold a share package with a total of 13.3 million shares in the company for some EUR 0.3 billion. The sale of the online platform t-online.de and the digital content marketing company InteractiveMedia in November 2015 also generated income of EUR 0.3 billion from the divestitures. In 2014, special factors included income of EUR 1.7 billion from the disposal of the Scout24 group and EUR 0.4 billion from a spectrum transaction concluded between T-Mobile US and Verizon Communications.



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 208 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 83 ET SEQ.** For an overview of the development of special factors, please refer to **TABLE 019, PAGE 77.**

MARKETING EXPENSES

Marketing communication in our Group mainly takes the form of product and brand campaigns on MagentaEins, and here, for example, Smart Home, best network, roaming, vectoring, or Christmas, and the international campaign "We connect people in Europe." In 2015, marketing expenses amounted to EUR 2.6 billion, up slightly on the prior-year level of EUR 2.5 billion. The marketing expenses comprise costs incurred by 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 arising from customer retention programs, market planning and segmentation, and product forecasts.

EBIT

Group EBIT stood at EUR 7.0 billion, down EUR 0.2 billion against the prior year. Apart from the effects described under EBITDA, reasons for the decrease include the increase of EUR 0.8 billion in depreciation and amortization compared with the prior year, primarily in connection with the build-out of the 4G/LTE network and the launch of the JUMP! On Demand program in our United States operating segment.

PROFIT BEFORE INCOME TAXES

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

NET PROFIT/LOSS

Net profit increased by EUR 0.3 billion or 11.3 percent to EUR 3.3 billion. Tax expense for the 2015 financial year amounted to EUR 1.3 billion and was thus EUR 0.2 billion higher than the prior-year level.

Profit attributable to non-controlling interests decreased only slightly compared with 2014.

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

T 019

Consolidated income statement and effects of special factors

millions of €

	EBITDA 2015	EBIT 2015	EBITDA 2014	EBIT 2014	EBITDA 2013	EBIT 2013
EBITDA/EBIT	18,388	7,028	17,821	7,247	15,834	4,930
GERMANY	(545)	(545)	(254)	(254)	(535)	(540)
Staff-related measures	(402)	(402)	(223)	(223)	(506)	(506)
Non-staff-related restructuring	(21)	(21)	(9)	(9)	(16)	(16)
Effects on earnings from business combinations and other transactions	0	0	0	0	(23)	(23)
Other	(122)	(122)	(22)	(22)	10	5
UNITED STATES	(425)	(425)	(52)	(52)	(232)	(329)
Staff-related measures	(50)	(50)	(133)	(133)	(179)	(179)
Non-staff-related restructuring	0	0	0	0	(1)	(1)
Effects on earnings from business combinations and other transactions	(382)	(382)	78	78	(52)	(52)
Impairment losses	-	0	-	0	-	(97)
Other	7	7	3	3	0	0
EUROPE	(219)	(262)	(131)	(153)	(179)	(793)
Staff-related measures	(175)	(175)	(91)	(91)	(327)	(327)
Non-staff-related restructuring	(14)	(14)	(9)	(9)	3	3
Effects on earnings from business combinations and other transactions	31	31	(5)	(5)	183	183
Impairment losses	-	(43)	-	(22)	-	(614)
Other	(61)	(61)	(26)	(26)	(38)	(38)
SYSTEMS SOLUTIONS	(649)	(716)	(540)	(549)	(416)	(431)
Staff-related measures	(369)	(369)	(286)	(286)	(212)	(212)
Non-staff-related restructuring	(259)	(263)	(205)	(212)	(128)	(130)
Effects on earnings from business combinations and other transactions	(4)	(4)	(23)	(23)	(71)	(84)
Other	(17)	(80)	(26)	(28)	(5)	(5)
GROUP HEADQUARTERS & GROUP SERVICES	319	303	1,229	1,200	(228)	(228)
Staff-related measures	(213)	(213)	(174)	(174)	(226)	(226)
Non-staff-related restructuring	(48)	(48)	(54)	(54)	(34)	(34)
Effects on earnings from business combinations and other transactions	574	574	1,631	1,631	40	40
Impairment losses	-	0	-	(29)	-	0
Other	6	(10)	(174)	(174)	(8)	(8)
GROUP RECONCILIATION	(1)	0	0	0	0	0
Staff-related measures	(1)	1	0	0	(1)	(1)
Non-staff-related restructuring	(1)	(2)	0	0	0	0
Effects on earnings from business combinations and other transactions	1	1	0	0	1	1
Other	0	0	0	0	0	0
TOTAL SPECIAL FACTORS	(1,520)	(1,645)	252	192	(1,590)	(2,321)
EBITDA/EBIT (ADJUSTED FOR SPECIAL FACTORS)	19,908	8,673	17,569	7,055	17,424	7,251
Profit (loss) from financial activities (adjusted for special factors)		(2,233)		(2,784)		(2,772)
PROFIT (LOSS) BEFORE INCOME TAXES (ADJUSTED FOR SPECIAL FACTORS)		6,440		4,271		4,479
Income taxes (adjusted for special factors)		(1,927)		(1,474)		(1,364)
PROFIT (LOSS) (ADJUSTED FOR SPECIAL FACTORS)		4,513		2,797		3,115
PROFIT (LOSS) (ADJUSTED FOR SPECIAL FACTORS) ATTRIBUTABLE TO						
Owners of the parent (net profit (loss)) (adjusted for special factors)		4,113		2,422		2,755
Non-controlling interests (adjusted for special factors)		400		375		360

FINANCIAL POSITION OF THE GROUP

T 020

Condensed consolidated statement of financial position

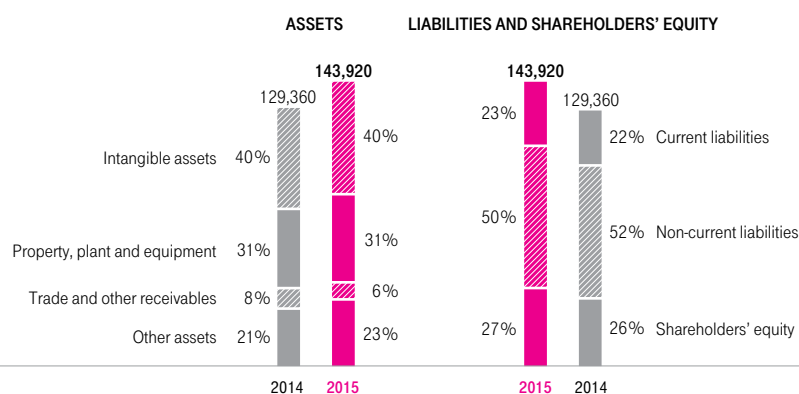
millions of €

	Dec. 31, 2015	Change	Dec. 31, 2014	Dec. 31, 2013	Dec. 31, 2012	Dec. 31, 2011
ASSETS						
CURRENT ASSETS	32,184	2,386	29,798	21,963	15,019	15,865
Cash and cash equivalents	6,897	(626)	7,523	7,970	4,026	3,749
Trade and other receivables	9,238	(1,216)	10,454	7,712	6,417	6,557
Non-current assets and disposal groups held for sale	6,922	1,044	5,878	1,033	90	436
Other current assets	9,127	3,184	5,943	5,248	4,486	5,123
NON-CURRENT ASSETS	111,736	12,174	99,562	96,185	92,923	106,631
Intangible assets	57,025	5,460	51,565	45,967	41,847	50,227
Property, plant and equipment	44,637	5,021	39,616	37,427	37,407	41,797
Investments accounted for using the equity method	822	205	617	6,167	6,726	6,873
Other non-current assets	9,252	1,488	7,764	6,624	6,943	7,734
TOTAL ASSETS	143,920	14,560	129,360	118,148	107,942	122,496
LIABILITIES AND SHAREHOLDERS' EQUITY						
CURRENT LIABILITIES	33,548	5,350	28,198	22,496	22,995	24,215
Financial liabilities	14,439	3,881	10,558	7,891	9,260	10,219
Trade and other payables	11,090	1,409	9,681	7,259	6,445	6,436
Current provisions	3,367	(150)	3,517	3,120	2,885	3,095
Liabilities directly associated with non-current assets and disposal groups held for sale	4	(2)	6	113	9	-
Other current liabilities	4,648	212	4,436	4,113	4,396	4,465
NON-CURRENT LIABILITIES	72,222	5,126	67,096	63,589	54,416	58,249
Financial liabilities	47,941	3,272	44,669	43,708	35,354	38,099
Non-current provisions	11,006	168	10,838	9,077	9,169	7,771
Other non-current liabilities	13,275	1,686	11,589	10,804	9,893	12,379
SHAREHOLDERS' EQUITY	38,150	4,084	34,066	32,063	30,531	40,032
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	143,920	14,560	129,360	118,148	107,942	122,496

G 21

Structure of the consolidated statement of financial position

millions of €



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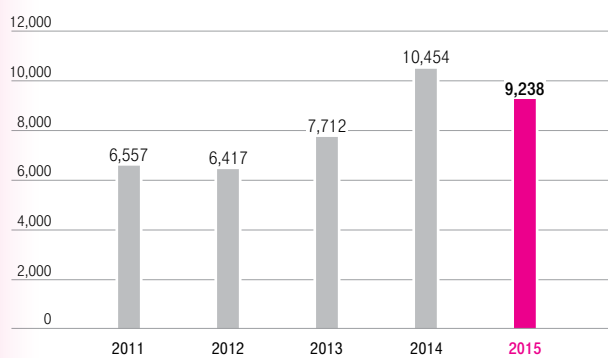
Total assets increased by EUR 14.6 billion compared with December 31, 2014, largely due to higher intangible assets and property, plant and equipment. EUR 4.1 billion of this figure alone was attributable to exchange rate effects, mainly from the translation from U.S. dollars into euros. The level of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

Cash and cash equivalents decreased by EUR 0.6 billion year-on-year. 

G 22

Trade and other receivables

millions of €



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

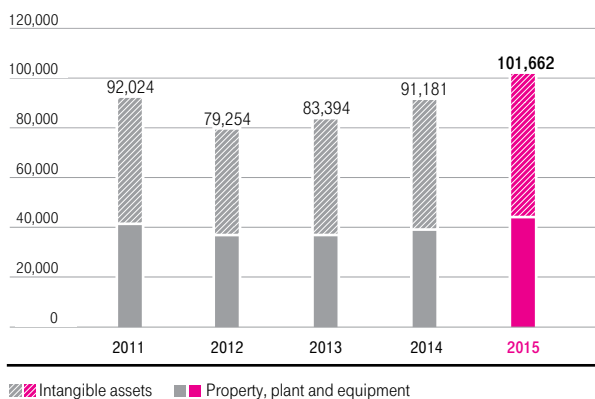
The increase in the net carrying amounts of the **non-current assets and disposal groups held for sale** of EUR 1.0 billion to EUR 6.9 billion is primarily due to a transaction agreed in the third quarter of 2015 for the exchange of mobile licenses between T-Mobile US and AT&T with the aim of improving mobile network coverage. This transaction increased the net carrying amounts by EUR 0.6 billion. Currency effects of EUR 0.3 billion from the translation of pounds sterling into euros related to the reclassification in December 2014 of our stake in the EE joint venture also had an increasing effect on the carrying amount of EUR 6.1 billion in total as of December 31, 2015.

Other current assets as of December 31, 2015 included the following significant effects: The main reason for the EUR 2.8 billion increase in the net carrying amounts of **current other financial assets** to EUR 5.8 billion was the short-term liquidity disposition resulting from the acquisition of U.S. government bonds by T-Mobile US in connection with the bond issue in the fourth quarter of 2015 and the resulting cash inflows. Inventories increased by EUR 0.3 billion to EUR 1.8 billion, primarily due to increased stock levels of terminal equipment (in particular higher-priced smartphones) at T-Mobile US.

G 23

Intangible assets and property, plant and equipment

millions of €



 Intangible assets  Property, plant and equipment

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

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

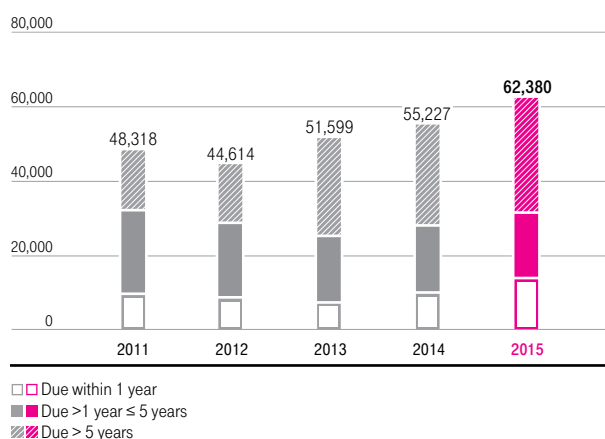


For detailed information on this change, please refer to the consolidated statement of cash flows, **PAGE 160**, and Note 31 "Notes to the consolidated statement of cash flows" in the notes to the consolidated financial statements, **PAGE 216 ET SEQ.**

G 24

Financial liabilities

millions of €



Our current and non-current financial liabilities grew by EUR 7.2 billion compared with the prior year to EUR 62.4 billion in total.

Trade and other payables increased by EUR 1.4 billion compared with the end of 2014 to EUR 11.1 billion, due in part to the stockpiling of terminal equipment, in particular higher-priced smartphones, and the network build-out in our United States operating segment. Exchange rate effects from the translation from U.S. dollars into euros accounted for EUR 0.5 billion of the increase.

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

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

Shareholders' equity increased by EUR 4.1 billion compared with December 31, 2014 to EUR 38.2 billion, due to the following factors: profit after taxes of EUR 3.5 billion, currency translation effects recognized directly in equity of EUR 2.0 billion, the recognition of actuarial gains (after taxes) of EUR 0.2 billion, and the measurement of hedging instruments directly in equity of EUR 0.4 billion. In addition, in connection with the option granted to our shareholders to have their dividend entitlements converted into shares, a capital increase of EUR 1.1 billion was carried out involving the contribution of the dividend entitlements. Dividend payments for the 2014 financial year to Deutsche Telekom AG shareholders of EUR 2.3 billion and to non-controlling interests of EUR 0.1 billion had an offsetting effect. The acquisition of the remaining shares in Slovak Telekom for EUR 0.9 billion also reduced shareholders' equity.

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



For further information, please refer to the explanations in Note 10 "Financial liabilities" in the notes to the consolidated financial statements, PAGE 193 ET SEQ.

T 021

Net debt

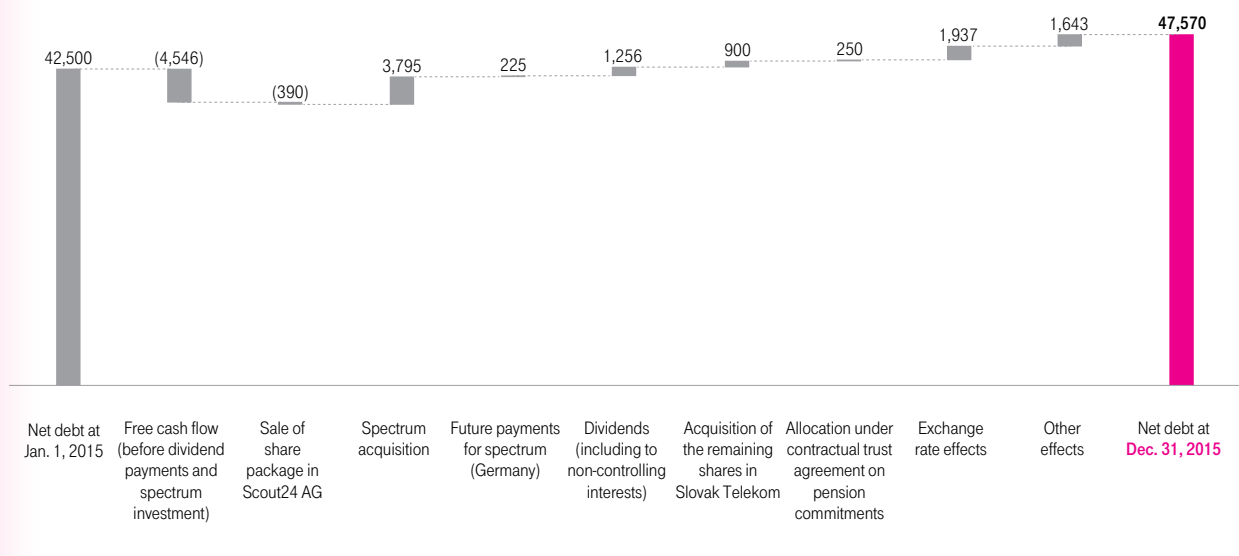
millions of €

	Dec. 31, 2015	Change	Dec. 31, 2014	Dec. 31, 2013	Dec. 31, 2012	Dec. 31, 2011
Financial liabilities (current)	14,439	3,881	10,558	7,891	9,260	10,219
Financial liabilities (non-current)	47,941	3,272	44,669	43,708	35,354	38,099
FINANCIAL LIABILITIES	62,380	7,153	55,227	51,599	44,614	48,318
Accrued interest	(1,014)	83	(1,097)	(1,091)	(903)	(966)
Other	(857)	181	(1,038)	(881)	(754)	(615)
GROSS DEBT	60,509	7,417	53,092	49,627	42,957	46,737
Cash and cash equivalents	6,897	(626)	7,523	7,970	4,026	3,749
Available-for-sale financial assets/ financial assets held for trading	2,877	2,588	289	310	27	402
Derivative financial assets	2,686	1,343	1,343	771	1,287	1,533
Other financial assets	479	(958)	1,437	1,483	757	932
NET DEBT	47,570	5,070	42,500	39,093	36,860	40,121

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G 25

Changes in net debt
millions of €



Our **net debt** increased by EUR 5.1 billion year-on-year to EUR 47.6 billion. The reasons for this are presented in GRAPHIC 25. Other effects of EUR 1.6 billion include financing options of EUR 0.7 billion under which the payments for trade payables from investing and operating activities become due at a later point in time by involving banks in the process.

Off-balance sheet assets and other financing formats. 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, 2015 amounted to EUR 3.5 billion (December 31, 2014: EUR 1.4 billion). This mainly comprises the renewed conclusion in 2015 of a factoring agreement in the Germany operating segment that was terminated in 2014 and a new factoring agreement concluded in the United States operating segment. The agreements are mainly used for active receivables management.

Furthermore, in the reporting year, we chose financing options totaling EUR 0.7 billion (2014: EUR 0.6 billion) which extended the period of payment for trade payables from operating and investing activities by involving banks in the process and which upon payment are shown under cash flows used in/from financing activities. As a result, we show these payables under financial liabilities in the statement of financial position.

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

Finance management. Our finance management ensures our 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 022

The rating of Deutsche Telekom AG

	Standard & Poor's	Moody's	Fitch
LONG-TERM RATING			
Dec. 31, 2011	BBB+	Baa1	BBB+
Dec. 31, 2012	BBB+	Baa1	BBB+
Dec. 31, 2013	BBB+	Baa1	BBB+
Dec. 31, 2014	BBB+	Baa1	BBB+
DEC. 31, 2015	BBB+	Baa1	BBB+
SHORT-TERM RATING	A-2	P-2	F2
OUTLOOK	Stable	Stable	Stable



For more information, please refer to the explanations in Note 34 "Leases," PAGE 222 ET SEQ., and Note 35 "Other financial obligations," PAGE 224, in the notes to the consolidated financial statements.

T 023

Financial flexibility

	2015	2014	2013	2012	2011
RELATIVE DEBT					
Net debt / EBITDA (adjusted for special factors)	2.4 x	2.4 x	2.2 x	2.1 x	2.1 x
EQUITY RATIO %	26.5	26.3	27.1	28.3	32.7

To ensure financial flexibility, we primarily use the KPI **relative debt**. One component of this KPI is net debt, which our Group uses as an important indicator for investors, analysts, and rating agencies.

T 024

Condensed consolidated statement of cash flows

millions of €

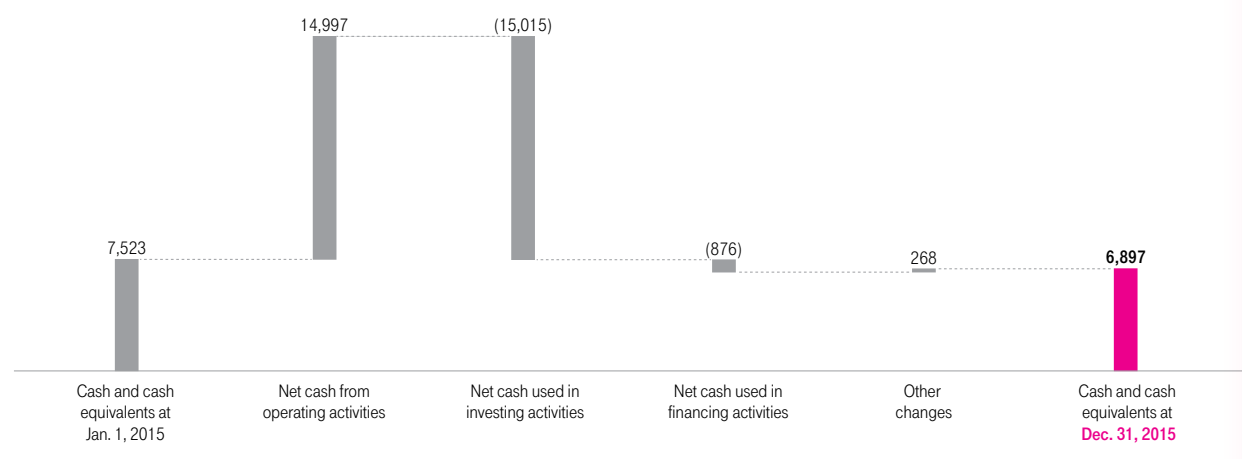
	2015	2014	2013
NET CASH FROM OPERATING ACTIVITIES	14,997	13,393	13,017
Effects from the AT&T transaction	-	-	137
Compensation payments for MetroPCS employees	-	-	60
NET CASH FROM OPERATING ACTIVITIES ^a	14,997	13,393	13,214
Cash outflows for investments in intangible assets (excluding goodwill and before spectrum investment) and property, plant and equipment (CASH CAPEX)	(10,818)	(9,534)	(8,861)
Proceeds from disposal of intangible assets (excluding goodwill) and property, plant and equipment	367	281	253
FREE CASH FLOW (BEFORE DIVIDEND PAYMENTS AND SPECTRUM INVESTMENT) ^a	4,546	4,140	4,606
NET CASH USED IN INVESTING ACTIVITIES	(15,015)	(10,761)	(9,896)
NET CASH (USED IN) FROM FINANCING ACTIVITIES	(876)	(3,434)	1,022
Effect of exchange rate changes on cash and cash equivalents	267	323	(167)
Changes in cash and cash equivalents associated with non-current assets and disposal groups held for sale	1	32	(32)
Net increase (decrease) in cash and cash equivalents	(626)	(447)	3,944
CASH AND CASH EQUIVALENTS	6,897	7,523	7,970

^a Before effects in connection with the AT&T transaction 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 grew from EUR 4.1 billion in the prior year to EUR 4.5 billion. On the one hand, net cash from operating activities increased by EUR 1.6 billion. On the other hand, cash outflows for investments in intangible assets (excluding goodwill and before spectrum investment) and property, plant and equipment also increased by EUR 1.3 billion.

The increase in net cash from operating activities was mainly attributable to the positive business development of our United States operating segment. In 2015, we concluded factoring agreements concerning monthly revolving sales of trade receivables, which resulted in a positive effect of EUR 0.8 billion on net cash from operating activities. This mainly comprises a renewed conclusion in 2015 of a factoring agreement in our Germany operating segment that was terminated in the prior year and a new factoring agreement concluded in our United States operating

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segment. The effect from factoring agreements in the prior year totaled EUR 0.2 billion. Cash inflows of EUR 0.2 billion also resulted from an agreement to settle an ongoing complaints procedure under anti-trust law. Offsetting effects included payments made in 2015 in connection with the European Commission proceedings against Slovak Telekom and Deutsche Telekom. The dividend payment received for the first time from Scout24 AG of EUR 0.1 billion and a year-on-year increase of EUR 0.1 billion in the dividend payments from the EE joint venture increased net cash from operating activities.

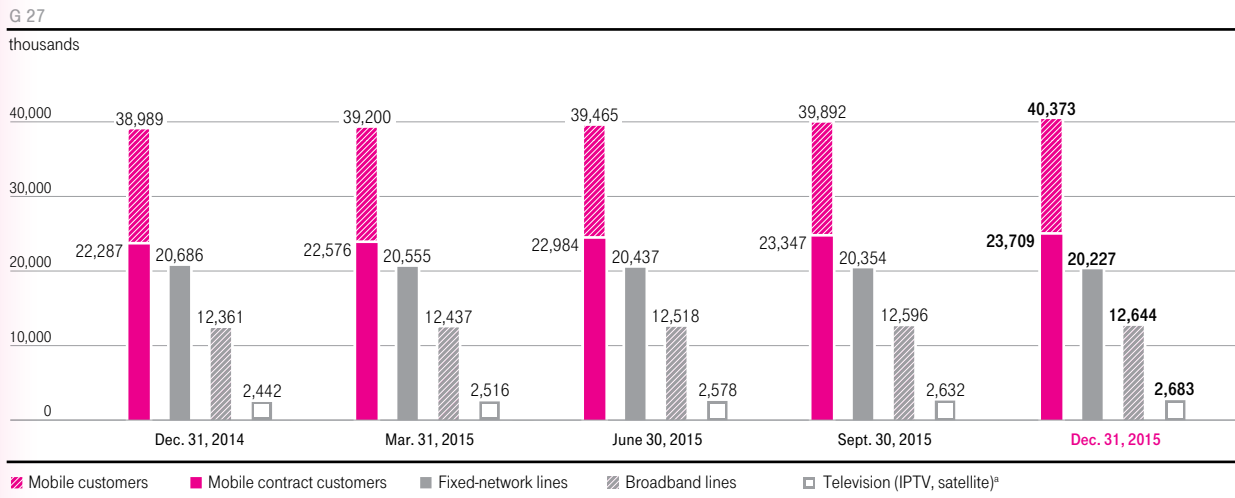
The increase in cash capex compared with 2014 primarily related to the United States and Germany operating segments where cash capex increased as a result of the investments made in connection with the network build-out and the network modernization.

For further information on the proceedings, please refer to the section "Risk and opportunity management," PAGE 125 ET SEQ.

For further details, please refer to Note 31 "Notes to the consolidated statement of cash flows" in the notes to the consolidated financial statements, PAGE 216 ET SEQ.

DEVELOPMENT OF BUSINESS IN THE OPERATING SEGMENTS

GERMANY CUSTOMER DEVELOPMENT



^aCustomers connected.

T 025

thousands

	Dec. 31, 2015	Dec. 31, 2014	Change	Change %	Dec. 31, 2013
TOTAL					
Mobile customers	40,373	38,989	1,384	3.5 %	38,625
Contract customers	23,709	22,287	1,422	6.4 %	21,553
Prepay customers	16,665	16,701	(36)	(0.2)%	17,072
Fixed-network lines	20,227	20,686	(459)	(2.2)%	21,417
Of which: retail IP-based	6,887	4,383	2,504	57.1 %	2,141
Broadband lines	12,644	12,361	283	2.3 %	12,360
Of which: optical fiber	2,923	1,799	1,124	62.5 %	1,246
Television (IPTV, satellite)	2,683	2,442	241	9.9 %	2,177
Unbundled local loop lines (ULLs)	8,050	8,801	(751)	(8.5)%	9,257
Wholesale unbundled lines	3,015	2,153	862	40.0 %	1,564
Of which: optical fiber	1,444	718	726	n. a.	274
Wholesale bundled lines	227	305	(78)	(25.6)%	390
OF WHICH: CONSUMERS					
Mobile customers	29,016	29,068	(52)	(0.2)%	29,943
Contract customers	17,297	16,040	1,257	7.8 %	15,669
Prepay customers	11,719	13,027	(1,308)	(10.0)%	14,275
Fixed-network lines	15,900	16,260	(360)	(2.2)%	16,923
Of which: retail IP-based	6,076	3,974	2,102	52.9 %	1,960
Broadband lines	10,209	9,938	271	2.7 %	9,963
Of which: optical fiber	2,530	1,547	983	63.5 %	1,064
Television (IPTV, satellite)	2,492	2,254	238	10.6 %	2,001
OF WHICH: BUSINESS CUSTOMERS					
Mobile customers	11,358	9,921	1,437	14.5 %	8,682
Contract customers ^a	6,412	6,247	165	2.6 %	5,885
Prepay customers (M2M)	4,946	3,674	1,272	34.6 %	2,797
Fixed-network lines	3,339	3,402	(63)	(1.9)%	3,445
Of which: retail IP-based	773	387	386	99.7 %	164
Broadband lines	2,093	2,096	(3)	(0.1)%	2,072
Of which: optical fiber	385	248	137	55.2 %	180
Television (IPTV, satellite)	190	186	4	2.2 %	174

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

Total

In Germany, we defended our position as market leader in the fixed network and extended our lead in mobile communications in terms of service revenues. This success is attributable to our high-performance networks. We offer best customer experience with multi-award-winning network quality – in the fixed network and in mobile communications – and with a broad product portfolio.

In September 2014, we launched MagentaEins – our first integrated product comprising fixed-network and mobile components, for which we have won 1.9 million customers so far.

With our “network of the future,” we provide state-of-the-art connection technology. By the end of 2018, we want to convert our entire network to IP technology. By the end of 2015, we had migrated 9.5 million retail and wholesale lines to IP, which corresponds to a migration rate of 40 percent.

In mobile communications, we won another 1.4 million customers. Thanks to high demand for integrated mobile rate plans including data volumes, there was a positive development in the contract customer base in the consumer and business customer segment.

We continued to record strong demand for our fiber-optic products: For example, the number of these lines rose by 1.9 million in the reporting year to a total of 4.4 million. With the progress in fiber-optic roll-out and innovative vectoring technology, we successfully drove forward the marketing of substantially higher bandwidths – and will even step up our efforts in this area in the future. With our contingent model and its future refinement, we are creating incentives for the migration from traditional wholesale products – such as bundled wholesale lines or unbundled local loop lines (ULLs) – to higher-quality fiber-optic wholesale lines.

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Mobile communications

Mobile telephony and data services. We are generating momentum with our excellent network quality and new product portfolio for high-value contract customers. Since the end of 2014, we have won a total of 1.4 million new contract customers. In our branded contract customer business alone, we recorded 575 thousand additions under the Deutsche Telekom and “congstar” brands. As of the end of the 2015 financial year, the company Telekom Deutschland Multibrand GmbH, which was established on January 15, 2015 and which includes the marketing partnership for the use of the Turkcell brand in Germany, had 301 thousand mobile customers. The reseller business (service providers) recorded 546 thousand net additions, even though the Turkcell customers had been transferred to Telekom Deutschland Multibrand GmbH in the first quarter of 2015. This entailed a transfer of Turkcell customers from the prepay to the contract customer segment. The number of prepay customers decreased by 36 thousand since the end of 2014, though the growth in business customers partly compensated for the significant loss in the number of consumers in this area.

Overall, the contract customer additions more than offset the decline in prepay customers. As of the end of 2015, 259 thousand customers used a mobile broadband connection.

Smartphones accounted for 84.4 percent of mobile devices sold. 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. Our focus here is on integrated offers as well as television and fiber-optic lines. The success bears us out: The number of broadband lines increased by 283 thousand compared with the end of the prior year. In total, 21.2 percent of our broadband customers are television customers, an increase of 1.4 percentage points compared with December 31, 2014. In the traditional fixed network, the number of lines decreased by 459 thousand. In terms of line losses per quarter, the overall trend is stable.

We have been marketing the MagentaZuhause rate plans, a new product portfolio for the fixed network based on IP technology and rate plan-specific bandwidths, since October 2014. MagentaZuhause Hybrid bundles fixed-network and mobile technology in a single router. Since we launched this product Germany-wide in March 2015, we have won 155 thousand customers, primarily in rural areas.

Our partnerships in the housing sector were also successful: Around 147 thousand apartments were connected to our network in total, 28 thousand of them in this financial year.

Consumers

Connected life across all screens. The number of mobile customers declined slightly by 0.2 percent compared with the prior-year level. This was the result of contrasting effects: The number of prepay customers decreased by 1.3 million, mainly due to customers switching to contracts, such as the cost-effective “congstar” rate plans. However, we added 1.3 million mobile contract customers in 2015, with 410 thousand of these net additions under the Telekom and “congstar” brands. The

high acceptance of the MagentaMobil rate plans launched in September 2014 and the AllnetFlat rate plans at “congstar” resulted in this customer growth. As of the end of the reporting year, the new company Telekom Deutschland Multibrand GmbH had a contract customer base of 301 thousand. Reseller business (service providers) increased by 546 thousand from the start of the year.

The line losses in the fixed network totaled 360 thousand, which was significantly less than in the prior period. In 2015, we migrated 2.1 million customers to IP-based lines in the fixed network. We won 238 thousand new television customers compared with the end of 2014. Of the 10.2 million broadband lines, around 2.5 million customers use fiber-optic lines – an increase of 983 thousand in the reporting year alone.

Business Customers

Connected work with innovative solutions. The positive trend in the Business Customers segment from the prior year continued: Since the beginning of the year, we have recorded 1.4 million mobile customer additions, 165 thousand of whom were high-value contract customers. In mobile Internet, customers are increasingly opting for plans with more bandwidth, in conjunction with higher-quality terminal equipment. We added 1.3 million new M2M SIM cards in a very aggressively priced market. This growth was due to the increased use of SIM cards, especially in the automotive and logistics industries. The number of fixed-network lines decreased slightly compared with the end of 2014 to 3.3 million. Broadband lines remained at the level recorded in the prior year of 2.1 million, with the number of fiber-optic customers increasing by 55.2 percent.

Products in the area of connected work developed positively, demand grew in particular for IT cloud products. We also recorded further growth in our rate plans “DeutschlandLAN – Complete Solution for your Office.”

Wholesale

The number of lines in the wholesale sector remained stable overall compared with 2014 at 11.3 million. At the end of the reporting year, fiber-optic lines accounted for 12.8 percent of all lines – 6.4 percentage points more than in the prior year. The strong growth in our wholesale unbundled lines by 862 thousand or 40.0 percent compared with 2014 was primarily attributable to the strong demand for our contingent model. By contrast, the number of bundled wholesale lines decreased by 78 thousand. This trend is likely to continue for the next few years due to the fact that our competitors are switching from bundled to unbundled wholesale products with more bandwidth, or to their own infrastructure. The number of unbundled local loop lines decreased by 751 thousand or 8.5 percent compared with 2014. This is due first to the move to higher-quality fiber-optic wholesale lines, and second to retail customers switching to cable operators. On top of this, wholesale customers are migrating their retail customers to their own fiber-optic lines and in some cases also to mobile-based lines.

DEVELOPMENT OF OPERATIONS

T 026

millions of €

	2015	2014	Change	Change %	2013
TOTAL REVENUE	22,421	22,257	164	0.7 %	22,435
Consumers	12,095	11,970	125	1.0 %	12,122
Business Customers	5,781	5,726	55	1.0 %	5,676
Wholesale	3,755	3,775	(20)	(0.5)%	3,811
Value-Added Services	226	242	(16)	(6.6)%	288
Other	564	544	20	3.7 %	538
Profit from operations (EBIT)	4,490	4,663	(173)	(3.7)%	4,435
EBIT margin %	20.0	21.0			19.8
Depreciation, amortization and impairments	(3,755)	(3,893)	138	3.5 %	(3,966)
EBITDA	8,245	8,556	(311)	(3.6)%	8,401
Special factors affecting EBITDA	(545)	(254)	(291)	n. a.	(535)
EBITDA (ADJUSTED FOR SPECIAL FACTORS)	8,790	8,810	(20)	(0.2)%	8,936
EBITDA margin (adjusted for special factors) %	39.2	39.6			39.7
CASH CAPEX	(5,609)	(3,807)	(1,802)	(47.3)%	(3,411)

Total revenue

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

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

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

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

by the positive trend in unbundled lines, mainly due to the contingent model.

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

EBITDA, adjusted EBITDA

EBITDA adjusted for special factors decreased slightly by 0.2 percent year-on-year in the reporting year to EUR 8.8 billion, mainly due to higher personnel costs in connection with collectively agreed pay increases and the increased use of personnel for our network build-out and the IP migration. With an adjusted EBITDA margin of 39.2 percent, we are slightly short of our expected target level of 40 percent. EBITDA amounted to EUR 8.2 billion in the reporting year, a decline of 3.6 percent against the prior year, due in particular to higher special factors for expenses in connection with our staff restructuring.

EBIT

Profit from operations decreased by 3.7 percent to EUR 4.5 billion compared with 2014. This was mainly attributable to higher expenses incurred in connection with staff-related measures and non-staff-related restructuring expenses. Offsetting effects resulted from a 3.5-percent decrease in depreciation and amortization.

Cash capex

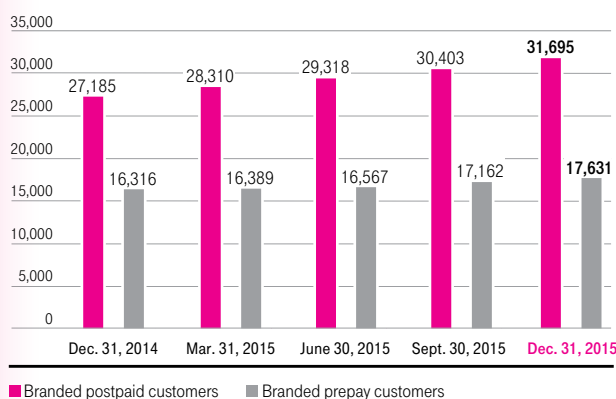
Cash capex increased by EUR 1.8 billion year-on-year, due in particular to the spectrum auction in June 2015. Excluding spectrum investment, our cash capex increased slightly compared with 2014. During 2015 we again made significant investments in the vectoring and fiber-optic cable roll-out, our IP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

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UNITED STATES CUSTOMER DEVELOPMENT

G 28

thousands



At December 31, 2015, the United States operating segment (T-Mobile us) had 63.3 million customers compared to 55.0 million customers at December 31, 2014. This increase in net customers of 8.3 million for the year ended December 31, 2015 was consistent with 8.3 million net customer additions for the year ended December 31, 2014 due to the factors described below. 2015 marked the second consecutive year that T-Mobile US added more than 8.0 million total net customer additions, leading the U.S. wireless industry.

Branded customers. Branded postpaid net customer additions were 4,510 thousand for the year ended December 31, 2015, compared to 4,886 thousand branded postpaid net customer additions for the year ended December 31, 2014. Branded postpaid net customer additions remained strong in 2015 driven by positive customer response to T-Mobile us' Un-carrier initiatives such as JUMP! On Demand and Data Stash, ongoing network improvements and promotional activities. Branded postpaid net customer additions in 2015 were lower compared to 2014, which included the introduction of Un-carrier 4.0 Contract Freedom and certain attractive family rate plan promotions. Included in the branded postpaid net customer additions were approximately 765 thousand qualified branded prepay customers upgrading to branded postpaid plans in 2015, compared to approximately 420 thousand in 2014.

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

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

T 027

thousands

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

DEVELOPMENT OF OPERATIONS

T 028

millions of €

	2015	2014	Change	Change %	2013
TOTAL REVENUE	28,925	22,408	6,517	29.1 %	18,556
Profit from operations (EBIT)	2,454	1,405	1,049	74.7 %	1,404
EBIT margin	% 8.5	6.3			7.6
Depreciation, amortization and impairments	(3,775)	(2,839)	(936)	(33.0)%	(2,238)
EBITDA	6,229	4,244	1,985	46.8 %	3,642
Special factors affecting EBITDA	(425)	(52)	(373)	n. a.	(232)
EBITDA (ADJUSTED FOR SPECIAL FACTORS)	6,654	4,296	2,358	54.9 %	3,874
EBITDA margin (adjusted for special factors)	% 23.0	19.2			20.9
CASH CAPEX	(6,381)	(5,072)	(1,309)	(25.8)%	(3,279)

Total revenue

Total revenue for the United States operating segment of EUR 28.9 billion in 2015 increased by 29.1 percent compared to EUR 22.4 billion in 2014 substantially due to fluctuations in the currency exchange rate. In U.S. dollars, T-Mobile US' total revenues increased by 8.1 percent in 2015 due primarily to service revenue growth resulting from increases in the customer base from the continued success of T-Mobile US' Un-carrier initiatives and strong customer response to promotional activities targeting families. Equipment revenues decreased primarily attributable to a lower average revenue per device sold, due in part to the impact of customers shifting to leasing higher-end devices with JUMP! On Demand, partially offset by growth in the number of devices and accessories sold. With JUMP! On Demand, revenues associated with leased devices are recognized over the term of the lease rather than when the device is delivered to the customer.

EBITDA, adjusted EBITDA, adjusted EBITDA margin

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

by higher employee-related costs, an increased loss on equipment sales due to higher volumes of smartphone sales, higher promotional costs and increases in bad debt expense and losses on sales of receivables. The adjusted EBITDA margin increased year-on-year from 19.2 percent to 23.0 percent due to the factors described above.

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

EBIT

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

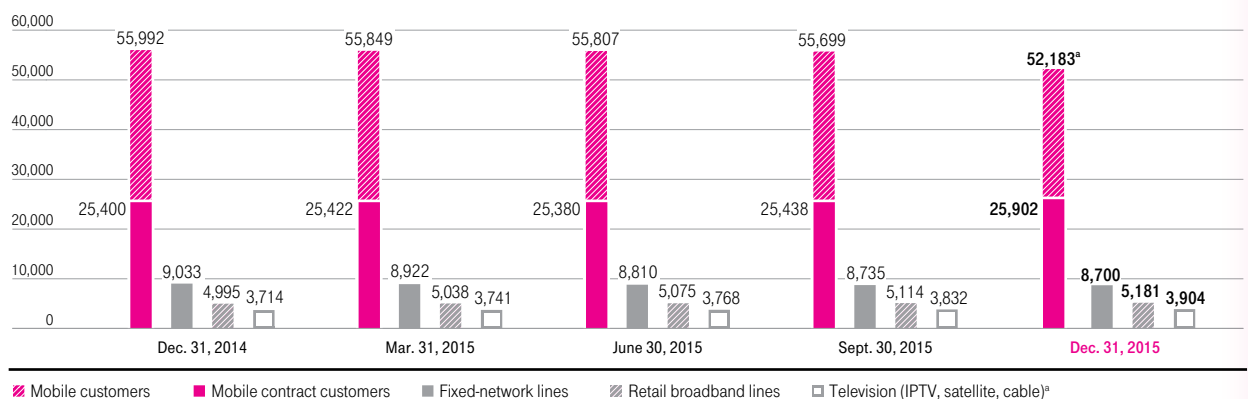
Cash capex

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

EUROPE CUSTOMER DEVELOPMENT

G 29

thousands



^aIn the fourth quarter of 2015, the number of mobile customers in Poland decreased by 3,838 thousand in connection with the deactivation of inactive prepaid SIM cards.

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T 029

thousands

		Dec. 31, 2015	Dec. 31, 2014	Change	Change%	Dec. 31, 2013
EUROPE, TOTAL ^a	Mobile customers	52,183	55,992	(3,809)	(6.8)%	56,679
	Fixed-network lines	8,700	9,033	(333)	(3.7)%	9,284
	Of which: IP-based	4,100	3,486	614	17.6 %	2,472
	Retail broadband lines	5,181	4,995	186	3.7 %	4,744
	Television (IPTV, satellite, cable)	3,904	3,714	190	5.1 %	3,503
	Unbundled local loop lines (ULLs)/wholesale PSTN	2,239	2,325	(86)	(3.7)%	2,230
	Wholesale bundled lines	121	140	(19)	(13.6)%	150
	Wholesale unbundled lines	199	144	55	38.2 %	101
GREECE	Mobile customers	7,399	7,280	119	1.6 %	7,477
	Fixed-network lines	2,586	2,624	(38)	(1.4)%	2,746
	Broadband lines	1,531	1,388	143	10.3 %	1,286
ROMANIA	Mobile customers	5,992	6,047	(55)	(0.9)%	6,153
	Fixed-network lines	2,091	2,239	(148)	(6.6)%	2,369
	Broadband lines	1,186	1,199	(13)	(1.1)%	1,193
HUNGARY ^b	Mobile customers	4,950	4,964	(14)	(0.3)%	4,887
	Fixed-network lines	1,610	1,645	(35)	(2.1)%	1,596
	Broadband lines	1,014	969	45	4.6 %	922
POLAND ^{a, b}	Mobile customers	12,056	15,702	(3,646)	(23.2)%	15,563
	Fixed-network lines	18	n.a.	18	n.a.	n.a.
	Broadband lines	15	n.a.	15	n.a.	n.a.
CZECH REPUBLIC ^b	Mobile customers	6,019	6,000	19	0.3 %	5,831
	Fixed-network lines	154	131	23	17.6 %	129
	Broadband lines	134	131	3	2.3 %	129
CROATIA	Mobile customers	2,233	2,252	(19)	(0.8)%	2,303
	Fixed-network lines	1,004	1,076	(72)	(6.7)%	1,133
	Broadband lines	741	725	16	2.2 %	670
NETHERLANDS	Mobile customers	3,677	3,900	(223)	(5.7)%	4,441
SLOVAKIA	Mobile customers	2,235	2,220	15	0.7 %	2,262
	Fixed-network lines	855	894	(39)	(4.4)%	922
	Broadband lines	599	559	40	7.2 %	521
AUSTRIA	Mobile customers	4,323	4,020	303	7.5 %	4,091
OTHER ^{b, c}	Mobile customers	3,299	3,607	(308)	(8.5)%	3,671
	Fixed-network lines	381	423	(42)	(9.9)%	390
	Broadband lines	285	307	(22)	(7.2)%	274

^aIn the fourth quarter of 2015, the number of mobile customers in Poland decreased by 3,838 thousand in connection with the deactivation of inactive prepaid SIM cards.

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

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

Total

In 2015, the telecommunications markets in the countries of our Europe operating segment were again subject to intense competition. As in the previous year, we acquired more customers for our TV and broadband lines. Here, an important factor in our success is the convergent product portfolio: We market fixed-network and mobile products together, thereby offering our customers a seamless telecommunications experience. The launch of our rate model MagentaOne in many of the countries integrated into our Europe operating segment was a resounding success, enabling us to win nearly one million FMC customers in total. The key to this successful marketing is the high bandwidths we provide for both mobile and fixed-network communications. We are investing in the build-out of lines based on fiber-optic technology because this technology is becoming increasingly relevant for our customers. We also increased the number of IP lines as part of our pan-European network strategy – mainly through the successful migration from traditional PSTN lines to IP technology in many countries of our Europe operating segment.

Mobile communications

Mobile telephony and data services. In the reporting year, we had a total mobile customer base of 52.2 million, down 6.8 percent year-on-year. This decrease was attributable to the prepaid business, especially in Poland, where inactive prepaid SIM cards were deactivated. For this reason, we were unable to achieve the slight year-on-year increase in the total mobile customer base that we had originally projected. Another factor was the intense competition, particularly in the prepaid business in our European mobile markets. In line with our strategy of focusing on high-value contract customers, this business developed encouragingly, enabling us to expand our customer base by 2.0 percent compared with 2014. The majority of our national companies contributed to this increase, with Austria and Romania in particular achieving double-digit growth rates. As a result, the contract customer share of the total customer base increased to just under 50 percent. We are positioning ourselves in the relevant markets as a quality provider with the best service – and in many countries also as the provider with the best mobile network. Part of our network strategy is to systematically build out our mobile networks with 4G/LTE technology. Since 2015, we have also been marketing LTE to our customers in Albania, and are thus now represented with this technology in all of our national companies. Thanks to our investments in our 4G/LTE network, our customers enjoy fast mobile broadband as well as more extended network coverage. As of the end of the reporting year, we already covered 71 percent of the population in the countries of our operating segment with LTE, thus reaching some 92 million people in total. By 2018, we also want to achieve network coverage of between 75 and 95 percent in the other countries of our footprint.

Fixed network

Telephony, Internet, and television. Our TV and entertainment offerings have evolved into an important pillar of the consumer business, which is why we continuously invest in improving our entertainment services. This entails, on the one hand, a portfolio with an impressive selection of film, sports and television rights. However, we are also working hard on providing services that our customers can use in high quality – anywhere and on all devices. Our TV customer base grew by 5.1 percent year-on-year to 3.9 million. The majority of the 190 thousand net additions were customers in Greece, Romania, Hungary, and Slovakia.

As an integrated telecommunications provider, we want to drive forward the convergence of fixed-network and mobile technology and, in all our integrated countries, we already offer our customers FMC products. In the reporting year, five national companies introduced the concept of the convergence brand – MagentaOne. This is proving successful: As of the end of 2015, we had just under one million FMC customers. The technical basis for FMC products is a simplified and standardized network; this requires the national companies with a fixed-network architecture to migrate to IP technology. At segment level, IP-based lines accounted for 47.1 percent of all lines. As of December 31, 2015, we recorded 4.1 million IP-based lines – an increase of as much as 17.6 percent compared with the end of 2014. The successful completion of IP migration in Slovakia and the F.Y.R.O. Macedonia last year was followed by Montenegro and Croatia by the end of the reporting year. A total of 8.7 million customers in our Europe operating segment used a fixed-network line at the end of the year, 3.7 percent less than in 2014. The decline was primarily attributable to line losses in traditional telephony (PSTN).

The number of retail broadband lines continued to grow apace, increasing by 3.7 percent to 5.2 million, driven mainly by DSL business, especially in Greece, where vDSL technology is enjoying dynamic growth. But the number of DSL-based broadband lines also increased in Hungary and Slovakia. Household coverage with optical fiber has reached 19 percent in the respective national companies, compared with only 15 percent a year ago. By 2018, we want 50 percent of households – in our integrated national companies – to have access to a 100 Mbit/s service with FTTx.

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DEVELOPMENT OF OPERATIONS

T 030

millions of €

	2015	2014	Change	Change %	2013
TOTAL REVENUE	12,718	12,972	(254)	(2.0)%	13,704
Greece	2,878	2,869	9	0.3 %	2,988
Romania	984	1,002	(18)	(1.8)%	1,017
Hungary ^a	1,541	1,492	49	3.3 %	1,563
Poland ^a	1,544	1,492	52	3.5 %	1,584
Czech Republic ^a	958	862	96	11.1 %	973
Croatia	909	905	4	0.4 %	929
Netherlands	1,394	1,551	(157)	(10.1)%	1,666
Slovakia	783	768	15	2.0 %	828
Austria	829	815	14	1.7 %	828
Other ^{a, b}	1,136	1,442	(306)	(21.2)%	1,548
Profit from operations (EBIT)	1,450	1,704	(254)	(14.9)%	972
EBIT margin %	11.4	13.1			7.1
Depreciation, amortization and impairments	(2,619)	(2,597)	(22)	(0.8)%	(3,399)
EBITDA	4,069	4,301	(232)	(5.4)%	4,371
Special factors affecting EBITDA	(219)	(131)	(88)	(67.2)%	(179)
EBITDA (ADJUSTED FOR SPECIAL FACTORS)	4,288	4,432	(144)	(3.2)%	4,550
Greece	1,118	1,138	(20)	(1.8)%	1,165
Romania	205	266	(61)	(22.9)%	283
Hungary ^a	485	445	40	9.0 %	438
Poland ^a	580	579	1	0.2 %	599
Czech Republic ^a	390	362	28	7.7 %	425
Croatia	367	365	2	0.5 %	404
Netherlands	500	630	(130)	(20.6)%	495
Slovakia	296	310	(14)	(4.5)%	337
Austria	259	211	48	22.7 %	192
Other ^{a, b}	90	125	(35)	(28.0)%	216
EBITDA margin (adjusted for special factors) %	33.7	34.2			33.2
CASH CAPEX	(1,652)	(2,101)	449	21.4 %	(3,661)

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

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

Total revenue

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

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

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

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


In terms of organic segment revenue by country, at the end of the reporting period, business in the Netherlands was hit hardest by absolute revenue declines – due in part to volume- and price-driven declines in voice telephony and in part to regulation in roaming business. Romania also recorded revenue losses in the fixed-network business, which were mainly attributable to a decline in revenue from voice telephony. In spite of a reduction in mobile termination rates in 2014 and intense competition, especially in the prepay business, our mobile business in Romania sustained its prior-year level. In Poland and the Czech Republic, the positive effects of the integration of the GTS Central Europe group are clearly visible – fixed-network revenue increased. Poland's mobile business declined in 2015, due on the one hand to volume- and price-driven decreases in revenue from voice telephony and, on the other, to lower roaming

revenues imposed by regulation. The Czech Republic also recorded a regulation-induced and price-driven decline in mobile revenue caused by more extensive use of flat-rate plans. Higher revenues, in particular in Hungary, increased segment revenue – as did the positive contributions to revenue in the fixed-network business in Greece.

EBITDA, adjusted EBITDA

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

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

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

Development of operations in selected countries

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

Greece. The revenue we generated in Greece was on a par with the prior-year level even though the country's economic situation remained strained. The positive contributions from the fixed-network business offset the decline in revenue from the mobile business. TV business established itself as a constant growth driver. Our efforts to offer customers a wide variety of TV services and content therefore paid off. Among these was the successful launch of the FMC product CosmoteOne. In connection with the focus on rolling out DSL lines, we also recorded brisk growth in the number of broadband customers, which made a positive contribution to broadband revenue. The B2B/ICT business with business customers also made a positive contribution. These trends offset the decline in revenue from voice services, which was in particular a result of line losses in traditional telephony (PSTN). However, the number of lines rose slightly again in the fourth quarter of 2015 compared with the previous quarter for the first time. Mobile business decreased year-on-year.



For further information on the proceedings, please refer to the section "Risk and opportunity management," PAGE 125 ET SEQ.

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Double-digit revenue growth in data business only partially compensated the decline in voice revenues due to regulation and arising from the growing popularity of flat-rate plans. Text messaging revenues in the pre-pay segment in particular also decreased year-on-year – increasingly due to the subscription to text messaging rate options and lower usage.

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

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

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

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

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

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

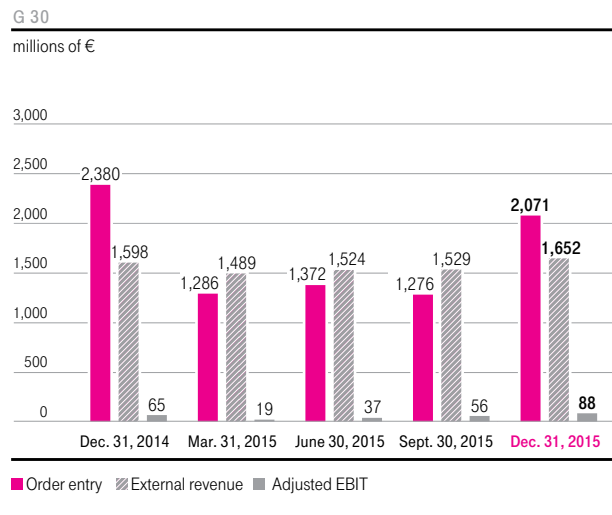
EBIT

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

Cash capex

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

**SYSTEMS SOLUTIONS
SELECTED KPIs**



Development of business

Our realignment Transformation 2015+, initiated in 2014, the main focus of which was to bring the business model of the Market Unit in line with market needs, was successfully completed in the 2015 financial year. As a result of this transformation, we are increasingly focusing on business with scalable, platform-based ICT products, offering traditional IT and TC services with optimized delivery models. In this way, we can secure market shares in the key growth areas and offer our products profitably. This

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		Dec. 31, 2015	Dec. 31, 2014	Change	Change %	Dec. 31, 2013
ORDER ENTRY	millions of €	6,005	7,456	(1,451)	(19.5)%	7,792
COMPUTING & DESKTOP SERVICES						
Number of servers managed and serviced	units	62,590	61,654	936	1.5 %	62,308
Number of workstations managed and serviced	millions	1.71	1.58	0.13	8.2 %	1.31
SYSTEMS INTEGRATION						
Hours billed	millions	5.3	6.1	(0.8)	(13.1)%	6.6
Utilization rate	%	82.9	83.8		(0.9)%p	82.5

was one of the factors that drove customer satisfaction to a record high in 2015 – the TRI*M index was up from 84 to 90 points. After completion of the transformation program, the Market Unit wanted to systematically build on this success. It was therefore divided into three divisions in 2015, each of which is responsible for a service area: the IT Division, the TC Division and the Digital Division. As a result, the 2015 financial year was mainly dominated by our realignment.

The expected targets for order entry at T-Systems were not achieved in full in the 2015 financial year. Despite new major agreements in Germany and abroad, order entry decreased by 19.5 percent year-on-year. This is due on the one hand to the major contracts won in 2014 for setting up and operating a satellite-based toll collection system for trucks in Belgium, and from the automotive sector. And on the other hand, the decline can be attributed to the realignment of the business model with the aim of ensuring sustained profitable growth. In this connection, we tightened up the profitability criteria for the acceptance of new orders: We will offer services with a persistently low level of profitability via specialized partners or discontinue them completely if demand is not lucrative enough. For this reason, we did not achieve the originally planned slight year-on-year increase in order entry. Strengthened by the realignment,

our standard solutions from the growth area of cloud computing in particular won out over strong competition, for example, with the customers Union Investment, KONE, and the Swiss National Railways. 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.

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

To meet the requirements from the new deals, we are continuously modernizing and consolidating our ICT resources. The number of servers managed and serviced increased by 1.5 percent compared with 2014 as a result of the further expansion of the growth areas. At the data centers, technical advances made it possible to set up ever larger and higher-performance units, which had a positive impact on our cost efficiency. The number of workstations managed and serviced increased by 8.2 percent to 1.71 million compared with the prior year.

DEVELOPMENT OF OPERATIONS

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millions of €

	2015	2014	Change	Change %	2013
TOTAL REVENUE	8,592	8,601	(9)	(0.1)%	9,038
Loss from operations (EBIT)	(516)	(422)	(94)	(22.3)%	(294)
Special factors affecting EBIT	(716)	(549)	(167)	(30.4)%	(431)
EBIT (adjusted for special factors)	200	127	73	57.5 %	137
EBIT margin (adjusted for special factors)	%	2.3	1.5		1.5
Depreciation, amortization and impairments	(649)	(717)	68	9.5 %	(652)
EBITDA	133	295	(162)	(54.9)%	358
Special factors affecting EBITDA	(649)	(540)	(109)	(20.2)%	(416)
EBITDA (ADJUSTED FOR SPECIAL FACTORS)	782	835	(53)	(6.3)%	774
EBITDA margin (adjusted for special factors)	%	9.1	9.7		8.6
CASH CAPEX	(1,169)	(1,171)	2	0.2 %	(1,066)

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Total revenue

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

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

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

EBITDA, adjusted EBITDA

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

margin of our Systems Solutions operating segment decreased from 9.7 percent in the prior year to 9.1 percent.

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

EBIT, adjusted EBIT

Adjusted EBIT for the reporting year improved by EUR 73 million against the prior year. The key factors were the effects described under adjusted EBITDA and lower depreciation, amortization and impairment losses, especially in connection with the licensing of the Group-wide ERP system. The adjusted EBIT margin improved from 1.5 to 2.3 percent.

Cash capex

At EUR 1.2 billion, cash capex remained at the prior-year level. Our level of investment remains high and is attributable 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 growth areas such as connected car and healthcare, as well as in cutting-edge digital innovation areas like cloud computing and cyber security. Enhanced efficiency, for example as a result of the standardization of the ICT platforms and the consolidation of data centers, had an offsetting effect.

GROUP HEADQUARTERS & GROUP SERVICES

Group Headquarters & Group Services comprises all Group units that cannot be allocated directly to one of our operating segments.



For more information on our Group Headquarters & Group Services segment, please refer to the section "Group organization," PAGE 58 ET SEQ., and to Note 32 "Segment reporting" in the notes to the consolidated financial statements, PAGE 218 ET SEQ.

DEVELOPMENT OF OPERATIONS

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millions of €

	2015	2014	Change	Change %	2013
TOTAL REVENUE	2,275	2,516	(241)	(9.6)%	2,879
Loss from operations (EBIT)	(860)	(109)	(751)	n. a.	(1,582)
Depreciation, amortization and impairments	(627)	(671)	44	6.6 %	(699)
EBITDA	(233)	562	(795)	n. a.	(883)
Special factors affecting EBITDA	319	1,229	(910)	(74.0)%	(228)
EBITDA (ADJUSTED FOR SPECIAL FACTORS)	(552)	(667)	115	17.2 %	(655)
CASH CAPEX	(342)	(381)	39	10.2 %	(411)

Total revenue

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

EBITDA, adjusted EBITDA

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

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

EBIT

The year-on-year decline in EBIT is primarily attributable to income from the disposal of the Scout24 group recognized in 2014. The improvement in adjusted EBITDA had a positive effect in the reporting year.

Cash capex

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

DEVELOPMENT OF BUSINESS AT DEUTSCHE TELEKOM AG

Deutsche Telekom AG prepares its annual financial statements in accordance with the principles of German GAAP, as specified in the German Commercial Code (Handelsgesetzbuch – HGB) and the German Stock Corporation Act (Aktiengesetz – AktG).

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 2015 financial year, our subsidiaries in Germany, for example, performed well in the market, especially in the field of mobile communications. However, the realignment of the T-Systems business model and the general downward trend in prices in the IT and communications business continued to have a negative impact on results. Earnings in the Europe operating segment were impacted in particular by competition-induced price reductions as well as decisions by the regulatory authorities.

Deutsche Telekom AG reported income after taxes for the 2015 financial year of EUR 1.9 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, a write-down on the carrying amount of the investment in T-Systems International GmbH, Frankfurt/Main, the sale of Digital Media Products GmbH, Cologne (formerly T-Online Beteiligungs GmbH, Darmstadt), to Ströer SE, Cologne, by way of a capital increase in return for a non-cash contribution, and the sale of further shares in Scout24 AG, Munich), 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 deteriorated by approximately EUR 0.3 billion compared with the previous year, with net revenue decreasing year-on-year to EUR 3.3 billion.

The deterioration in operating results was due to a year-on-year decrease of EUR 0.4 billion in net revenue coupled with an increase of EUR 0.5 billion in other operating expenses, offset by a EUR 0.4 billion increase in other operating income and a EUR 0.2 billion decrease in goods and services purchased.

The decline in net revenue compared with the previous year was largely attributable to the wholesale service for international carriers, where the focus on high-margin revenues reduced the sales volume.

Other operating expenses were up by EUR 0.5 billion year-on-year, mainly due to an increase of EUR 0.7 billion as a result of higher foreign currency transaction losses and increased expenses arising from derivatives, caused in particular by realized exchange rate effects from U. S. dollar cross-currency interest rate hedges which fell due as planned in the reporting year. Offsetting effects from hedging are included in other operating income.

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

millions of €

	2015	2014	Change	Change%	2013
NET REVENUE	3,313	3,677	(364)	(9.9)%	3,765
Other own capitalized costs	7	18	(11)	(61.1)%	12
TOTAL OPERATING PERFORMANCE	3,320	3,695	(375)	(10.1)%	3,777
Other operating income	4,065	3,639	426	11.7 %	3,254
Goods and services purchased	(1,165)	(1,372)	207	15.1 %	(1,405)
Personnel costs	(2,919)	(2,836)	(83)	(2.9) %	(3,062)
Depreciation, amortization and write-downs	(387)	(434)	47	10.8 %	(459)
Other operating expenses	(4,199)	(3,688)	(511)	(13.9) %	(4,184)
OPERATING RESULTS	(1,285)	(996)	(289)	(29.0) %	(2,079)
Financial income (expense), net	3,492	5,281	(1,789)	(33.9) %	5,046
RESULTS FROM ORDINARY BUSINESS ACTIVITIES	2,207	4,285	(2,078)	(48.5) %	2,967
Extraordinary income (expense)	(17)	(17)	0	-	(17)
Taxes	(301)	(263)	(38)	(14.4) %	(113)
INCOME AFTER TAXES	1,889	4,005	(2,116)	(52.8) %	2,837

Other operating income increased by EUR 0.4 billion year-on-year, primarily as a result of the increase of EUR 0.7 billion in foreign currency transaction gains and in income from derivatives, due largely to realized exchange rate effects from U.S. dollar cross-currency interest rate hedges which fell due as planned in the reporting year. Offsetting effects from hedging are included in other operating expenses. In particular, the sale of further shares in Scout24 AG, Munich, and the sale of Digital Media Products GmbH, Cologne (formerly T-Online Beteiligungs GmbH, Darmstadt), by way of a capital increase in return for a non-cash contribution to Ströer SE, Cologne, also raised other operating income by EUR 0.3 billion in each case. Other operating income in the previous year had been 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 EUR 0.2 billion decrease in goods and services purchased was due in particular to lower expenses for network interconnection rates for international carrier services in the wholesale sector than in the previous year.

Net financial income declined by EUR 1.8 billion to EUR 3.5 billion. This was largely attributable to EUR 1.0 billion higher write-downs on financial assets, primarily due to the write-down of the carrying amount of the investment in T-Systems International GmbH, Frankfurt/Main.

In the reporting year, income related to subsidiaries, associated and related companies was positively influenced in particular by the profit transfer from T-Mobile Global Zwischenholding GmbH, Bonn. This was mainly due to the write-ups in the 2015 financial year to T-Mobile Global Holding GmbH, Bonn, and the financial assets indirectly held there, EE Limited, Hatfield, and T-Mobile USA, Inc., Bellevue. The write-up of EE Limited, Hatfield, reflects the purchase price in connection with the sale of the shares in EE Limited, Hatfield, to BT Group plc. The write-up of T-Mobile USA, Inc., Bellevue is primarily a result of the sustained positive development of business. The decrease in income related to

subsidiaries, associated and related companies of EUR 0.7 billion was mainly attributable to a EUR 0.4 billion lower profit transfer from Telekom Deutschland GmbH, Bonn, and to a EUR 0.3 billion higher loss transferred from T-Systems International GmbH, Frankfurt/Main.

The increase in net interest expense by EUR 0.1 billion in the reporting year was primarily the result of a EUR 0.4 billion increase in expenses in connection with the interest cost of noncurrent accruals. The lower interest levels resulted in a EUR 0.2 billion increase in accruals for pensions. Interest expenses were partially offset by a EUR 0.3 billion increase in interest income, in particular from derivatives.

Results from ordinary business activities were particularly impacted by the aforementioned effects and decreased by a total of EUR 2.1 billion year-on-year in 2015.

Extraordinary expenses of EUR 17 million and a tax expense of EUR 301 million combined with the aforementioned factors resulted in income after taxes of EUR 1,889 million in the 2015 financial year. Taking into account EUR 2,410 million in unappropriated net income carried forward, unappropriated net income totaled EUR 4,299 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 increased by EUR 1.4 billion year-on-year to EUR 105.8 billion.

The development of total assets was mainly influenced by the increase of EUR 3.1 billion in receivables and of EUR 0.2 billion in other assets, offset by the decrease of EUR 1.6 billion in noncurrent assets, of EUR 0.2 billion in cash and cash equivalents, and of EUR 0.2 billion in prepaid expenses and deferred charges.

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

	Dec. 31, 2015	Dec. 31, 2015 %	Dec. 31, 2014	Change	Dec. 31, 2013
ASSETS					
Intangible assets	261	0.2%	310	(49)	285
Property, plant and equipment	3,295	3.1%	3,594	(299)	3,921
Financial assets	84,469	79.9%	85,705	(1,236)	86,215
NONCURRENT ASSETS	88,025	83.2%	89,609	(1,584)	90,421
Inventories	1	0.0%	5	(4)	3
Receivables	15,795	14.9%	12,655	3,140	10,888
Other assets	1,338	1.3%	1,135	203	1,654
Cash and cash equivalents	221	0.2%	387	(166)	1,122
CURRENT ASSETS	17,355	16.4%	14,182	3,173	13,667
Prepaid expenses and deferred charges	418	0.4%	581	(163)	603
Difference between plan assets and corresponding liabilities	16	0.0%	6	10	7
TOTAL ASSETS	105,814	100.0%	104,378	1,436	104,698
SHAREHOLDERS' EQUITY AND LIABILITIES					
Capital stock and reserves	50,615	47.8%	49,497	1,118	48,491
Unappropriated net income	4,299	4.1%	4,667	(368)	2,877
SHAREHOLDERS' EQUITY	54,914	51.9%	54,164	750	51,368
Pensions and similar obligations	1,717	1.6%	1,682	35	1,879
Tax accruals	255	0.2%	194	61	257
Other accruals	3,288	3.2%	3,110	178	2,894
ACCRUALS	5,260	5.0%	4,986	274	5,030
Debt	9,428	8.9%	5,977	3,451	5,307
Other liabilities	36,019	34.0%	39,037	(3,018)	42,764
LIABILITIES	45,447	42.9%	45,014	433	48,071
Deferred income	193	0.2%	214	(21)	229
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES	105,814	100.0%	104,378	1,436	104,698

The increase of EUR 3.2 billion in receivables from subsidiaries results from higher receivables from cash management, mostly from Telekom Deutschland GmbH, Bonn. The other receivables decreased.

The increase in other assets of EUR 0.2 billion was mainly attributable to higher receivables from U.S. dollar derivatives amounting to EUR 0.7 billion. Receivables from collateral developed in the opposite direction, at EUR 0.4 billion.

The EUR 1.2 billion decline in financial assets year-on-year was mostly due to the write-down of the carrying amount of the investment in T-Systems International GmbH, Frankfurt/Main, in the amount of EUR 1.0 billion. Other factors contributing to this decrease were the repayment of loans by Telekom Deutschland GmbH, Bonn, in the amount of EUR 0.4 billion, the further sale of shares in Scout24 AG, Munich, in the amount of EUR 0.1 billion, and equity repayments during the year by Scout24 AG, Munich, also amounting to EUR 0.1 billion. The acquisition of shares in Ströer SE, Cologne, in the amount of EUR 0.3 billion arising from the disposal of Digital Media Products GmbH, Cologne, by way of a capital increase in return for a non-cash contribution to Ströer SE, Cologne, had an offsetting effect.

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

The development of total shareholders' equity and liabilities was mainly influenced by the increase of EUR 3.5 billion in financial liabilities, of EUR 0.8 billion in shareholders' equity, and of EUR 0.3 billion in accruals, offset by the decrease of EUR 3.0 billion in other liabilities.

The increase in financial liabilities was primarily due to a net effect of EUR 2.7 billion from the issue of commercial paper exceeding repayments and to the further increase in liabilities to banks of EUR 0.7 billion.

Other liabilities were reduced by the net repayment of liabilities from Deutsche Telekom International Finance B. V., Amsterdam, in the amount of EUR 3.4 billion. The reduction in liabilities from cash management in the amount of EUR 0.8 billion also had an effect. This was offset to some extent by the increase in liabilities from collateral in the amount of EUR 1.2 billion.

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Statement of cash flows of Deutsche Telekom AG under German GAAP

millions of €

	2015	2014	Change	2014 ^a
INCOME AFTER TAXES	1,889	4,005	(2,116)	4,005
Net cash (used for) provided by operating activities	(134)	1,424	(1,558)	129
Net cash provided by investing activities	1,470	2,905	(1,435)	2,232
Net cash used for financing activities	(1,502)	(5,064)	3,562	(3,096)
NET CHANGE IN CASH AND CASH EQUIVALENTS	(166)	(735)	569	(735)
Cash and cash equivalents, at the beginning of the year	387	1,122	(735)	1,122
CASH AND CASH EQUIVALENTS, AT THE END OF THE YEAR	221	387	(166)	387

^a Previous year, not including GAS 21 adjustments.

The increase in shareholders' equity was due in particular to income after taxes for the financial year of EUR 1.9 billion and its effect on unappropriated net income as well as to the deposits of EUR 1.1 billion reported in capital stock and reserves by shareholders who chose to exchange their dividend entitlement for the 2014 financial year for shares as part of the fulfillment of dividend entitlements. The EUR 2.3 billion dividend payment for the previous year had an offsetting effect.

In the reporting year, in compliance with German Accounting Standard (GAS) 21, interest received was allocated for the first time to net cash provided by investing activities, while interest paid was allocated to net cash used for financing activities. The presentation of the statement of cash flows for 2014 was adjusted to ensure comparability of the prior-year figures. The unadjusted figures from the prior year were shown separately.

Net cash used for/provided by operating activities declined year-on-year by EUR 1.6 billion, resulting in net cash used for operating activities of EUR –0.1 billion. After elimination of the non-cash write-downs in the amount of EUR 1.4 billion and the net interest expense of EUR 1.3 billion in income after taxes, this trend results in particular from the net increase of EUR 4.4 billion in receivables from cash management, which was largely attributable to higher profit transfers from subsidiaries as well as the issue of short-term loans in connection with cash management at the Group. After elimination of the divestment share in the Scout24 group in the amount of EUR 1.0 billion and the net interest expense of EUR 1.2 billion with income after taxes of EUR 4.0 billion, the prior-year net cash provided by operating activities of EUR 1.4 billion had primarily been affected by the net increase of EUR 2.9 billion in receivables from cash management.

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 0.9 billion and interest received in the amount of EUR 0.9 billion. In addition, net cash provided by investing activities was influenced by the sale of around half of the investment in Scout24 AG, Munich, amounting to EUR 0.4 billion, by the repayment of company funds by Scout24 AG, Munich, amounting to EUR 0.1 billion, and by deposits of EUR 0.4 billion for cash collateral furnished to hedge derivatives. Medium- and long-term investments of EUR 1.2 billion at subsidiaries had an offsetting effect. In the previous year, in addition to the net repayment of medium- and long-term investments at subsidiaries in the amount of EUR 0.2 billion, net cash provided by investing activities of EUR 2.9 billion had been primarily influenced by the sale of 70 percent of the shares in the Scout24 group for EUR 1.6 billion, by interest received in the amount of EUR 0.7 billion, and by deposits of EUR 0.4 billion for cash collateral furnished to hedge derivatives.

Net cash used for financing activities improved by EUR 3.6 billion year-on-year to EUR 1.5 billion. In the reporting period, this item mainly related to the net issuance of medium- and long-term financial liabilities of EUR 1.0 billion and the net issuance of short-term liabilities of EUR 0.3 billion. Interest paid in the amount of EUR 1.6 billion as well as the payment of the cash dividend of EUR 1.2 billion for the 2014 financial year had an offsetting effect. In the prior year, net cash used for financing activities of EUR 5.1 billion had primarily been influenced by the net repayment of current liabilities in the amount of EUR 2.0 billion, by interest paid in the amount of EUR 2.0 billion, and by 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 0.2 billion in the reporting year.

RISK MANAGEMENT IN HEDGE ACCOUNTING

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



CORPORATE RESPONSIBILITY

- Outstanding supply chain management
- Broad commitment to refugee aid

As a leading European provider of telecommunications services, another of our objectives is to be a pioneer in sustainability. We are committed to acting responsibly along our entire value chain and play an important role in solving today's ecological, economic and social challenges. In 2015, we extended our portfolio with products and services that enable our customers to increase the focus on sustainability in their lives. For us, corporate responsibility also means providing help swiftly and unbureaucratically in urgent crises. This prompted our Board of Management to set up its own refugee aid task force in summer 2015.

DIALOG AND COOPERATION FOR GREATER SUSTAINABILITY

We gear our sustainability commitment systematically to the expectations of our different stakeholder groups, such as customers and investors. In an ongoing online survey, we identify the aspects that are of particular importance to our stakeholders. In addition, we rate these topics from a Company perspective. In the reporting year, we also analyzed which of these topics have a very strong impact on such corporate value drivers as sales, productivity, innovation capacity, employee relationships, and reputation. The results of the materiality analysis are a key prerequisite for further integration of sustainability in Company reporting. They influence the structuring process for the 2015 CR Report and in part are also included in this combined management report.

GRAPHIC 31 shows a selection of the most important sustainability topics from the corporate and stakeholder perspective.

Direct exchange with our stakeholders is crucial to the further development of our sustainability strategy. We therefore provide regular opportunities for personal dialog. In November 2015 we issued invitations to attend our two-day CR Stakeholder Forum under the heading "Enabling sustainability – Turning visions into reality." There, we discussed such aspects as sustainable business models, product innovations, and social and ecological challenges in the supply chain with employees, suppliers, NGOs, and other stakeholders. Participants made clear recommendations for the future, for example greater consumer involvement and intensified cross-industry collaboration.

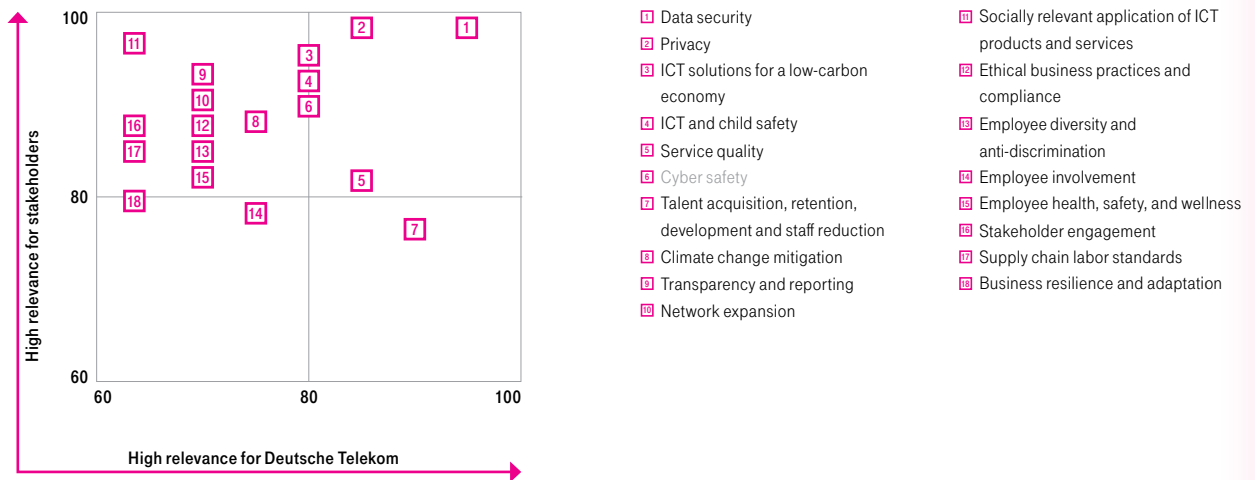
We give stakeholders a concrete chance to participate in numerous areas, for example through our Data Privacy Advisory Council, which held regular meetings again in 2015. This independent body was established in 2009 and its members include leading data protection experts from the fields of politics, science, business, and independent organizations. It advises the Board of Management and adds an external perspective to that of our internal data protection and security organization. In 2015, these different stakeholder perspectives were also integrated into industry-wide projects, for example, with the Global eSustainability Initiative (GeSI) and the Joint Audit Cooperation.

MEASURABLE PROGRESS

Since the year 2010 we have measured the progress made as a result of our sustainability commitment using a set of metrics subsumed as the ESG KPIs (Environment, Social and Governance Key Performance Indicators). These performance indicators enable our stakeholder groups to assess our CR commitment. They also provide a transparent basis on which we can systematically improve our ESG performance on an ongoing basis. The most important ESG KPIs have been included in our annual report since 2011.

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Materiality matrix of Deutsche Telekom



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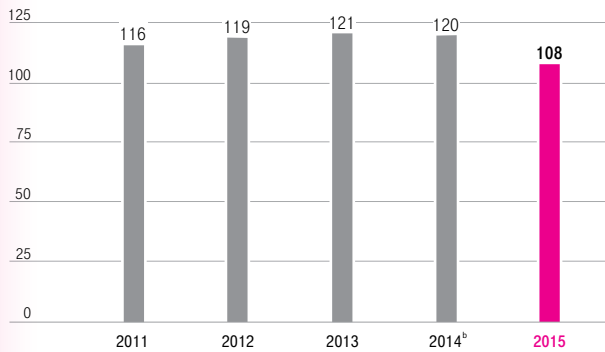
In the 2014 Annual Report, we forecast trends for 2015 for individual ESG KPIs, namely Energy Consumption, CO₂ Emissions and Sustainable Procurement. The figure for the Energy Consumption ESG KPI decreased in the reporting year compared with 2014, a positive trend that is even stronger than anticipated. As revenues increased, electricity consumption throughout the Group remained stable, and actually fell slightly in Germany, in 2015. In view of the lightning rise in worldwide data traffic and the continuing network build-out, this stable trend is a success and has only been possible due to the progress we have made in energy efficiency.

We had assumed there would be a slight decline in the CO₂ Emissions ESG KPI for 2015, i. e., a slight improvement. This is consistent with the actual trend, which is in particular due to the aforementioned stable development in electricity consumption and the slight fall in emissions from fuel and natural gas consumption. In the case of the Sustainable Procurement ESG KPI, which stands at 78 percent, we actually exceeded the target forecast for 2015.

G 32

Energy Consumption ESG KPI^a

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



Revenue billions of €	55.4	55.7	57.8	61.9	68.6
Electricity consumption (thousand MWh)	6,409.4	6,624.7	6,992.9	7,424.0	7,421.5

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

^a Calculated on the basis of appropriate estimates and extrapolations.

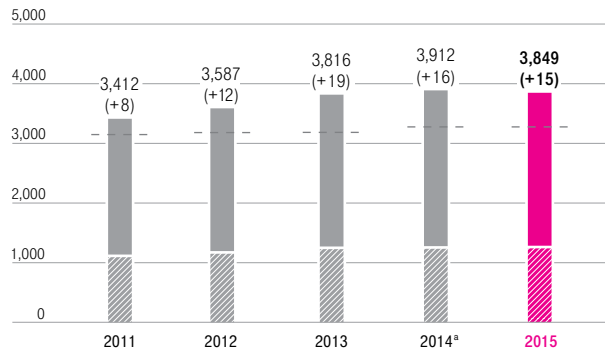
^b Since data had mistakenly been entered twice, electricity consumption and the corresponding ESG KPI were adjusted retrospectively for 2014.

G 33

CO₂ Emissions ESG KPI

CO₂ emissions in thousands of metric tons

(Changes in %, compared against 2008 base year for the climate target)



■ CO₂ emissions (Scopes 1 and 2). Emissions are measured in CO₂-equivalent values based on energy and fuel consumption employing the emission factors specified by the International Energy Agency and the Greenhouse Gas Protocol.

▨ T-Mobile US share

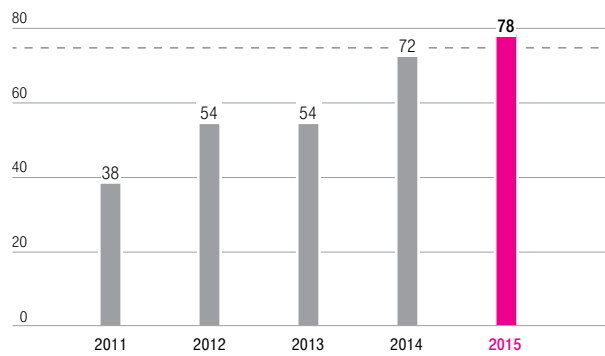
- - - Relevant base year for climate target (2008)

^a Since data on energy and natural gas consumption had mistakenly been entered twice, CO₂ emissions and the ESG KPI were adjusted retrospectively (previously 3,872 and +18 percent respectively), in addition to the retrospective technical adjustment of the relevant base year for the climate target.

G 34

Sustainable Procurement ESG KPI

%



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

- - - Target value

For the years 2016 and 2017, we anticipate a positive trend, namely that our Energy Consumption ESG KPI will decrease over the next two years. This trend is based on the ratio between the slight savings in power consumption and increasing revenues. We expect the reductions in power consumption in particular as a result of our network migration to IP technology in Germany, improved network utilization in general, and the consolidation of T-Systems data centers in various countries. These savings are expected to be partly counterbalanced by the expansion of T-Mobile US and the accompanying rise in power consumption.

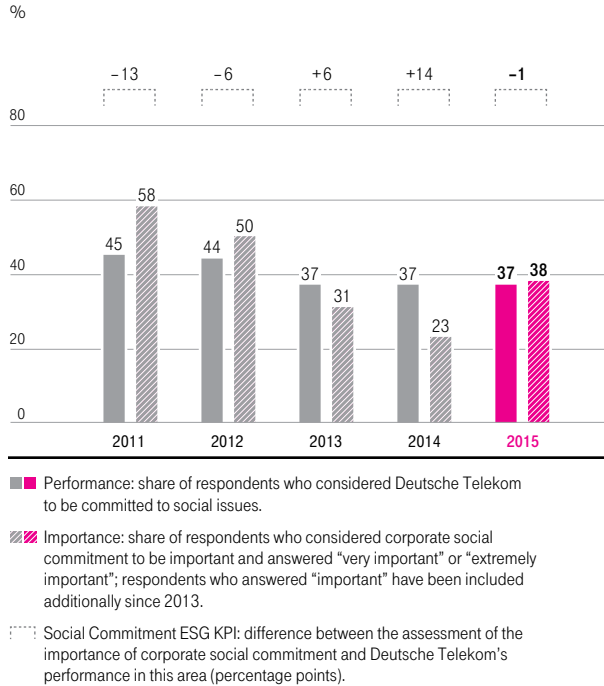
The developments in power consumption are also the main drivers of the trend in our CO₂ emissions. We therefore also expect our CO₂ Emissions ESG KPI to fall slightly in 2016 and 2017. Our expectation for the Group units participating in the climate protection target is that, in 2020, CO₂ emissions will lie 20 percent below the rate of the base year 2008 (excluding T-Mobile US).

In the coming years we expect our Sustainable Procurement ESG KPI to rise slightly above the figure achieved in the reporting year.

The trend in the Social Commitment ESG KPI reflects the German public's growing expectations of our Company's social commitment, whereas Deutsche Telekom's performance receives the same rating as the previous year. Public expectations of our commitment have increased significantly – influenced primarily by the issue of refugees, which is the subject of heated public discussion at present.

G 35

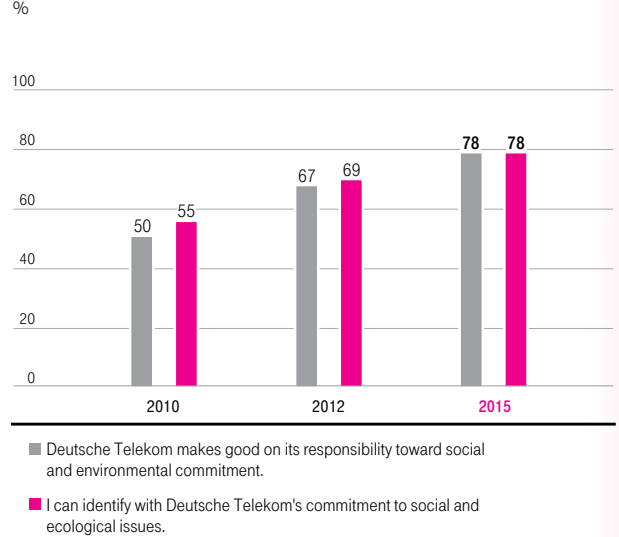
Social Commitment ESG KPI



Source: TNS Infratest: survey carried out by the Group in Germany on CRQI (Corporate Reputation Quality Indicator).

G 36

Employee identification with CR commitment



Source: Deutsche Telekom employee survey (excluding T-Mobile US)

We use the Employee Identification with CR Commitment ESG KPI to determine the degree to which our staff identify with, or how satisfied they are, with our CR commitment. It is based on our Group-wide employee survey, which is carried out every two to three years. Evaluation of the survey showed a marked upward trend in both areas.

REDUCING CO₂ EMISSIONS, PROMOTING CLIMATE PROTECTION

We are convinced that the use of innovative technologies will enable us to play a key role in global climate protection. For this reason, we help our customers reduce emissions by providing climate-friendly products and services. Alongside Scope 1 and Scope 2 emissions, we also give a full report of the Scope 3 emissions resulting from our Company's business activities in Germany in the CDP (Carbon Disclosure Project). These were first included in 2014. Scope 3 emissions are all emissions from the upstream and downstream stages of the value chain and emissions that are not directly accounted for by energy consumption in the Company. These Scope 3 emissions fell slightly year on year by about 1 percent to 4.2 million metric tons. The key drivers of this development are declining sales in devices, e.g., fixed-network telephones and tablets. Although several emission factors reflect changes on the previous year, the resulting arithmetical effects counterbalance each other in the final total. One encouraging feature is the rise in the proportion of leasing contracts for routers and media receivers due to improvements in average service life and better recycling rates. Emissions from business travel, commuter traffic, the supply chain, and use of products and services are recorded as Scope 3 for the entire Group and are being reported for the first time in the 2015 CR Report.

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With our climate protection measures in network build-out, facility management, and our vehicle fleet, our goal is to reduce our CO₂ emissions by 20 percent by the year 2020 compared with 2008. In this context, we achieved an important partial success in 2015. The CO₂ emissions of all cars we acquired in Germany during the year totaled an average of 110 g CO₂/km, based on manufacturer specifications. This puts them below the EU target of 120 g CO₂/km. Likewise, our national companies have also launched their own programs. One example is our Hungarian company Magyar Telekom, which operated on the basis of full climate neutrality for the first time in 2015. To make this possible, the company upgraded its networks and data centers, and increased the percentage of vehicles with alternative drive systems in the company fleet. Additionally, Magyar Telekom procures 100 percent of its electrical energy from renewable energy sources.

Beside our own activities, we again took a stand on climate protection at political level in 2015. In the run-up to the UN climate conference in Paris, we campaigned for an ambitious joint climate protection target for the participating states. For example, our CEO Timotheus Höttges signed the Paris Pledge and our Company participated in the Train to Paris initiative launched by the International Union of Railways. We are extremely pleased that the Paris Agreement plans to restrict global warming to well below 2 °C, if possible 1.5 °C. As ICT providers, we want to play a vital role in this field with our products and solutions.

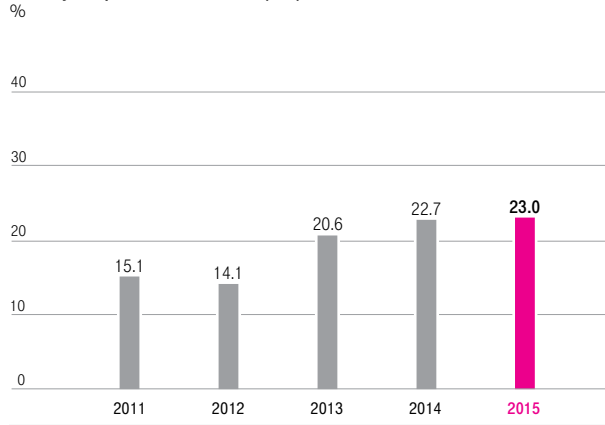
INVESTORS OPT FOR RESPONSIBILITY

Our Socially Responsible Investment ESG KPI gages perception of our CR activities by the finance markets. It measures 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 inform investors in detail about our CR commitment, we staged two Socially Responsible Investment (SRI) roadshows in June and December 2015, and also provided them with information during separate telephone conferences. Besides this, we answered numerous direct inquiries on our sustainability performance from rating agencies, analysts, and investors. At the end of 2015, around 21 percent of T-Shares were owned by investors who consider

SRI criteria in their investment decisions at least to some extent. 2 percent of T-Shares were held by investors who give priority to SRI aspects when managing their funds. Increasingly, our efforts toward greater sustainability and social commitment pay off, not only in terms of reputation.

G 37

Socially Responsible Investment (SRI) ESG KPI



■ Proportion of shares in Deutsche Telekom AG that is owned by investors whose investment strategies take environmental, social, and governance criteria into account (data source: Ipreo based on Deutsche Telekom’s shareholder structure as of Sept. 30, 2015). Please note that SRI classifications are subject to change regarding firms and funds depending on intelligence about sustainability and/or ESG policies researched by Ipreo Ltd. As a result, historical figures might not match due to reclassifications or inclusion of investors and funds due to more recent public filings or enhanced intelligence on the investors’ sustainability and ESG policies.

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 037). These indexes were chosen using criteria that take account of reputation, relevance for investors, and rating independence.

T 037

Listing of the T-Share in sustainability indexes/ratings

Rating agency	Indexes/ratings/ranking	Successfully listed in index				
		2015	2014	2013	2012	2011
RobecoSAM	DJSI World	✓	✗	✗	✓	✓
	DJSI Europe	✓	✗	✗	✓	✓
CDP	Carbon Disclosure Leadership ^a	✓	✓	✓	✗	✗
	Performance Leadership Report	✗	✗	✗	✗	✗
oekom research AG	"Prime" (sector leader ^b)	✓	✓	✓	✓	✓
Sustainalytics	STOXX Global ESG Leaders	✓	✓	✓	✓	✓
	iSTOXX 50 SD KPI	✓	✓	✓	n.a.	n.a.
	UN Global Compact 100	✓	✓	✓	n.a.	n.a.
FTSE Financial Times Stock Exchange	FTSE4Good	✓	✓	✓	✓	✓
MSCI	MSCI Global Climate	✗	✗	✗	✗	✓

✓ Successfully listed ✗ Not listed

^aDeutsche Telekom is sector leader in the DACH (Germany, Austria, Switzerland) region.

^bBased on "oekom Industry Report" (2014).

In 2015, the T-Share was listed on leading sustainability indexes – and again on the eminent DJSI World and the DJSI Europe Index from RobecoSAM. In addition, rating agency oekom singled us out as the world's best telecommunications company in terms of ecological and social performance in 2015. A top score of 100 points can be achieved in the CDP Carbon Disclosure Leadership index. We improved slightly once again from 98 to 99 points, thereby gaining a firm foothold as industry leader for the DACH region (Germany, Austria, and Switzerland). Furthermore, we appear on the STOXX Global ESG Leaders Index for the fifth year in succession. In the Sustainalytics rating agency ranking on which this index is based, we emerged as no. 2 in the telecommunications industry worldwide and no. 3 among all German companies in the last financial year. Once again, our share was listed on the FTSE4Good index and the UN Global Compact 100 index in the reporting year.

SMART TECHNOLOGIES FOR SUSTAINABLE DEVELOPMENT

State-of-the-art information and communication technologies not only simplify our lives but can also make our world cleaner and healthier – as well as providing people all over the globe with greater opportunities. This is the conclusion drawn by the SMARTer2030 study from GeSI, on which we collaborated. It confirms that smart use of ICT enables innovative, more cost-effective business models that use resources sparingly. This will make it possible to reduce global CO₂ emissions by 12.1 billion metric tons by the year 2030 and, at the same time, to achieve economic benefits of up to USD 11 trillion.

We have set ourselves the goal of systematically exploiting the potential offered by these smart technologies. On the basis of a comprehensive analysis of our 2015 product portfolio, we anticipate major sustainability advantages for many of our products and services. In the reporting year, we added more sustainable products and services for consumers and business customers to our portfolio. They include solutions that help our customers make sparing use of valuable resources, reduce their energy consumption and improve their safety.

- **Farm 2.0: More efficient farming.** The SMARTer2030 study states that using ICT in farming could cut CO₂ emissions by around 2 billion metric tons by the year 2030. At the 2015 Agritechnica trade show, we presented a solution that helps farmers to dispense seeds and fertilizer more efficiently and to optimize machine fuel consumption. To make this possible, precise position data is routed into the steering system via the mobile network, making it possible to avoid unnecessary multiple tillage passes during sowing, fertilizing, and harvesting. The new technology is affordable and can be upgraded without the need for a separate base station.
- **Smart cities: Intelligent street lighting in Dubrovnik and Budapest.** Smart street lights control illumination times with sensors and therefore save energy. We set up street lights with integrated motion, air pollution, temperature, and acoustic sensors as part of a pilot project in Dubrovnik in May 2015. In addition, the lighting solution which we installed in Budapest in November 2015 is equipped with a charging station for electric cars, a WiFi router, a security camera, and an emergency button. Intelligent street lighting is a module within our Smart City concept and offers state-of-the-art communication infrastructures to support sustainable city development.

- **Remote e-bike diagnosis, tracking, and emergency calls.** Bicycle maker BULLS, e-bike system vendor Brose, and Deutsche Telekom presented a jointly developed, connected electric bicycle in 2015. Owners can locate their bikes at any time on a smartphone or retrieve data on how far they can cycle before they need to charge the battery. Besides this, a motion sensor detects unusually fast braking activity and extreme tilting which could result in a fall. If the user stops for an unusually long time and does not react to a message on the display, the bike sends a text message with location data to a pre-defined contact person. In the event of an accident, this makes it easier to find the cyclist quickly and to provide assistance. BULLS is planning to launch the bike on the market as a special model in 2017.
- **Blue Angel award for Telekom Deutschland.** Deutsche Telekom is the only telecommunications company in the world to offer fixed-network telephones with a Blue Angel certificate. In acknowledgement of these efforts, Telekom Deutschland was awarded the Blue Angel prize within the context of the German Sustainability Award 2015. At present, DECT phones from the Sinus range and IP phones from the Speedphone range come with the Blue Angel. These models save energy thanks to the use of more energy-efficient switched-mode power supplies and transmission power which can be set to suit individual needs. On top of this, the devices also have replaceable batteries, which gives them a longer service life.

SUSTAINABLE SUPPLY CHAIN AS AN OPPORTUNITY

We collaborate with more than 30,000 suppliers in over 80 countries. Our sustainable supplier management system not only reduces risk but also creates competitive advantages and boosts our reputation. In 2015, we were commended for this with two awards, the German CSR prize in the "Sustainability in the supply chain" category and the German Award for Excellence in the "Responsible sourcing" category.

We have established wide-reaching social standards throughout the Group and worldwide, and are committed to putting them into practice. Our Code of Conduct and our Social Charter also apply explicitly to our suppliers. When selecting them, we take sustainability criteria systematically into account, for example by giving sustainability a 10-percent weighting in our tenders. We include a binding CR clause, which obligates all suppliers to comply with our sustainability requirements. We also require them to provide self-assessments and conduct business audits. To ensure that our suppliers can meet our stringent requirements, we provide partner support in the form of training offers and development programs.

One example is our development program for strategic suppliers, with whom we cooperate to develop joint solutions for such aspects as environmental protection, working hours regulations and occupational health and safety. 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. Having launched the pilot with three suppliers in 2014, we extended the project in 2015 to build a comprehensive development program in which seven companies already participate. Preparations are under way to include more suppliers in the course of 2016. Since the program was launched, CO₂ emissions in our supply chain have been reduced along with the costs arising from fluctuation and associated recruitment activities. In addition, there has been a significant increase in

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the productivity of several participating suppliers, one of whom, for example, has improved assembly line productivity by 34 percent and cut CO₂ emissions in the supply chain by 16,000 metric tons.

MAKING CONNECTIONS, ENABLING INCLUSION

Our goal is to connect people, not only with our products and services but also with our social commitment. We work actively to ensure that everyone, regardless of age, background, or education, can participate in our society. To promote equal opportunities, we support key skills, for instance to help young people shape their lives successfully, and launch various projects that teach them how to use today's information and communication technologies safely. As a result of the vast flow of refugees to Europe, activities in the year 2015 focused to a great extent on refugee aid.

TASK FORCE FOR REFUGEE AID

In view of the massive challenges involved in aid work for refugees, our Board of Management set up its own task force in August 2015. It pools our various aid programs in Germany to ensure that support can be provided faster and with less red tape.

- The link via e-mail or messenger services is usually the only way for people in refugee shelters to keep in touch with their families and friends. By the end of 2015, we had already supplied free WiFi to around 60 refugee reception centers.
- How can I apply for asylum? Where can I learn German? Am I allowed to work? Where can I get help? The answers to this and many other questions can be found on our "<https://refugees.telekom.de>" Internet platform. The portal also makes it possible to contact local helpers and organizations. It is available in 8 languages and is being continually expanded.
- We made the offer of Deutsche Telekom properties as refugee accommodation.
- In 2015, we advertised over 100 internships at Deutsche Telekom and offered grants for students to study at our HfTL University of Applied Sciences in Leipzig via the "workker.de" refugee platform. From September to December 2015, we were able to assign 26 internships to university and school students and seven grants for university courses.
- At their own request, we seconded civil servants in our Group to work at the Federal Office for Migration and Refugees.
- Many of our staff help out in the temporary shelters, accompany refugees on visits to the public authorities, and donate both clothing and money. We support this voluntary commitment via our "engagement@telekom.de" platform. Over 70 aid projects had been launched by the end of 2015. Other activities include German language courses and joint integration activities.

- We work with ministries, public authorities, adult education centers, and all operators of temporary shelters such as the German Red Cross, Caritas, and the German Workers' Samaritan Federation (ASB). We also cooperate with Germany's Relief Coalition "Deutschland hilft" and its partners. Furthermore, we work closely and pragmatically with over 30 other companies to achieve specific targets.

At our European sites along the refugee routes, we implement various aid projects to suit local needs. We offer people in many countries free Internet access to ensure they can keep in touch with their friends and relations. Several of our national companies have set up donation hotlines. The OTE group in Greece, for instance, provided financial support for the coastguard service, which has already helped to save 74,000 people from drowning. T-Mobile Austria has been working in refugee aid since 2010, helping for instance to give young refugees a new perspective in life. Since then, ten percent of trainee positions in Austria's T-Mobile shops have been reserved for young refugees who enter the country without their families and are supported by "lobby.16." This association organizes training and continuing education for young unaccompanied refugees.

KEY COMPETENCIES FOR THE INFORMATION AND KNOWLEDGE SOCIETY

Our "Yes, I can!" initiative teaches young people key skills to enable them to act independently and with self-confidence. In doing so, it promotes equal opportunities within our society. In the reporting year, more than 200 new projects went live with funding totaling over EUR 800,000. The focal theme in 2015 was "Exploring, understanding and shaping my environment," in which children and young people were encouraged to take a close look at their direct environments and to get to know their surroundings from a completely new perspective. Numerous other skill-enhancing projects, for example in the areas of crafts, the theatre, and geocaching, also received support from the initiative. Since it was launched six years ago, over 900 projects have been funded by the initiative nationwide with a total volume of EUR 5 million. This has made it possible to reach over 75,000 children and young people.

Our Teachtoday initiative supports children, young people, teachers, and parents by providing day-to-day, practical learning materials, an Internet portal, and local events to ensure that they can handle the new technologies safely. In 2015 our Teachtoday media obstacle course took to the German roads. Awareness was raised for safe media usage in a playful manner among over 4,900 school students between the ages of 9 and 12. Over 150 children participated in the Summit for Kids held in Bonn in November 2015. The climax of the event was the award ceremony for prizes in the safe media usage competition, which was open at international level for the first time and in which projects from five countries took part. The jury commended a total of seven projects in the two categories "Learning with digital media" and "Safe media usage." They included the joint media project Homeland!?, which focused on the refugee migration from Syria and was submitted by the Martin Luther King School in Saarlouis. Scroller is a new media magazine for children that we designed in 2015. The teachtoday.de portal is available in English in addition to German.

At international level, we are also committed to teaching young people how to use the Internet safely. For example, more than 60,000 children and young people have already participated in our Smart Digital program in Hungary. In 2015, we offered our first online courses for parents and teachers on this theme.



More information on the subject of innovation can be found online at: www.telekom.com/innovation-en

INNOVATION AND PRODUCT DEVELOPMENT □

- Group Innovation⁺ – Innovation you can trust
- Answers for the digital future

INNOVATION PROVIDES ANSWERS FOR THE DIGITAL FUTURE

Innovation is a key cornerstone of our Group strategy. It 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 in the long term. The basis that we use to do so remains unchanged, namely our high-speed broadband infrastructure for the fixed and mobile networks. We rely on digitization to offer our customers impressive experiences when using our products and our service.

We want to craft the digital future and, with our innovations, give our consumer and business customers answers today to the issues of the future. As a leading provider of telecommunications and information technology, we collaborate actively on developing and standardizing the 5th generation mobile communications standard (5G). Public acknowledgment for our innovations included a commendation from the Broadband World Forum for our hybrid router development as the “Greatest advancement in the field of fixed mobile convergence.” During the reporting year, we again improved our innovation capacity and realigned the organization and strategy underlying our innovation and product development activities.

GROUP INNOVATION⁺

On May 1, 2015, we established Group Innovation⁺ as the central innovation unit in the Group. It orchestrates all innovation activities at Deutsche Telekom and creates cross-segment product and service innovations. Group Innovation⁺ merges innovations wherever we identify synergies for the Group. This gives rise to innovations not only within Group Innovation⁺ but also in the units working on our traditional core business and direct marketing activities in the individual national companies.

Group Innovation⁺ drives new areas of innovation with a longer development horizon of three to five years; the challenge it faces lies in backing the key solutions for the not-so-near future today. Secondly, Group Innovation⁺ also provides classic product development services directly to our operating segments, in this case with a development horizon of one to two years. We strive to enrich our product portfolio with more new products and innovative solutions, which is vital if we are to position our operating segments as attractive and competitive elements of our core portfolio.

INNOVATION YOU CAN TRUST

Group Innovation⁺ is committed to “Innovation you can trust.” The unit delivers innovations that represent the essential brand attributes of our Group, namely trust and reliability. Our products and offers must naturally be safe, but “Innovation you can trust” means more than this. It means that our innovations will work easily, our products interact seamlessly with the network, service and partner offers. It is only the combination of innovation and core business activities that will ultimately grow successful innovations for our customers. Group Innovation⁺, our operating segments, and other innovation-oriented areas, such as Deutsche Telekom Capital Partners (DTCP), are closely networked and regularly exchange views so that we can identify our customers’ needs and supply them with innovative products and services.

“Innovation you can trust” is also the guiding theme of our internal collaboration. We can rely on each other and know that we are working on the right ideas. Innovation cannot be prescribed. Innovation is a culture that has to be nurtured and brought to life from the inside. Large enterprises like our 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 FOCUS – FOUR AREAS OF INNOVATION

For innovation work to succeed, innovation activities must be geared to the Group as a whole and follow a holistic concept. We therefore rely – as GRAPHIC 38 shows – on our four inter-related innovation areas: consumer products, business customer products, network/infrastructure, and processes/service.

G 38

Areas of innovation



The focus is always placed on our customers, regardless of whether these are consumers or our business customers. Our concept involves identifying new customer issues, anticipating customer needs, and finding innovative solutions in response.

Here, it is essential to establish networking between the individual innovation areas, especially since many innovation topics relate to more than one of the four fields, e. g., convergent offers as a key strategic principle for our consumer products. We have made a splendid first move in Germany with the convergent products in our MagentaEins portfolio, and international roll-out has already begun. Group Innovation⁺ is working to integrate more services in this convergence strategy, thus

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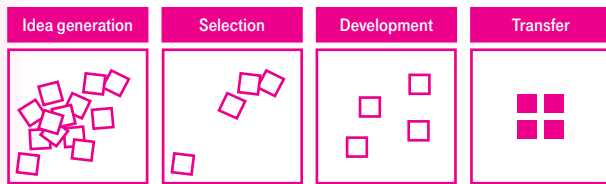
increasing the attraction of the MagentaEINS offers. In the case of business customers, our aim is to offer a simple, modular product portfolio and, at the same time, to combine our standard products intelligently with products from our partners. Our focus on the network side is on seamless, secure connectivity, above all for business customers – on a global scale and with quality differentiation. In the Processes/Service innovation area, we want to anticipate and respond to the requests and needs of our customers as specifically as possible and with consistent quality across all contact channels.

INNOVATION GOVERNANCE

Clear process structures give ideas the scope they need to grow and transform into innovative products and services. As GRAPHIC 39 shows, innovation processes in our Company pass through four phases.

G 39

Deutsche Telekom’s innovation process



- They all start with an idea – arising from market and trend research, customer feedback, from our staff in the product and innovation units, or from partnerships/collaboration with our partners.
- 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 well lead to development of a product being abandoned during one of the phases of the innovation process, which 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.

We have set up an innovation governance concept to manage innovation processes in the Group. It includes the **Portfolio & Innovation Board**, which makes sure we get our priorities right. The board identifies and selects innovation focuses for our Group and decides how they will be executed in order to define and implement an innovative product portfolio

that offers maximum chances of success. In order to implement these strategic innovation focuses, we also continuously enhance our internal financing formats. This means that, with an additional innovation budget, we can equip new innovation projects or additional opportunities for existing strategic priorities with resources at short notice and without red tape. Such financing is granted independently of annual planning periods, and therefore intensifies our focus on market and customer requirements. With these resources, we finance both centrally managed innovations, e.g., through Group Innovation+, and local innovation developments, e.g., directly from our operating segments. This is subject to the proviso that the product and service ideas in question are in line with our Group’s central innovation focuses.

Sustainability is another of our product development drivers. The demand is growing for digital solutions that are secure, environment- and climate-friendly, and offer added value for our society. We therefore work intensively not only to improve the security of our services but also focus our development work on more energy-efficient technologies that will reduce CO₂ emissions, and on durable and recyclable products and digital care solutions in the areas of e-health and e-mobility. [ES](#)



METHODS AND CONCEPTS

Design thinking. The design thinking approach is the basis on which we tread new ground and acquire new insights. We have adopted it to ensure we differentiate ourselves from the market in general by offering outstanding customer experiences. Group Innovation+ has, for this reason, defined a standard design thinking concept. It includes a design process which is valid for the entire Group and can be transferred to development processes already in place in our two operating segments, Germany and Europe, as well as the different design thinking methods. Scope for learning, trying out and applying the defined content is offered by the Design Academy, our internal training platform. Design thinking will thus establish itself not only as an attitude within the Group but will also enrich and improve the actual cooperation across all Group units. Design thinking therefore produces design doing.

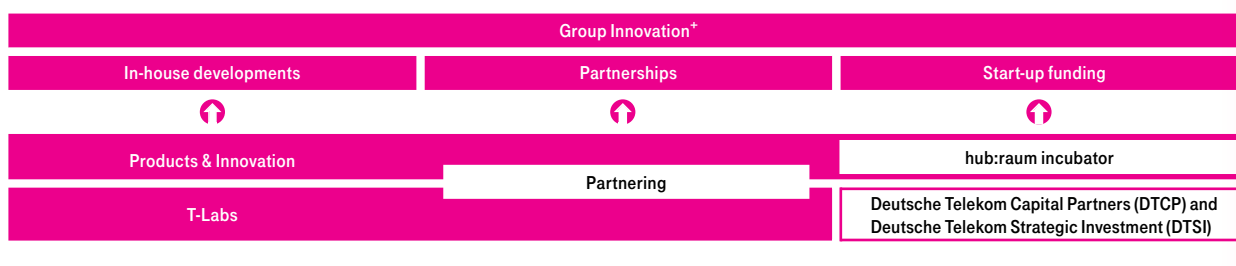
Creating scope for ideas. Our **Digital Innovation Arena** in Berlin creates the ideal scenario for ideas for digital life in the future. It offers first and foremost an optimal working environment, from a state-of-the-art IT infrastructure, modern premises and facilities for lively exchange which are available round the clock, through to creative rooms for relaxation. Here employees from T-Labs, from hub:raum, from the design and partnering areas work together 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 Digital Innovation Arena the hotspot for ideas in Germany.

THREE-PRONGED INNOVATION STRATEGY

To develop even greater innovation capacity, we not only rely on our own innovations but also successfully integrate new ideas from outside Deutsche Telekom. Group Innovation⁺ generates differentiation and growth from innovation in three different ways: from in-house developments, from partnerships and from start-up funding.

G 40


Three-pronged innovation policy



IN-HOUSE DEVELOPMENTS

In 2015, Group Innovation⁺ played a key role in evolving and rolling out various innovative products, a selection of which we present below.

- Development of hybrid access commenced in 2010, and the product came to market in 2014. Over 150,000 customers now go online with hybrid technology. In 2015, the Broadband World Forum commended our hybrid router as the "Greatest advancement in the field of fixed mobile convergence."
- In response to the growing threats from cyber attacks, we offer self-employed people and small businesses end-to-end protection for their computers and mobile devices. We are the first provider in Europe to deliver the tried and proven Norton Small Business security package from the cloud. Users can subscribe, install, and operate the software easily through our cloud portal. In addition, IT consultants Experton Group named us Cloud Leader Germany 2015 in the categories "Communication as a Service" and "Cloud Marketplace (End-User)."
- In September 2015, Chip magazine tested our Smart Home solution in depth and rated it "very good." We added many new functions to Smart Home in the course of the reporting year. Since fall 2015, customers have been able to control Smart Home on their smartphones or tablets as well as with smart watches such as the Apple Watch or Samsung Gear S. We collaborated with BMW to present the integration of Smart Home into the ConnectedDrive system for the first time at IFA 2015. Users can now control a selection of Smart Home functions directly via their BMW entertainment system.

- With its Cloud of Things, Group Innovation⁺ has taken an important step in the field of M2M solutions. Companies using the Cloud of Things can monitor their machines and devices from any place at any time, giving customers the broadest range of on-site service that can be performed from anywhere in the world. With this solution, Deutsche Telekom establishes the basis for many other services and products at various places in the Group.
- We now offer new devices, such as the PULS tablet and new tofino e-reader models.
 - PULS is a fully functioning Android 5.0 tablet, with which customers can operate the most popular Deutsche Telekom products from the start screen. It gives them an overview of their fixed-network calls, voice messages, program information, and Smart Home applications whenever they need it. MagentaZuhause products such as HomeTalk, SprachBox, and Entertain can therefore also be controlled even more quickly, directly from the start screen.
 - Two new devices with high-resolution displays were added to our tofino family in 2015 – tofino shine 2 HD and tofino vision 3 HD. The tofino shine 2 HD device won the DDC Design Award. 

T-Labs. With our central research unit, Telekom Innovation Laboratories (T-Labs), we operate our own research and development facilities at international locations, including Berlin, Darmstadt and Bonn in Germany, Beer Sheva and Tel Aviv in Israel, and Mountain View in the United States. There, some 500 experts and scientists from a broad range of disciplines develop and test new technologies. In doing so, they cooperate closely with industrial partners, international universities, and research institutions on the basis of open innovation and for our operating segments. 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 2015, T-Labs focused on a range of topics including the following:




For more information on our new products, please refer to the section "Highlights in the 2015 financial year," PAGE 54 ET SEQ.

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- **Development of a digital carrier concept.** The main aspect of this work is to transfer the conventional telephony and messaging products into the digital world. Users will be able to communicate from all devices with their mobile number – without the need for SIM cards. This will pave the way for new products and services such as virtual phone numbers, multiple identities and group video communication.
- T-Labs develops systems and prototypes that make it possible to effectively bundle different access technologies and to assign them to the appropriate application. In 2015 they included further hybrid developments based on the OpenSource concept and the DSL community. The latter development bundles adjacent DSL lines and was the subject of a successful field test with customers in Berlin at the end of 2015. T-Labs also makes a significant contribution to our 5G program, for example to the EU-funded METIS project (Mobile and wireless communications Enablers for the Twenty-Twenty Information Society).
- In the digitization of industrial production processes, the focus was placed on the development of secure and programmable communications solutions for the industrial Internet. Alongside the technical challenges it faced, T-Labs supported cooperation among relevant players in Germany as a center of industry and innovation, e. g., through its commitment to the Industry 4.0 platform (www.plattform-i40.de), the world's biggest and most versatile Industry 4.0 network uniting business, science, politics, associations, and trade unions. The highlight of the year was Germany's National IT Summit in November 2015, at which we presented "typical" scenarios from a digitized production system to the German Chancellor, using the Industry 4.0 Demonstrator jointly developed by Deutsche Telekom, SAP, Siemens, and Festo.
- In the area of **Data Analytics**, T-Labs works on use cases, pilot projects, and concepts that will enable the suitable use and analysis of big data. One example of this is the Synthetic Data research project. Algorithms are used to generate artificial data that no longer relates to the sensitive personal source data, yet still largely retains its features. T-Labs has founded a Smart Data Lab for knowledge exchange and Group-wide collaboration – a meeting point where staff dealing with data analytics can benefit from the infrastructure and tools, attend training and test use cases.

PARTNERSHIPS

As well as developing in-house solutions, Group Innovation⁺ repeatedly chooses to collaborate with partners on innovations, in accordance with our Group strategy. The object is to establish a broader range of innovative products and services that can be offered to customers. In doing so, Deutsche Telekom taps the vast innovative strength of Silicon Valley, Israel, Germany, and other innovation hotspots.

We would like to present some examples of these successful partnerships below. 

- For consumers, we have established a partnership with Fon in several countries, which strengthens our position in the fixed network. Fon is a WiFi community with access to over 17 million WiFi lines worldwide. By the end of 2015, we had reached a figure of more than one million WiFi lines and thus had a 6-percent share in Fon spots worldwide (compared with just over 2 percent at the end of 2014). The service is available in Germany, Croatia, Greece, and Romania.
- By rolling out the video and image processing solution from **Magisto**, we have made a service exclusively available in all our markets that enables users to share their photos and videos.
- We collaborate with such partners as **Cyan** in the area of mobile security in order to protect smartphones from all types of viruses.
- With our Hungarian **MiniCRM** package, we offer a cloud CRM solution for small and medium-sized enterprises throughout Europe. The collaboration covers more than just product sales, and includes consulting, training, and personalization. This partnership was integrated via the Easy2Partner hub, our "Steckerleiste" (power strip) model in Hungary. Through a single technical integration process, we can now offer the product in five national companies.

START-UP FUNDING

In May 2012, Deutsche Telekom opened an incubator, a start-up support center, of its own in Berlin under the name "hub:raum." The object is to support young companies with new ideas for telecommunications and Internet services during the start-up phase. We use hub:raum to regularly monitor over 1,000 start-ups and maintain close contact with them. In the reporting year, hub:raum invested in four start-ups.

- **Flexperto:** A Software as a Service solution which helps insurance companies, for instance, to digitize their advice sessions with video chats.
- **M2MGO:** Offers an Internet of Things building kit, first and foremost for smaller businesses.
- **Teraki:** Develops a software package that selects relevant Internet of Things data.
- **CiValue:** Offers a cloud-based big data platform used by online shops to gear their delivery channels to the needs of their customers; the first Israeli start-up in our hub:raum portfolio.

In order to improve networking and support among the start-ups and help them in their internationalization efforts, we set up a Telecom Start-up Alliance. It includes our French partners from Orange with their Fab incubator, our Spanish colleagues from Telefónica with Wayra and Singtel from Singapore with Innov8. Besides this, we cooperated with Intel and Cisco to launch the first ChallengeUp IoT Accelerator program in 2015. The core task is to help IoT/loE start-ups on the way to a faster market launch.



Sustainability at
Deutsche Telekom



For more information on our cooperations and partnerships, please refer to the section "Highlights in the 2015 financial year,"

PAGE 54 ET SEQ.

We plan to greatly expand and restructure our commitment in the areas of venture capital and technology innovation for the subsequent phases, the early/late or growth phases, with Deutsche Telekom Capital Partners (DTCP), a company we formed at the beginning of 2015. DTCP is Deutsche Telekom's investment management group and is positioned at the center of our redesigned investment concept. DTCP offers growth capital for the early and late growth phases, investments in SMEs and mature companies, and strategic consulting in the technology, media, and telecommunications sectors. We plan to invest a total of EUR 500 million over the next five years via DTCP. Although DTCP also has a strategic focus, its investments will have a strong financial drive. DTCP aims to acquire shares in companies, to see these companies grow, and to sell the shareholdings again at a profit. By choosing the most successful start-ups and collaborating closely with them, strategically relevant cooperation options and business relationships with the Group arise virtually "automatically."

In cooperation with DTCP, we launched our new Deutsche Telekom Strategic Investment unit (DTSI) at the end of October 2015 to handle investments that are primarily strategically motivated. DTSI focuses its investment activities not only on external start-ups that are identified as being of major strategic relevance but also supports and implements in-house ventures as spin-offs. In this case, ideas from Deutsche Telekom are spun off as young companies, making greater entrepreneurial freedom and shorter decision paths possible. Additionally, DTSI manages the existing portfolio of DTVF (Deutsche Telekom Venture Funds GmbH), which was closed for new investments, with the object of supporting the further development of around 90 existing shareholdings (including follow-up investments) and divesting them at a profit.

The combination of an external, financially-oriented team and an in-house, strategically-oriented team enables us to forge the vital link between external and internal networks and know-how, and gives us the flexibility we need to provide each investment with precisely the support it needs.

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 cooperation 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 279 patent applications, taking the total number of IPRs held by the Group to around 8,400.

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 in our industry. We manage our IPRs on the basis of cost/benefit aspects, filing only selected applications and de-registering patents systematically.

EXPENDITURE AND INVESTMENT IN RESEARCH AND DEVELOPMENT

Research and development (R&D) 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 2015, R&D expenditure in the Deutsche Telekom Group amounted to EUR 108.1 million, above the level for the previous year. As the parent company, Deutsche Telekom AG bears part of the Group's research and development expenditure. At EUR 86 million, this amount lay above the prior-year level (2014: EUR 60 million). However, this figure may not be viewed in isolation from the three-pronged innovation strategy referred to above – of in-house developments, innovations from external partners and start-up funding.

Our Group's investments in internally generated intangible assets to be capitalized were also up year-on-year at EUR 101.3 million compared with EUR 93.2 million for the previous year. These investments predominantly relate to internally developed software, mainly in our Systems Solutions operating segment. In the reporting year, some 2,800 employees (2014: around 2,900) were involved in projects and activities to create new products and market them more efficiently.

T 038

Expenditure and investment in research and development

millions of €

	2015	2014	2013	2012	2011
Research and development expenditure	108.1	95.6	97.0	65.9	121.4
Investments in internally generated intangible assets to be capitalized	101.3	93.2	112.0	78.0	122.4

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EMPLOYEES

- Reorganization of work in the digitized ecosystem
- HR priorities for 2015

REORGANIZATION OF WORK IN THE DIGITIZED ECOSYSTEM

Work in the digitized ecosystem is being given a complete overhaul. The important thing will be focusing on people. Digitization creates the perfect platform for innovation. We will see new forms of collaboration, new business models, but also an increase in the automation of tasks that are currently performed by people. This makes it all the more important that our employees build digital skills as they will be essential for anyone wanting to succeed in the future. In addition, we need work environments that are adapted to the respective conditions and standardized technologies that enable us to connect with each other. Looking ahead to the future, knowledge will be increasingly shared, and processes and communication will be democratized.

Leadership will also change. Leadership in the future will be more participative and more virtual because managers will not have personal access to every employee. If we are to keep up with the pace of digitization, we will need to make decisions faster, i. e., organizations need to be more decision-oriented.

HR will actively shape and support the transformation process, which is why part of our focus in 2015 was on determining the following HR priorities:

HR PRIORITIES

1. Talent strategy and planning
2. Performance management and leadership
3. Work in the digital age
4. Skills management and qualification to meet future needs

Below are some examples of the measures we will use to implement and drive our HR priorities forward.

OUR HR WORK BASED ON THE HR PRIORITIES

1. TALENT STRATEGY AND PLANNING

Our talent management team is getting ready for the digital future. We believe in global talent management and a worldwide recruitment process. These form the basis for our succession planning and the placement of talented people within the Company. The success of our business depends on having committed, ICT-savvy, service-oriented employees, and it is therefore crucial to develop these talented employees and secure their loyalty.

Training and advancing our employees has always been crucial for attracting junior staff and contributing to the Group's innovativeness and future viability. Individual talent must be identified and nurtured early on, for example with our Young IT Talents and Young Sales Talents programs. Additionally, each year, our 140 top apprentices and students on cooperative degree programs are offered a placement abroad.

The digital future needs networking. Our talent management approach encourages young talent to take responsibility for their own career management, using modern (IT) tools and processes. To foster networking among them, we also offer face-to-face networking events and a shared online platform. Digital collaboration is complemented by a talent conference for more than 300 young people and 100 managers from all countries, segments, functions, and organizations. In 2016, we will focus even more strongly on encouraging young talent to use their initiative and forge their own careers by seeking out interesting positions. We support and encourage job rotation, particularly across departments, functions, and countries.

Our Group is firmly committed to diversity, and we are always looking for creative spirits and technology-minded people who want to help us shape the digital future. The overriding goal of our recruitment activities is to make sure the right person is in the right job. Flexibility is pivotal to our search for suitable candidates. We speed up the process by actively approaching potential recruits. In recent years, our attractiveness as an employer has consistently grown, thanks to a creative, target group-specific presence in social media and a raft of attention-grabbing initiatives in the talent market. The 2015 Online Talent Communication Study confirmed this by ranking our career pages as the best employer website in Germany.

2. PERFORMANCE MANAGEMENT AND LEADERSHIP

The skills of our managers, coupled with our performance orientation, diversity, and feedback from our employees, are the key success factors for competing in the global market.

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 for our top management. In 2015, all executives worldwide were included in our leadership model for the first time. The key features are a continuous dialog between managers and employees on performance and development issues, a direct link between performance assessment and incentives, and personal development paths. The new leadership principles apply to all managers. In particular, managers are being urged to identify and nurture innovation potential. It is also important to establish a working culture in which people continually challenge the status quo and reflect on their own conduct, where no-one is afraid to make mistakes, and where new ideas are bravely and passionately championed.

Embracing diversity. For over a decade now, we have been sustainably supporting diversity throughout our entire Group on the basis of an extremely forward-looking policy. We integrate all aspects of diversity and support these with a host of flagship projects, such as our initiatives for the advancement of women or the introduction of generational tandems, where a senior manager and a junior employee share the same role in parallel for a limited period. Additionally, our 2015 campaign on unconscious bias brought fresh stimulus for greater diversity within the company. This campaign, along with measures to raise employee awareness and practical workshops on unconscious bias and stereotypes held across Germany, was also a key element of our activities for our third Diversity Day and the diversity conference organized by the Diversity Charter, of which Deutsche Telekom is a founding member.

For more information, visit: www.telekom.com/media/publications

Sustainability at Deutsche Telekom

Sustainability at Deutsche Telekom



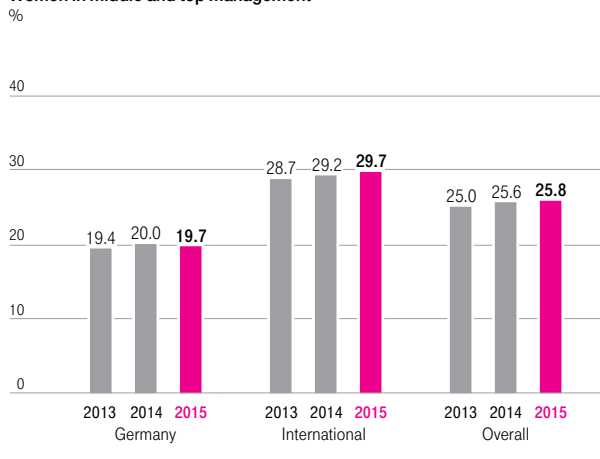
Sustainability at
Deutsche Telekom

Gender equality remains a special concern to us for which we have been campaigning strongly since 2010 by introducing a quota of 30 percent of leadership roles filled worldwide with women. Following changes to the law in summer 2015, we have extended our deadline, focusing on the two management levels below managing board level. We also implemented a pilot program in summer, which trained 24 women to take on national and international Supervisory Board mandates. The follow-on program was launched in fall 2015 and opened to men as well. Additionally, in November 2015 we signed the UN Women's Empowerment Principles drawn up by UN Women and UN Global Compact, with the aim of empowering women in the workplace. Proven measures, such as managing the advancement of women throughout the entire talent acquisition strategy, or the specific targeting of women with, for example, a website on more opportunities for women, advertisements, or trade fairs that address women as the target group, remain pivotal methods for advancing women.

Overall, the proportion of women in management positions has risen since 2010. Group-wide, it increased from 19 percent in February 2010 to 25.8 percent in December 2015. The percentage of female members of our supervisory boards in Germany also rose from 17.7 percent in 2010 to 30.6 percent in December 2015. The proportion of women representing the shareholders in our international supervisory boards likewise increased from 7.4 percent in 2010 to 25.5 percent at the end of 2015. We are also one of only a handful of DAX corporations with an established track record of women on its Board of Management. The number of women on the international management team below Board level is also on the rise. The figure has grown from two back in February 2010 to nine as of December 2015 from a management staff totaling 58.

G 41

Women in middle and top management



Work-life balance. We offer a whole host of different options to help employees of all ages achieve an even better work-life balance. In 2015, we focused on marketing the entire portfolio both internally and externally, which included relaunching our intranet site in 2015. Meanwhile, Telekom Children's Day at our Bonn, Darmstadt, and Dresden locations gave employees the opportunity to show their children where they work and let them experience the Deutsche Telekom world at first hand. Employees were also able to visit our information stands for advice on improving their work-life balance. In July 2015 we began our Family Manager pilot, in which we offer employees personal advisory services on site on all kinds of topics relating to a healthy work-life balance – supported by a family hotline that employees can also use to get advice on these matters. This pilot project is being trialed for one year, and is initially available in Bavaria only.

In 2016, we will further digitize and market the entire offering. For the first time ever, from 2016 we will also be offering employees lifetime work accounts. These accounts give them the option to finance a temporary leave of absence of longer than a month; for example, to take some downtime, to top up their part-time hours, or for early retirement. Until now, lifetime work accounts have only been available to executives. Employees can finance the account either from their gross salary or (to a limited extent) with time credits. In certain circumstances, we will also support employees with an annual contribution.

Employee satisfaction. Our image as an attractive employer continues to grow, and internally our employees are giving us good grades. The latest – and the sixth since 2005 – employee survey for the entire Group (excluding T-Mobile US) was held in 2015. We asked some 184,000 employees in 22 languages and from 30 countries to give us their feedback. Over 144,000 employees worldwide took part, a response rate of 78 percent. We also conduct regular pulse surveys to obtain feedback from our employees. Consistently high participation rates bear witness to the high level of interest and a growing desire among employees to help actively shape our Group. In 2015, the commitment index rose again from its high level, and now stands at 4.1 on a scale of 1.0 to 5.0. We expect the pulse survey planned for 2016 to indicate a continuing high level of employee support for our Company. The next employee survey is scheduled for 2017.

Health. Our health management strategy is designed to maintain our employees' health and performance capability. We view occupational health and safety legislation as minimum requirements and encourage our employees to take responsibility for their own health. Our managers play an important role in fostering an appropriate corporate culture.

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3. WORK IN THE DIGITAL AGE

The digital society is not only accelerating the speed of transformation facing our employees and managers, but also offers opportunities for the humanization of work, improved working and learning conditions, and new methods of digital collaboration. The opportunities and challenges arising from digitization, and the associated requirements to be met by the organization, HR work, and employees, were published in the expert study *The Future of Work*. We define our own mandate with a focus on the areas of People, Places, and Technologies, and take the measures required.

People: The escalating speed of transformation and greater flexibility is both the biggest challenge and the greatest opportunity of the digital age. Because employees are no longer tied to working from a conventional office, this creates options for a better work-life balance. We are preparing our employees with targeted training courses and seminars, and investing in the latest equipment. Across the Group, we are introducing the design thinking methodology (a systematic approach to solving complex problems) – from upper management level through to operational teams. We are confident that this will inspire innovative solutions for our customers and ensure faster development cycles in this rapidly evolving environment.

Places: Creating modern working environments is becoming ever more important. We are keen to foster a communicative, performance-driven working climate, innovativeness, and agility. As well as modern workplaces, this demands flexibility, virtual collaboration and leadership, and a culture of sharing. We are creating open office worlds and tearing down the proverbial walls to promote inter-departmental collaboration. Desk-sharing and the option to choose your own desk are being rolled out. Mobile working is essential for flexible work organization. In 2015, one of our top priorities was to redesign our locations in Bonn, Frankfurt, and Hamburg. We want to continue driving the shift away from a culture of presenteeism and toward a results-driven culture and aim to reach some 25,000 employees in Germany with our concept by the end of 2017. In addition, we encourage and expect virtual collaboration in self-organized working groups, in which employees work together across functions and hierarchies to find solutions and build up knowledge on an informal basis. 40 such working groups were already set up in the reporting year.

Technologies: Standardizing our HR processes is a central topic for us and another milestone in our efforts to automate HR work. One important element of this plan is the roll-out of our HR Suite IT system across the Group. The suite allows standardized Group-wide HR processes such as for recruitment, professional development, and performance management to be offered via a single platform.

Encouraging virtual collaboration is a driver for maximum performance. Our own Telekom Social Network (TSN), which now has around 100,000 users, is elemental to this strategy. It is (technically) integrated with our intranet and provides a central, dialog-based communications platform for all employees. The direct channel to Board level on TSN has also been expanded again with our Board members and many executives using intranet blogs as lines of communication. Furthermore, a range of solutions is now available to most employees worldwide for collaboration between departments and across national borders thanks to video and

web conferencing services, live broadcasts and chat/messaging services, and knowledge-sharing using secure data rooms.

A new Magenta MOOC online course is scheduled for 2016 on the topic of digitization. This innovative digital format is used to teach employees throughout the Group about the significance of digitization technologies for customer requirements, derived business models and products, and the evolving work environment in terms of automation, virtualization, and greater flexibility.

Prompted by the growing significance of digitization for the organization and employees alike, 2016 will see the creation of a new unit, which will further empower managers and employees to use digital collaboration and new work forms, and explore the opportunities for using digital assistants and automation technologies in the workplace.

4. SKILLS MANAGEMENT AND QUALIFICATION TO MEET FUTURE NEEDS

We are honing our employees' skills to make them fit for the digital future. Apart from analyzing the required skillset, it is also essential to provide the correct range of skills development measures:

Digital working means digital learning. ☞ Thanks to the Internet and digital learning methods such as web-based training courses and virtual classrooms, knowledge today can be accessed at any time and from any location. Learning can be intelligently integrated into work operations and become even more practical and effective. Mindful of this fact, we have supported digital learning for many years. 30 percent of all formal learning hours in our Group are now in digital format, and the trend is rising. We successfully combine existing digital offerings on the market with our own in-house products to create Group-specific content, such as All-IP Basic Training – a 90-minute web-based course designed to ensure that all employees are well prepared for the requirements of our future network. By the end of 2015, this course had been accessed more than 3,700 times, both nationally and internationally. Another example is the MagentaEins learning portfolio, which uses videos and a lighthearted approach to learning with elements such as a digital quiz to help our employees become ambassadors for our new rate plan structure. We also promote digital learning at many different levels, from the cooperative Bachelor's degree course to the part-time Master's degree.

Increasingly, we are using informal (digital) learning as a valuable tool and are promoting this with a new training program for employees who take on the challenge of strengthening informal learning in networks. The process to convert our training curriculum to digital formats is still ongoing, and we also encourage informal learning as an alternative to conventional formats. While until now the focus has been on courses in Germany, in 2016 we will be broadening our sights to global skills development. We are also standardizing our training catalogs, processes and IT systems.

Spotlight on the digitization of learning. ☞ In terms of content, training in 2015 focused on strategically relevant topics. In particular, we analyzed our Group-wide training courses on IP transformation, big data and IT security to gauge their suitability in terms of content, teaching, and availability. Our aim here is to offer a comprehensive range of options for all key subject areas in the form of an education chain.



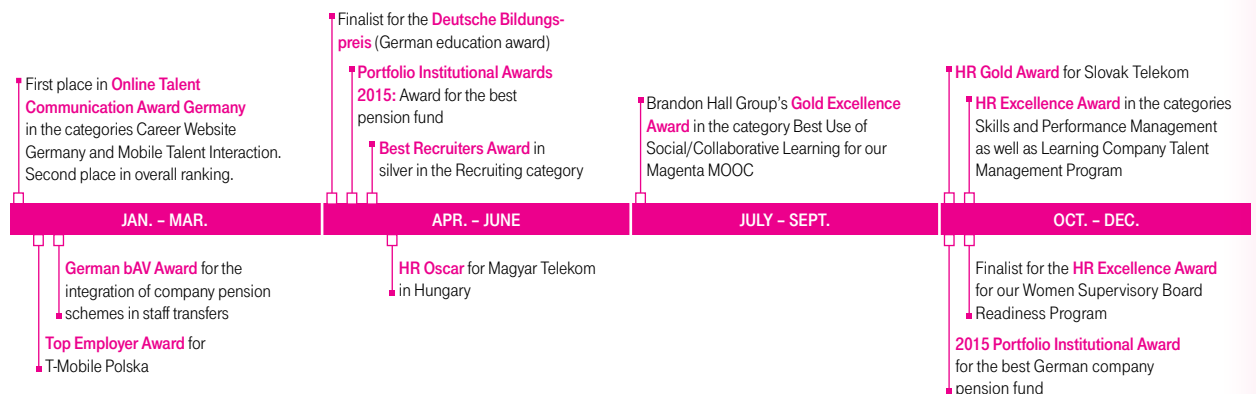
Specifically, we want our portfolio elements to intelligently build on one another, from trainee to professional level. As a result, we made a number of changes in the reporting year – we developed a new portfolio of different but interlinked training courses on big data. In the IT security field, we offer training on data privacy and data security. Meanwhile, a new e-training course on project management offers additional opportunities for skills development.

Awards

In 2015, we again received multiple awards for our HR work. GRAPHIC 42 below shows a selection of awards and prizes.

G 42

HR awards



HEADCOUNT DEVELOPMENT

The Group's headcount decreased slightly by 1.1 percent compared with the end of 2014. Our segments showed countervailing trends to some extent. In the Germany operating segment, the headcount decreased slightly by 0.2 percent compared with the end of 2014 with the staff taken on for network build-out offset by the staff downsizing measures implemented primarily in shared functions. The total number of employees in our United States operating segment increased by 11.5 percent due to an increase in retail, customer support and administrative employees to support the growing T-Mobile U.S. customer base. In our Europe operating segment, staff levels decreased by 4.5 percent compared with December 31, 2014, due in particular to efficiency enhancement measures in several countries in our operating segment. Headcount in our Systems Solutions operating segment declined by 3.7 percent, largely due to staff restructuring measures in Germany and abroad. The number of employees in the Group Headquarters & Group Services segment was down 14.7 percent compared with the end of 2014, mainly due to the continued staff restructuring program – including the placement of employees within the Group – and the sale of the online platform t-online.de and the digital content marketing company InteractiveMedia in November 2015.

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WORKFORCE STATISTICS

T 039

Headcount development

Employees in the Group	Dec. 31, 2015	Dec. 31, 2014	Dec. 31, 2013	Dec. 31, 2012	Dec. 31, 2011
TOTAL	225,243	227,811	228,596	229,686	235,132
Of which: Deutsche Telekom AG	26,205	28,569	29,577	30,637	33,335
Of which: civil servants (in Germany, with an active service relationship)	18,483	19,881	20,523	21,958	23,516
Germany operating segment	68,638	68,754	66,725	67,497	69,574
United States operating segment	44,229	39,683	37,071	30,288	32,868
Europe operating segment	49,638	51,982	53,265	57,937	58,794
Systems Solutions operating segment	45,990	47,762	49,540	52,106	52,170
Group Headquarters & Group Services	16,747	19,631	21,995	21,858	21,726
BREAKDOWN BY GEOGRAPHIC AREA					
Germany	110,354	114,749	116,643	118,840	121,564
International	114,888	113,061	111,953	110,846	113,568
Of which: other EU member states	60,710	63,032	63,939	63,244	64,257
Of which: rest of Europe	2,945	3,127	3,238	9,422	9,736
Of which: North America	44,803	40,346	37,856	31,037	33,511
Of which: rest of world	6,431	6,556	6,920	7,143	6,064
PRODUCTIVITY TREND^a					
Net revenue per employee thousands of €	306	275	262	250	244

^aBased on average number of employees.

T 040

Personnel costs

billions of €

	2015	2014	2013	2012	2011
Personnel costs in the Group	15.8	14.7	15.1	14.7	14.8
Special factors ^a	1.2	0.9	1.4	1.2	1.2
Personnel costs in the Group (adjusted for special factors)	14.6	13.8	13.7	13.5	13.6
Net revenue	69.2	62.7	60.1	58.2	58.7
ADJUSTED PERSONNEL COST RATIO %	21.2	22.0	22.7	23.2	23.1
PERSONNEL COSTS AT DEUTSCHE TELEKOM AG UNDER GERMAN GAAP	2.9	2.8	3.1	3.3	3.4

^aExpenses for staff-related measures.

SIGNIFICANT EVENTS AFTER THE REPORTING PERIOD

Sale of our EE joint venture. After the British Competition and Markets Authority (CMA) had approved the sale of the EE joint venture to the UK company BT unconditionally and without remedies in January 2016, we and the French telecommunications provider Orange consummated the transaction on January 29, 2016 at an adjusted purchase price of GBP 13.2 billion. In return for our stake in the EE joint venture, we received a financial stake of 12.0 percent in BT and a cash payment of GBP 25.7 million. In total, the sale is expected to generate income of around EUR 2.5 billion; around EUR 0.9 billion of this amount will result from effects recognized directly in equity in prior years. In addition, on January 25, 2016, the shareholders received a final dividend totaling GBP 0.3 billion from the EE joint venture, which we participated in with the capital share we had at that date of 50.0 percent.

Acquisition of mobile spectrum in the United States. In January 2016, T-Mobile US acquired spectrum licenses covering nearly 20 million people in seven major metropolitan markets for approximately USD 0.6 billion in cash. In January 2016, T-Mobile US entered into agreements with third parties for the exchange and acquisition of spectrum licenses covering approximately 23 million people in seven major metropolitan markets. In the first quarter of 2016, spectrum licenses to be exchanged of USD 0.3 billion will therefore be reclassified to non-current assets and disposal groups held for sale. A non-cash gain is expected to be recognized upon closing of the exchange transaction, which is expected to occur in mid-2016, subject to regulatory approval and other customary closing conditions.

Acquisition of mobile spectrum in Poland. At the spectrum auction in Poland which ended in October 2015, T-Mobile Polska was the highest bidder, acquiring spectrum of some EUR 0.5 billion, which was paid at the start of February 2016. We are also in negotiations with the Polish regulatory authority UKE to accept additional spectrum amounting to around EUR 0.5 billion. This was offered to T-Mobile Polska by UKE after the highest bidder had declined to accept the spectrum. In accordance with the rules of the auction, T-Mobile Polska was offered the spectrum for purchase as the second highest bidder. T-Mobile Polska submitted an application for the allocation of this spectrum block on February 8, 2016.

FORECAST¹

STATEMENT BY THE BOARD OF MANAGEMENT ON THE EXPECTED DEVELOPMENT OF THE GROUP

We remain on a course of successful growth and emphasize again our goal of becoming Europe's leading telecommunications provider. We already have the best state-of-the-art integrated network which will allow us to meet our customers' expectations with integrated products in future. This positioning is in line with our financial ambitions up to 2018, which we communicated at our Capital Markets Day in February 2015. For the period from 2014 to 2018, we are aiming for the following average annual growth rates (CAGR):

- Revenue: 1 to 2 percent
- Adjusted EBITDA: 2 to 4 percent
- Free cash flow: approx. 10 percent

In the short term – in our guidance for 2016 – we also expect our main financial performance indicators to increase compared with the 2015 financial year; all estimates assume a comparable consolidated group structure and constant exchange rates:

- We expect **revenue** to increase in 2016 compared with the prior year.
- **Adjusted EBITDA** is expected to reach some EUR 21.2 billion in 2016, up from EUR 19.9 billion in 2015.
- **Free cash flow** is to increase from EUR 4.5 billion in 2015 to around EUR 4.9 billion in 2016.

ECONOMIC OUTLOOK

In its economic forecast from January 2016, the International Monetary Fund (IMF) expects global economic growth of 3.4 percent in 2016. For 2017, the IMF anticipates an increase of 3.6 percent. This acceleration will be driven by industrial nations and emerging and developing economies alike. We continue to expect a stable economic trend in our core markets. The economies in Germany, the United States, and the countries of our Europe operating segment – with the exception of Greece – are currently enjoying a lasting upturn, bolstered primarily by the positive trends in consumer spending, low oil and energy prices, and rising investments. The Greek economy is expected to begin its recovery in 2017.

The positive economic development will also lead to a moderate further recovery on the labor markets (see TABLE 041).

T 041

Forecast on the development of GDP and the unemployment rate in our core markets for 2016 and 2017

	GDP for 2016 compared with 2015	GDP for 2017 compared with 2016	Unemployment rate in 2016	Unemployment rate in 2017
Germany	1.8	1.6	6.3	6.4
United States	2.4	2.5	4.8	4.7
Greece	(1.1)	0.5	25.1	25.1
Romania	4.0	3.4	4.8	4.7
Hungary	2.3	2.5	6.5	6.5
Poland	3.5	3.4	9.9	9.6
Czech Republic	2.6	2.7	6.2	6.2
Croatia	1.5	1.8	17.7	17.5
Netherlands	1.9	1.8	8.6	8.5
Slovakia	3.2	3.3	11.3	10.8
Austria	1.4	1.5	5.5	5.4
United Kingdom	2.3	2.3	5.3	5.1

Source: Consensus Economics, Oxford Economics; January 2016.

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MARKET EXPECTATIONS

GERMANY

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

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

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

UNITED STATES

The U. S. mobile market continues to be characterized by intense competition among mobile carriers. Competitive factors within the U. S. mobile market include dynamic changes in pricing, voice market saturation, service and product offerings, customer experience, network quality, development and deployment of technologies, availability of spectrum licenses, and regulatory changes. The mobile postpaid market in the United States is embracing device financing options, such as T-Mobile us' equipment installment plans and device leasing through JUMP! On Demand, allowing customers to subscribe for wireless services separately without the purchase of or payment for a bundled device. Additionally, data services continue to be a growth driver, and despite the high level of competition, the U. S. mobile market is expected to grow from mobile broadband data services in 2016 and 2017 further supporting network investment by mobile carriers in the U. S. mobile market.

EUROPE

Our European markets will continue to be dominated in 2016 and 2017 by intense competition between market players from the traditional telecommunications industry, alternative broadband providers, such as cable and fiber-optic network operators, and providers of Internet-based services such as short messaging (e. g., WhatsApp) and Internet TV (e. g., Netflix).

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

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

SYSTEMS SOLUTIONS

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

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

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

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

EXPECTATIONS OF THE GROUP

Expectations up to 2017 and ambition up to 2018. Our Group is also set to continue to grow profitably in the next few years. From 2017, we expect our revenues and our adjusted EBITDA in all operating segments to at least remain stable or even increase. That puts us in an excellent position to achieve our financial ambitions by 2018 – as communicated at our Capital Markets Day in February 2015.

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

- We expect **revenue** to increase year-on-year in 2016 and 2017, driven mainly by our United States operating segment, which enjoys great success on the market with its innovative business model.
- We expect **adjusted EBITDA** to increase to around EUR 21.2 billion in 2016, and to rise sharply again in 2017. In addition to the positive revenue trend, the switch to the terminal equipment lease model at T-Mobile us is one of the key drivers. Under this model, expenses for terminal equipment do not impact adjusted EBITDA, but rather are recognized in depreciation over the term of the contract. We expect the development of our financial figures to be more volatile in the future in connection with the terminal equipment lease model, since they are increasingly dependent on the trend in customer numbers and on customer decisions in the United States.
- **EBIT and EBITDA** will grow significantly year-on-year in the next two years, primarily as a result of the positive trend in adjusted EBITDA in the same period, as well as a positive special factor in 2016 following the sale of our stake in the UK mobile joint venture EE. Due to the switch to the terminal equipment lease model at T-Mobile US, depreciation will increase substantially from 2016 as a result of the capitalization of the leased mobile devices. This will reduce the positive effect in EBIT resulting from the reduction of expenses in EBITDA.
- **Return on capital employed (ROCE)** is expected to increase moderately in 2016 and sharply in 2017. We are thus well on track to achieve our ambition of exceeding our weighted average cost of capital (WACC) from 2018.

- Our investments – in terms of **cash capex** (before spectrum investments) – are expected to amount to around EUR 11.2 billion in 2016. We will continue to invest heavily in modernizing and building-out our network infrastructure in our Germany, United States, and Europe operating segments. In 2017, we expect capital expenditure to increase against 2016. We partly generate the funds needed for our investments by taking measures to enhance cost efficiencies, for example the implementation of the target costing approach and the establishment of Deutsche Telekom Services Europe, in which we pool various functional services of Deutsche Telekom in a cost-efficient way.

- Our **free cash flow** (before dividend payments and spectrum investment) is expected to reach around EUR 4.9 billion in 2016 and is to continue increasing strongly in 2017. This will make a substantial contribution to keeping our relative debt – measured as the ratio of net debt to adjusted EBITDA – within the target corridor of 2 to 2.5 over the next two years.

- At the end of 2015, 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 unrestricted access to the international financial markets in the future, a solid investment grade rating within the range A- to BBB is part of our finance strategy.

Our Debt Issuance Program puts us in a position to place issues on the international capital markets at any time at short notice. In addition, our Commercial Paper Program enables the issue of short-term papers on the money market. Under our finance strategy, we plan to continue maintaining a liquidity reserve that covers all our capital market maturities over the next 24 months at least.

Repayments totaling EUR 3.7 billion in bonds and promissory notes will be due in 2016. In 2016, maturities will be refinanced and the liquidity reserve maintained according to plan by means of active debt management and/or through new issues of bonds. The execution of potential transactions depends on developments on the international finance markets. We will also cover the liquidity requirement by issuing commercial papers.

In order to provide preliminary financing for the planned investments in mobile licenses in the course of 2016, T-Mobile US issued new bonds in the amount of USD 2.0 billion in the reporting year and generated another USD 2.0 billion by taking out a Term Loan B. T-Mobile US may carry out further transactions in the capital and banking market in 2016 to finance mobile licenses.

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.

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The expectations for the Group and the operating segments are shown in TABLES 042 and 043, 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 042

Financial performance indicators

		Results in 2015	Pro forma for 2015	Expectations for 2016 ^b	Expectations for 2017 ^b	Ambition up to 2018 ^b
NET REVENUE						
Group	billions of €	69.2	69.0	increase	increase	CAGR of 1-2 % ^f
Germany	billions of €	22.4	22.4	slight decrease	stable trend	
United States (in local currency)	billions of USD	32.1	32.1	strong increase	strong increase	
Europe	billions of €	12.7	12.9	decrease	stable trend	
Systems Solutions	billions of €	8.6	8.2	stable trend	increase	
Of which: Market Unit	billions of €	7.1	6.7	stable trend	increase	
PROFIT (LOSS) FROM OPERATIONS (EBIT)	billions of €	7.0	7.0	strong increase	strong increase	
EBITDA	billions of €	18.4	18.4	strong increase	strong increase	
EBITDA (ADJUSTED FOR SPECIAL FACTORS)						
Group	billions of €	19.9	19.9	around 21.2	strong increase	CAGR of 2-4 % ^f
Germany	billions of €	8.8	8.8	around 8.8	slight increase	
United States (in local currency)	billions of USD	7.4	7.4	around 9.1	strong increase	
Europe	billions of €	4.3	4.3	around 4.3	stable trend	
Systems Solutions	billions of €	0.8	0.7	around 0.8	slight increase	
ROCE	%	4.8		slight increase	strong increase	ROCE > WACC ^g
CASH CAPEX^c	billions of €					
Group	billions of €	10.8	10.8	around 11.2	increase	CAGR 1-2 % ^f
Germany	billions of €	4.0	4.0	increase	strong increase	
United States (in local currency)	billions of USD	4.6	4.6	stable trend	increase	
Europe	billions of €	1.6	1.6	strong increase	slight decrease	
Systems Solutions	billions of €	1.2	1.2	slight decrease	slight decrease	
FREE CASH FLOW (BEFORE DIVIDEND PAYMENTS AND SPECTRUM INVESTMENT)	billions of €	4.5	4.5	around 4.9	strong increase	CAGR of ≈ 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}	€	0.55		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)	€	0.90		strong decrease	strong increase	≈ 1
Equity ratio	%	26.5		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

^aSignificant changes in the composition of the Group included up to the date of preparation of the consolidated financial statements and the combined management report.

^bOn a like-for-like basis.

^cBefore any spectrum investments.

^dThe indicated expectation regarding the dividend per share refers to the respective financial year indicated.

^eSubject to approval by the relevant bodies and the fulfillment of other legal requirements.

^fAverage annual growth rates in the period between 2014 and 2018.

^gWeighted average cost of capital.

TABLE 042 shows key non-financial performance indicators up to 2017, which also assume a comparable consolidated group structure. 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.

T 043

Non-financial performance indicators

		Results in 2015	Expectations for 2016	Expectations for 2017
GROUP				
Customer satisfaction (TRI*M index)		67.4	slight increase	slight increase
Employment satisfaction (commitment index)		4.1	stable trend	stable trend
FIXED-NETWORK AND MOBILE CUSTOMERS				
GERMANY				
Mobile customers	millions	40.4	slight increase	strong increase
Fixed-network lines	millions	20.2	slight decrease	slight decrease
Of which: retail IP-based	millions	6.9	strong increase	strong increase
Broadband lines	millions	12.6	slight increase	increase
Television (IPTV, satellite)	millions	2.7	strong increase	strong increase
UNITED STATES				
Branded postpaid	millions	31.7	strong increase	increase
Branded prepay	millions	17.6	slight increase	slight increase
EUROPE				
Mobile customers	millions	52.2	decrease	stable trend
Fixed-network lines	millions	8.7	slight decrease	decrease
Of which: IP-based	millions	4.1	strong increase	strong increase
Retail broadband lines	millions	5.2	increase	increase
Television (IPTV, satellite, cable)	millions	3.9	strong increase	strong increase
SYSTEMS SOLUTIONS				
Order entry	millions of €	6,005	increase	strong increase
ESG KPIs				
CO ₂ Emissions ESG KPI	thousands of metric tons	3,849	slight decrease	slight decrease
Energy Consumption ESG KPI ^{a, b}	MPEI	108	decrease	decrease
Sustainable Procurement ESG KPI	%	78	slight increase	slight increase

^a Calculated using fact-based estimates and/or extrapolations.^b MPEI describes electricity consumption in thousands of MWh/revenue in billions of euros.See
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For more information on the development of the non-financial performance indicators of our operating segments, please refer to "Expectations for the operating segments" in this section.

We are aiming to achieve a slight improvement in the development of our customer retention/customer satisfaction in 2016 and 2017 respectively, measured in terms of the TRI*M index performance indicator.

In 2015, the commitment index was up again from its high level, and now stands at 4.1 on a scale of 1.0 to 5.0. We expect the pulse survey planned for 2016 to indicate a continuing high level of employee support for our Company. The next employee survey is scheduled for 2017.

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 044.

T 044

Exchange rates

Croatian kuna	HRK	7.61/€
Polish zloty	PLN	4.19/€
Czech koruna	CZK	27.28/€
Hungarian forint	HUF	310.01/€
U.S. dollar	USD	1.11/€

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The following TABLE 045 contains a summary of our model calculations and analyses of the key potential external factors.

T 045

Factors that may affect results

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

+ positive
 ○ unchanged
 - negative

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, our subsidiaries' results from operations and the opportunities and challenges they face are key factors shaping the future development of Deutsche Telekom AG's figures. Accordingly, in addition to our expectations for the Group, the expectations described on the following pages concerning the operating segments' revenue and earnings – 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 2016 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 2015 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 FOR THE OPERATING SEGMENTS

GERMANY

In our Germany operating segment, we continue to work on our comprehensive transformation program, which we started in 2013 and plan to largely complete by the end of 2018. Our aim is to secure our position on the market as the leading integrated telecommunications provider in Germany, and we plan to do so through innovative, competitive offers.

Fiber-optic-based products form the basis with which we meet our customers' wishes in the fixed network. We are paving the way for this with our integrated network strategy. We are building an IP-based network with high transmission bandwidths 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 in rural areas. If necessary, we use innovative products for this purpose – like our hybrid router, which combines the transmission bandwidths of fixed-network and mobile communications, thus enabling much higher transmission speeds, even in rural areas.

In 2014, we were the first provider in Germany to launch an integrated fixed-network/mobile (FMC) product on the market with MagentaEins. We added new products to this range in the reporting year, such as an FMC offering specifically for our business customers. When designing our products, we pay particular attention to high quality and a simple rate plan structure. Furthermore, with our multiple-brand strategy in mobile communications, we address the entire customer spectrum – from smart shoppers through to premium customers.

We want our growth rates in TV business to exceed the general growth trend in this market. To this end, we are investing in our IPTV platform and winning new customers with attractive content and services. As part of our IPTV strategy, we offer appropriate TV services to our wholesale partners and the housing sector.

We want to remain the market leader in both mobile communications and the fixed network. As our customers' demand for bandwidth is constantly growing, we will continue to invest in broadband networks, innovative products, and customer service. Our success bears us out: In 2015, both our broadband revenues and customer satisfaction grew compared with 2014. We now want to cement these two positive trends. Over the next few years, "progress through digitization" will be one of the drivers of our further development. Issues include, for example, how customer processes can be digitized to appear simpler for the customer.

In our Germany operating segment, we expect revenue to decline slightly year-on-year in 2016, mainly due to the fact that some previous merchandise transactions are to be replaced by pure brokering transactions in connection with distribution. Revenue is also impacted by the following factors: The ongoing downward trend in traditional voice telephony will drive down fixed-network revenue further. This decrease will only be partly compensated by the increase in revenue from bundled products and from broadband. Since text messaging is increasingly being replaced by free-of-charge IP messaging services such as WhatsApp, these revenues

will continue to decline in the future. Regulatory price cuts, for example, in roaming in 2016, will also reduce our mobile revenues. We will compensate this negative development, however, with increasing service revenues, in particular through the success of our MagentaMobil rate plan. We also expect growth in TV 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. Furthermore, together with partners, we will provide new services for our customers.

From 2017, we plan to stabilize our revenue and secure our mobile and broadband market leadership. We expect our continuing outstanding network quality and progress in the fiber-optic roll-out to drive up demand for mobile communications and broadband products compared with 2016. Our multiple-brand strategy in mobile business is also set to have a positive impact. In addition, we expect growth in the M2M market from 2017, in which we want to participate. Hence we expect stronger customer growth through M2M for 2017. This trend is supported by our IT revenues from the SME initiative and technical support services. Wholesale revenues will stabilize due to high demand for our contingent model.

For our Germany operating segment, we expect adjusted EBITDA to remain stable in 2016 and to increase slightly in 2017, due to the revenue trend described, savings in indirect costs such as IT costs, the reduction in shared functions, and increased productivity. For the next two years, we expect the adjusted EBITDA margin to increase slightly to around 40 percent.

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 vectoring/fiber-optic build-out and our mobile network. Increased investments in the subsidized broadband roll-out as part of the "More broadband for Germany" initiative in particular will lead to an increase in cash capex in 2016 and a strong increase in 2017. We expect cash capex to decrease in subsequent years, as we plan to have implemented the majority of the measures as part of the investment program by the end of 2017.

UNITED STATES

In 2016, 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 – postpaid and prepay – by eliminating customer pain points and providing excellent 4G/LTE 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 customers 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 2016 and a further increase in 2017. In branded prepay customers we expect a slight increase in 2016 and 2017. 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 2016 and a further increase in 2017. Revenue is expected to be positively impacted by continued customer growth momentum offset partially by lower equipment revenues as customers move to leasing devices.

T-Mobile US also expects a strong increase in adjusted EBITDA – in U.S. dollars in 2016 and 2017. As a result of the significant growth in customers over the past year, revenue growth is expected to outpace increases in expense. Adjusted EBITDA is also expected to be positively impacted from customers leasing devices. Under this lease model, the cost of devices are capitalized as an asset and depreciated outside of adjusted EBITDA. Additionally, T-Mobile US expects continued focus on cost saving initiatives and the full 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. Continuing strong competitive pressures may also significantly affect expected revenues and adjusted EBITDA in U.S. dollars and exchange rates may significantly affect revenues and adjusted EBITDA in euros in 2016 and 2017.

T-Mobile US intends to participate in the 2016 broadcast incentive auction of low-band spectrum. Excluding the expenditures relating to spectrum, T-Mobile US expects a generally stable trend in U.S. dollars in cash capex in 2016 and an increase in 2017 as it continues to roll out its 4G/LTE network.

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EUROPE

In spite of the persistently tough competitive conditions in most of our footprint countries in this operating segment, we intend to defend and extend our market position. In the case of our integrated companies, we will work on maintaining our market leadership in both the fixed network and mobile communications, as well as 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. As of January 1, 2016, we took over operational management of T-Systems Hungary's business customers; for this purpose, the corporate customer base was transferred from the Systems Solutions operating segment to the Europe operating segment. This enables us to offer consumers and business customers a much broader product portfolio at our national company in Hungary.

On the road to becoming Europe's leading telecommunications provider, we continue to increasingly rely on technology leadership: With the pan-European all-IP network (Pan-Net), we are building a simplified, standardized network across all national companies. Following on from the F.Y.R.O. Macedonia and Slovakia in 2014, we successfully completed the migration of PSTN lines to IP in Croatia and Montenegro in the reporting year. Hungary is to follow in 2016. By 2018 we plan to have converted all of our integrated national companies to IP.

Thanks to this harmonized network and IT architecture, we want to provide innovative services for our customers in all countries efficiently on a centralized basis. In this way, we want to create the best customer experience with our products and services and achieve the greatest possible efficiency in production. In 2015, we further improved our competitive position in TV offerings; on the one hand, we further developed our TV platforms and renewed and acquired exclusive transmission rights, for example for the UEFA Champions League; on the other hand, we are partnering up with OTT TV providers. As a result, our TV and entertainment offerings have become an important core component in consumer business, where we will continue to invest in constantly improving our entertainment services over the next two years. This entails, on the one hand, a portfolio with an impressive selection of film, sports and television rights, as well as on the other, a service that our customers can use in high quality anywhere, on all their devices.

With our integrated network strategy, we plan to continue to strongly drive forward the fiber-optic roll-out in the fixed network. Network coverage of households in our Europe operating segment stood at 19 percent as of December 31, 2015. In Greece, we continue to lay optical fiber up to the cable distribution box, which in the next step will enable us to roll out vectoring technology. In the other integrated companies, we have been investing in the FTTH roll-out for a number of years now, and plan to continue to do so in 2016 in combination with FTTC and vectoring. By 2018, we want 50 percent of households – in our integrated national companies – to have access to a 100 Mbit/s service with FTTx.

To meet the demand of our customers for more bandwidth we acquired new spectrum at auction in addition to existing mobile frequencies for the mobile standard LTE in Albania and Poland in 2015 and we plan to continue taking part in more spectrum auctions in the coming years. We are focusing our investments in mobile communications on two areas: extending reach and implementing LTE-Advanced technology with transmission rates of more than 150 Mbit/s. We already covered 71 percent of the population in our footprint countries with LTE in the 2015 reporting year. By 2018, we want to achieve network coverage of between 75 and 95 percent in other countries of our operating segment.

We increasingly merge broadband lines with different access technologies. As an integrated telecommunications provider, we are driving forward the convergence of fixed-network and mobile communications and offer FMC products in all of our already integrated national companies. We are developing our other national companies where possible towards an integrated business model, so that they, too, can offer our customers FMC products. In the reporting year, we successfully introduced the concept of our convergence brand MagentaOne in five countries, thereby significantly increasing the attractiveness of our portfolio. Next year, further national companies are to follow suit.

We can also win over business customers with our high-performance ICT products. We will 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. At the heart of our offering will be convergent products comprising fixed network, mobile communications, and cloud applications. They will constitute a new category of services under the MagentaOne Business brand that generate new, additional benefits for customers along the lines of security and intelligent collaboration. Based on this systematically convergent strategy, the GTS Central Europe group was successfully integrated, which puts us in a position, especially in the core markets of Poland and the Czech Republic, to serve business customers from a single source.

In the future we expect to win more customers for our product packages in our Europe operating segment. Consequently, we expect a sharp increase in TV lines and an increase in broadband lines over the next two years. We expect the number of mobile customers to decline year-on-year in 2016, mainly due to prepay registration regulations planned by the regulatory authority in Romania. The number of mobile customers is expected to remain stable in 2017. Voice telephony in the fixed network will come under pressure, primarily due to substitution by mobile communications, and will thus also have a negative impact on fixed-network business in the next two years. We therefore expect a slight decrease in fixed-network lines in 2016 and a decline in 2017.

Changes in legislation, for example regarding taxes and duties, and national austerity programs may negatively impact on our revenue and

earnings in the next few years. In Greece in particular, developments in the fiscal situation on top of the uncertain macroeconomic trend could have a negative impact on the disposable income of households, limiting our revenue and earnings, and hence restricting our ability to invest in this national company. Exchange rate effects could also affect our earnings on a euro basis.

Based on these assumptions and parameters, we expect revenues in our Europe operating segment to decline on a like-for-like basis in 2016, assuming constant exchange rates and based on assumptions about regulation, new market players, spectrum auctions, and the same organizational structure. As described above, we plan to intensify our investments in our pan-European all-IP network and in our integrated network strategy. As a result, cash capex will increase significantly in 2016 and fall again slightly in 2017. We plan to boost our productivity and cut our indirect costs so as to invest part of these cost savings in building out the network. Hence we expect adjusted EBITDA to remain more or less on a par with the prior-year level in 2016. For 2017, we expect revenues and adjusted EBITDA to remain stable.

SYSTEMS SOLUTIONS

In line with our Group strategy, we want to "lead in business." On the way to becoming the preferred provider of telecommunications and IT services, T-Systems had launched a two-year transformation program in 2014. Under this program, we have driven forward the development and expansion of growth areas, improved the efficiency of our existing business, and discontinued or handed over to partners a number of activities that were not sufficiently profitable for us. As part of our realignment, we divided our operational organization into three divisions: the IT Division, the TC Division (Telecommunications) and the Digital Division; we also adjusted our workforce.

In the reporting year, we underlined the important role Systems Solutions plays in the digitization of the economy and society in general and thus the role it plays for the Group in particular. The transformation program of the last two years has kick started a forward strategy, which we will continue to pursue in the future.

We are among the top players in the European IT market and strive to be the number one in cloud computing by 2018. Despite high cost pressure, we aim to achieve profitable growth with traditional IT services, systems integration, and outsourcing. Customer satisfaction increased again in 2015: from 84 to 90 TRI*M index points. This is an important building block for permanently establishing T-Systems on the European IT market with our core business. On top of that, we are successfully differentiating ourselves from our competitors in more and more business areas. In cloud services, for example, we have made substantial progress through new offers. The number of dynamic services in our portfolio is growing: Customers can book infrastructure, SAP and much more as needed and pay only for what they use.

We want to expand our international telecommunications business with business customers. On our way to becoming Europe's leading telecommunications provider, we are concentrating on customers from Germany, Switzerland, Austria, Spain, Scandinavia, the United Kingdom, the Netherlands, and Belgium. The TC Division is expanding its sales in these countries and extending our offering to include innovative services such as Managed LAN, Unified Communications, and IP VPN. We also want to win over customers internationally with consistent offerings, new products, and competitive prices. The all-IP migration and cloud services also offer the best opportunities for this in our telecommunications business.

We are building digital ecosystems and business models. With partners like Microsoft, Salesforce, Huawei and Cisco, we have created a cloud ecosystem (i. e., state-of-the-art technical products from global market leaders and specialist providers on our platforms), thereby giving ourselves a competitive edge. The core of this system comprises highly-scalable, platform-based and standardized products for business customers. We are deploying our core expertise – IT and telecommunications from a single source – in full, for mega topics, such as the introduction of the health card, the set-up of platforms for the Internet of Things, M2M solutions for the automotive industry, or products for the analysis of large data volumes.

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. This is reflected in falling revenues.

Successful launch of Telekom Security. We aim to be the market leader in terms of cyber security. To this end, we are pooling the various Group units for internal and external security into a new business unit, Telekom Security, under the umbrella of T-Systems. The potential of the more than 1,000 specialists in this area is immense. We are combining our expertise, experience and processes with our product portfolio and sales – thereby creating a unique offering for our customers.

Overall, in the Systems Solutions operating segment, we expect order entry to increase, revenue to remain stable, and adjusted EBITDA to increase slightly in 2016, mainly due to growth in the Market Unit, which will more than offset the decline in the Telekom IT business unit. For 2017, we expect order entry to increase sharply, revenue to rise at segment level and in the Market Unit, and adjusted EBITDA to increase slightly. We expect the Systems Solutions operating segment's cash capex to decrease slightly year-on-year for the next two years.

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GROUP HEADQUARTERS & GROUP SERVICES

In the next few years, we will also stay focused on continuously improving processes and structures in Group Services, to which end we will systematically further develop organizational structures in particular (for example, through our multi-shared service center Deutsche Telekom Services Europe), as well as systematically fine-tune the cost structures of both Group Services and Group Headquarters. The resulting savings will on the one hand contribute to improving earnings, and on the other enable us to offer efficiencies realized in the form of low-cost services.

RISK AND OPPORTUNITY MANAGEMENT

- Risk early warning system
- Identification of opportunities

BOARD OF MANAGEMENT'S ASSESSMENT OF THE AGGREGATE RISK AND OPPORTUNITY POSITION

The assessment of the aggregate risk position is the outcome of the consolidated analysis of all material risk categories or individual risks. The aggregate risk position did not change fundamentally in 2015 compared with the previous year. Our major challenges particularly include the regulatory factors, intense competition, and strong price erosion in the telecommunications business. As it stands today, Deutsche Telekom's Board of Management sees no risk to the Group's continued existence as a going concern. 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.

We are convinced that we will also be able to master challenges and exploit opportunities in the future without having to take on any unacceptably high risks. We strive to achieve a good overall balance between opportunities and risks, with the aim of increasing added value for our Company and our shareholders by analyzing new market 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. We therefore consider a functioning risk and opportunity management system to be a central element of value-oriented corporate governance.

The need for a risk management system arises not only from business management requirements, but also from regulations and 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.

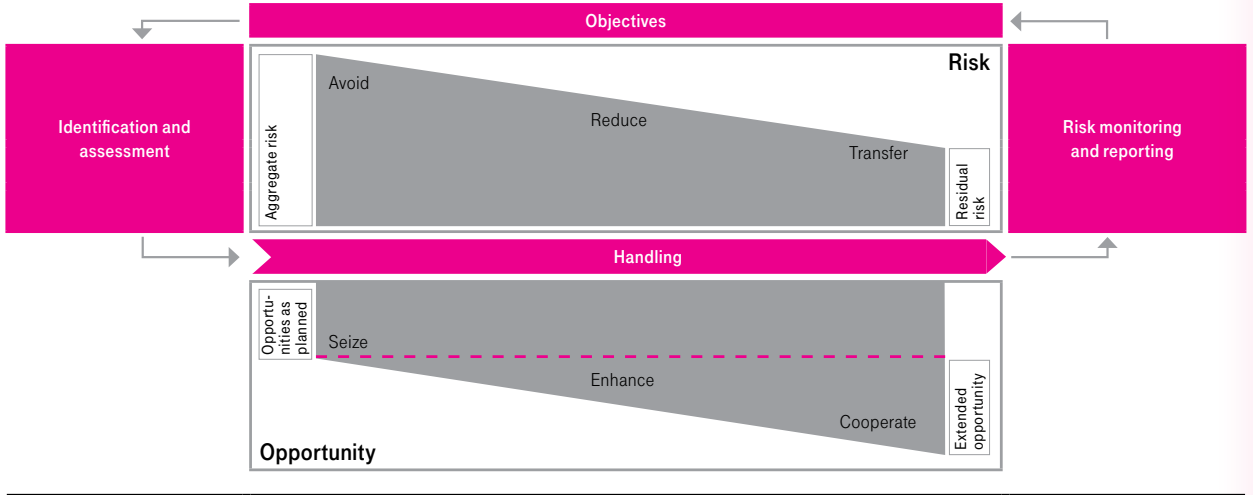
Our Group-wide risk and opportunity management system covers all strategic, operational, financial, and reputational risks – as well as the corresponding opportunities – for our fully consolidated entities. The aim is to identify these early on, monitor them, and manage them in accordance with the desired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

We base our system on an established standard process (GRAPHIC 43). 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.

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 125 ET SEQ., of the combined management report, and the "Disclaimer," PAGE 256 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.

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The risk and opportunity management system



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

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

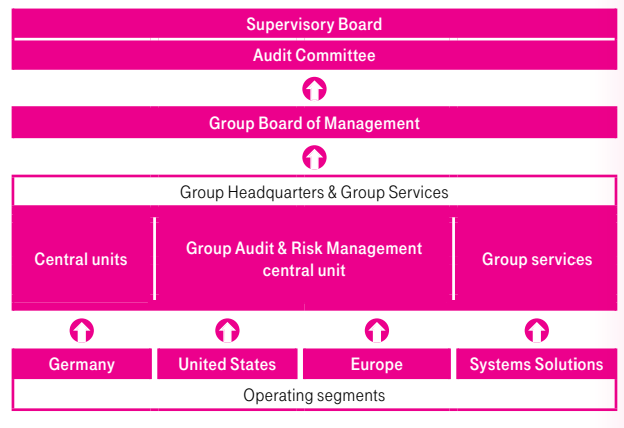
In addition, our Group Controlling unit specifies a series of Group guidelines and processes for the planning, budgeting, financial management, and reporting of investments and projects. These guidelines and processes guarantee the necessary transparency during the investment process and the consistency 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.

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Risk management



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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 also the length of our forecast period.

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 additional tools for monitoring and analyzing risks, in which we collect a large number of early-warning and economic indicators, e. g., on macroeconomic, political, and legal developments in our markets.

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.

The short-term monitoring of results and the medium-term planning process help our operating segments and Group Headquarters to identify and seize the opportunities in our business throughout the year. 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 innovation and growth areas and products, or through business partnerships 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 from all of which they ultimately produce an overall picture. The identification of opportunities from innovation and their strategic and financial assessment play a major role throughout this phase. This daily "brainstorming" may result in opportunities being rejected, passed back to the respective working groups for revision, or adopted and transferred to the organization.

RISK ASSESSMENT AND RISK CONTAINMENT

ASSESSMENT METHOD

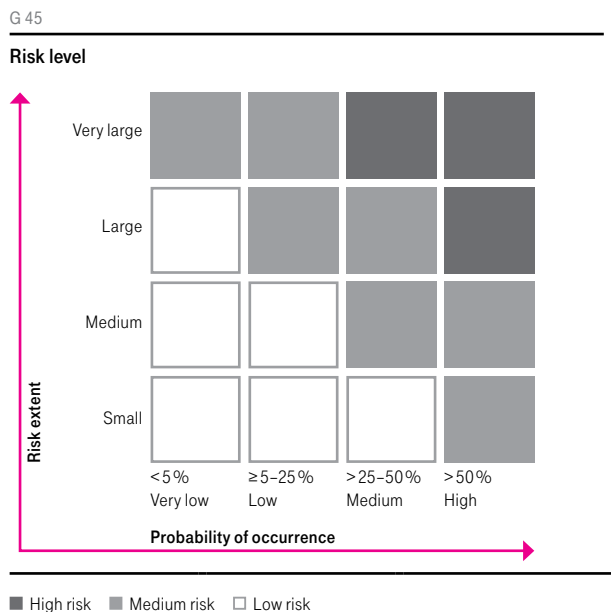
Risks are assessed on the basis of "probability of occurrence" and "risk extent." The following assessment yardsticks apply:

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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 classify them into low, medium and high risks, as shown in GRAPHIC 45.



We report all risks classified as “high” and “medium.” 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. Uncertainties that cannot be assessed at present also give rise to risks that are currently unknown to us or that we presently consider to be insignificant and that 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. DeTeAssekuranz GmbH – a wholly owned subsidiary of Deutsche Telekom AG – acts as an insurance broker for our Group Risk Management & Insurance unit and supports insurance risk management. The company 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, technology, infrastructure, supply and service relationships, and information. The aim 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 (people, technology, infrastructure, supply and service relationships, and information). Appropriate precautionary measures are also defined. In particular, Security Management works in coordination with the relevant units and process owners to analyze the possible consequences of external and internal threats with relevance for security, such as natural disasters, vandalism, or sabotage. Once the extent of potential losses and probability of occurrence have been assessed, preventive measures can be put in place and contingency plans developed.

The risk owners initiate and execute further measures to contain the risks. 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 proceedings 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. It takes any measures necessary to minimize tax-related risks and coordinates them 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.

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

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Corporate risks

	Probability of occurrence	Risk extent	Risk level	Change against prior year
INDUSTRY, COMPETITION, AND STRATEGY				
Economic risks, Germany	low	small	low	↔
Economic risks, United States	low	medium	low	↔
Economic risks, Europe	low	medium	low	↔
Risks relating to the market and environment, Germany	medium	small	low	↔
Risks relating to the market and environment, United States	medium	large	medium	↔
Risks relating to the market and environment, Europe	medium	medium	medium	↔
Risks relating to innovations (substitution)	medium	medium	medium	↔
Risks relating to strategic transformation and integration	medium	medium	medium	↔
REGULATION	see PAGES 131 and 132			
OPERATIONAL RISKS				
Personnel, Germany and Systems Solutions	medium	small	low	↔
Risks relating to IT/NT network operations, Germany	very low	very large	medium	↔
Risks relating to IT/NT network operations, United States	very low	very large	medium	↔
Risks relating to IT/NT network operations, Europe	very low	large	low	↔
Risks relating to existing IT architecture, United States	medium	medium	medium	↔
Future viability of the IT architecture, United States	medium	large	medium	↔
Procurement	low	small	low	↔
Data privacy and data security	medium	medium	medium	↔
BRAND, COMMUNICATION AND REPUTATION				
Brand and reputation (reporting in the media)	low	small	low	↔
Sustainability risks	very low	small	low	↔
Health and environment	low	medium	low	↔
LITIGATION AND ANTI-TRUST PROCEEDINGS				
	see PAGE 135 ET SEQ.			
FINANCIAL RISKS				
Liquidity, credit, currency, interest rate risks	low	small	low	↔
Tax risks	see PAGE 139			
Other financial risks	see PAGE 140			

↔ improved ↔ unchanged ↔ deteriorated

RISKS AND OPPORTUNITIES FROM INDUSTRY, COMPETITION AND STRATEGY

Risks and opportunities relating to the macroeconomic environment. The economic development and outlook are positive for most of our markets. The European economies are profiting from strong consumption, low oil and energy prices, an expansive monetary policy, and favorable euro exchange rates. We expect stable growth in the U.S. economy over the next few years. However, economic and political developments have shown that uncertainties have increased with regard to the economic situation globally and in our footprint countries. Geopolitical crises, resulting for example from the increased terror threat or large numbers of refugees, can have an adverse effect on the economies of the countries in which we operate. In addition, persistent economic weakness, especially in the emerging economies, could negatively impact on global trade and the markets of our operating segments. Especially for the European countries in which we operate, the biggest economic risk remains a renewed intensification of the sovereign debt crisis with a potential

impact on the banks and financial markets of an individual country or an entire region. The political situation in Greece essentially stabilized in 2015 following the new elections and the agreement on the European Stability Mechanism (ESM). However, risk factors remain, such as the marginal parliamentary majority of the governing coalition and potentially growing resistance among the population to austerity measures such as the pensions reform. For this reason, a renewed escalation towards crisis in the political situation cannot be entirely ruled out.

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 or 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, in particular in our Southern and Eastern European markets. Furthermore, the risks arising from the sovereign debt crisis also give rise to volatile exchange rates.

If the economic situation in the countries in which we operate, especially in the United States and our Europe operating segment, were to improve further, or if the political situation in Greece were to stabilize and the Greek economy were to recover more quickly than expected, there could be a further revival in private consumption as well as in business and public investment activity. As a result, demand for telecommunications and IT services from consumers, business customers, and the public sector could also see a moderate increase.

Risks relating to the market and environment. The main market risks we face include the steadily 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. As consolidations and partnerships in several markets resulted in stabilization in the market, the effects of these risks were reduced compared with the prior year and further positive effects may follow in the future.


Competitive pressure is expected to continue, especially in the fixed network in Germany and Europe. In the broadband market, we observe that the market shares of regional network operators are growing, in particular in Germany, and that they are increasing their market coverage by building out their own infrastructure. In certain regions, our competitors are extending their own fiber-optic network to 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 are increasingly moving into the traditional telecommunications markets. This mainly relates to 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 and of increasingly losing direct customer contact.

We also expect prices for mobile voice telephony and mobile data services to fall further, which could adversely affect our mobile revenue. Among the main reasons for the decrease in prices are providers that are pursuing aggressive pricing policies (MVNOs) and expanding in Germany and other European markets. Pure eSIM smartphone offerings could put even more downward pressure on prices for mobile voice telephony and mobile data services. Our national companies in Europe continue to operate in a highly competitive environment. Even though partnerships and consolidations, e. g., in Austria, are providing impetus for stabilization, competition remains intense. This is due to new players entering the market through frequency auctions and wholesale agreements, in particular in mobile communications. In addition, the risk remains that smaller competitors will take unforeseen, aggressive pricing measures.

Our relative market position in the United States entails particular risks, especially with regard to our market shares, brand positioning, network quality, and network coverage, including in roaming agreements. We expect joint ventures, mergers, acquisitions, and strategic business combinations in the U. S. mobile industry to result in even greater competition in the U. S. market. Thanks to their market position and market shares, our three strongest competitors (Verizon Wireless, AT&T, Sprint) 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 primarily include a deterioration in the quality of services due to saturated frequency capacities. In 2016, T-Mobile US plans 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.


The improved market situation of T-Mobile US could have a positive impact on revenue; this could be stimulated through further innovative rate plans. Savings in operational expenditures could be made in the next few years by also proactively driving forward the transformation and investing in front-line systems. The continued roll-out of low-band spectrum can improve network coverage and thus customer retention.

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

Opportunities relating to the market and environment. The telecommunications and IT market is extremely dynamic and highly competitive. 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." 

In the following section, we present 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.

Consolidation continues in the German telecommunications and IT market. We hope that this – and also less aggressive pricing policy pursued by cable network operators and resellers – will result in a positive development of prices, such that they cease to fall so dramatically.

In October 2015, the EU parliament and the European Council decided to completely abolish roaming surcharges in the EU from June 15, 2017, unless justified under a still to be specified fair usage policy. 



See the section "Forecast," PAGE 116 ET SEQ.



For further information, please refer to the section "Risks and opportunities resulting from regulation," PAGES 131 and 132.

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Risks relating to innovations. Innovation cycles are getting shorter and shorter. This confronts 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. 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, for example, offering package rates. We offer new and existing customers an integrated solution from our product portfolio.

Risks relating to strategic transformation and integration. We are in a continuous process of strategic adjustments and cost cutting initiatives. If we are unable to implement these projects as planned, we will be exposed to risks. In other words, the benefit of the measures could be less than originally estimated, or the measures 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.

RISKS AND OPPORTUNITIES RESULTING FROM REGULATION

In the following section, we describe our main regulatory risks and opportunities which, as things currently stand, could affect our results of operations and financial position, and 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 development of revenue and earnings in the fixed network and in mobile communications in the medium and long term.

Awarding of frequencies. With regard to risks and opportunities in relation to spectrum regulation, particular note should be made of the proceedings currently in preparation or in planning in some countries for the awarding of spectrum. The award processes 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 reserve prices 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 award procedures, mobile operators can acquire sufficient spectrum that is ideal for future business. We would thus be equipped for further growth and innovation. In such cases, award processes are currently being prepared in Albania, Greece, the Czech Republic and Slovakia, which are expected to take place in the first half of 2016. In addition, according to current estimates, frequency auctions will also be held in the medium term in the United Kingdom, Montenegro, Hungary, and the United States.

Consumer protection. In February 2014, the Federal Network Agency had presented a draft regulation designed to achieve more transparency and greater cost control in telecommunications services. The extensive requirements are to give consumers and other end users the opportunity to check their Internet speeds in the mobile and fixed network on request, for example. At present, these new regulations mean substantial modification costs for Telekom Deutschland. In the main part, the draft regulation takes up the EU regulations on the single market for electronic communications, which entered into force at the end of November 2015 with a transposition period until the end of April 2016. Since the Federal Network Agency's draft regulation is expected to be adopted by the end of the first quarter of 2016 following agreement with the relevant ministries, the Federal Network Agency has already begun to develop a measuring system to be used throughout Germany to show available access line bandwidths. 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. In such cases, 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. In 2015, Deutsche Telekom concluded settlement agreements with the major complainants concerning the ULL one-time charges, in which the originally approved rates were agreed and the contractual parties undertook to withdraw pending claims. Based on this, we submitted corresponding rate applications to the Federal Network Agency on September 23 and November 30, 2015. These were approved on November 5, 2015 and February 1, 2016, respectively. As agreed, the first claims were also withdrawn by several complainants in December 2015. In the reporting year, Telekom Deutschland GmbH also agreed settlements with complainants in open administrative and legal proceedings concerning mobile communications, and with one complainant concerning fixed-network termination rates. These settlement agreements significantly reduced the risks and opportunities arising from the new ruling proceedings.

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. 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.

As part of a strategy for the digital single market, the European Commission announced its upcoming European regulation initiatives in early May 2015. These include, for example, a complete **review of the applicable EU legal framework for telecommunications**, initiated in fall of 2015 with a public consultation. The process comprises a review of the current ex-ante regulation for network access, a reform of service regulation whose aims include more equal treatment of telecommunications services and Internet-based (communications) services, as well as a renewed initiative to create a more harmonized framework for the



For more information on the administrative court processes, see the section "Litigation," PAGE 135 ET SEQ.



For information on frequency auctions that are currently in preparation or were completed in the reporting year, please refer to the section "The economic environment," PAGE 67 ET SEQ.

awarding of mobile spectrum. Furthermore, the Commission announced a review of the role of Internet platforms in the digital economy with a view to potential legislative measures. The review began in fall 2015 with a consultation. All these initiatives offer the opportunity to achieve more balanced competitive conditions between telecommunications and Internet companies. The revision of this legal framework also offers the opportunity to reduce the intensity of the ex-ante regulation for network access. At the same time, risks arise for additional obligations, for example in the area of customer protection or universal service. It is not possible at present to conclusively assess the specific opportunities and risks arising from these initiatives.

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

- **Net neutrality.** The regulation concerning the single market for electronic communications allows for the provision of "specialized services" with assured quality, and Internet access services on a shared IP network. However, the permissibility of special services is linked to the fact that an assured quality is required for the provision of the service. Equal treatment of all data traffic will be established as a principle, with exceptions to traffic management being permitted in limited cases, for instance to ensure the objectively different technical requirements of different service categories and to prevent potential overloads in the network. Zero rating, i. e., not charging for certain amounts of data traffic in connection with volume-based rate plans, remains permissible; corresponding offers are subject to control by the Federal Network Agency. The regulation provides regulatory authorities with extensive powers to monitor and intervene, and includes provisions on fines.

- **International roaming.** With regard to international roaming, the regulation on the single market for electronic communications provides for an initial reduction of roaming rates as of April 30, 2016 to the level of national rates plus a strictly limited surcharge. From June 15, 2017, surcharges for roaming services within the EU will then be eliminated entirely (Roam like at Home), unless permitted under a still to be specified fair usage policy. The introduction of Roam Like at Home will give rise to corresponding revenue losses as well as substantial implementation costs. On November 26, 2015, the European Commission began a consultation on further measures to abolish roaming surcharges. This consultation is examining the future regulation of inter-operator tariffs (IOTs), which network operators charge to other network operators when their customers use the other operator's network. It is also looking into whether and to what extent network operators can continue to bill a surcharge to customers who use roaming well above the average even after June 15, 2017. A general reduction in regulated IOTs would give rise to arbitrage risks – i. e., risks from the misuse of the international roaming mechanism to circumvent national terms and conditions – for us and our international subsidiaries.

- **Information requirements.** The regulation stipulates requirements for the provision of information concerning network neutrality and Internet speeds. This information, which must be included in the contract with the respective customer, and published, includes, for example, the impact of special services on the performance of the Internet connection, the speed available most of the time at the customer's line, and the bandwidth purchased. If the technical parameters stated in the contract differ from the customer's actual connection, legal consequences ensue – depending on the national provisions. Speeds are to be checked using measuring systems certified by the regulatory authorities.

OPERATIONAL RISKS AND OPPORTUNITIES

Personnel. In 2015, we once again used socially responsible measures to restructure the workforce in the Group, essentially by means of voluntary redundancies, partial and early retirement, and employment opportunities for civil servants and employees offered by Vivento/Telekom Placement Services, especially in the public sector. Staff restructuring will continue in the coming financial year. If it is not possible to implement the corresponding measures as planned or at all (for example, due to limited interest in severance payments) this may have negative effects on our financial targets. To avoid the risk of high potentials leaving the Group as a result of the staff reduction instruments, we make sure that the arrangement is voluntary on both sides in each individual case.

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 2,138 civil servants who are entitled to return to Deutsche Telekom in this way (as of December 31, 2015). On the assumption that all these civil servants had returned to us in the reporting year, the direct maximum risk would be around EUR 0.13 billion per year. The maximum risk is calculated as an average cost per civil servant, based on the assumption that adequate productive deployment is no longer possible (worst case scenario). This risk could be reduced by compensation payments, for example, but not completely eliminated. ☐

Risks relating to IT/NT network operations. We have an increasingly complex information/network technology (IT/NT) infrastructure, which we constantly expand and upgrade to ensure the best customer experience and consolidate our technology leadership. Outages in the current and also future technical infrastructure cannot be completely ruled out and could in individual cases result in revenue losses or increased costs. After all, our IT/NT resources and structures are the key organizational and technical platform 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.



For information on major litigation in connection with personnel, please refer to the section "Litigation,"

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The Computer Emergency Response Team (CERT) at T-Systems is in charge of protecting our corporate customers' servers. In cloud computing, all data and applications are stored at a data center. Our data centers have security certification and meet strict legal data protection provisions and EU regulations. All data relating to companies and private persons are protected from external access. Constant maintenance and automatic updates keep the security precautions up to date at all times. Based on a standardized Group-wide Business Continuity Management process, we are also taking organizational and technical measures to prevent any damage or to minimize the effects. Furthermore, we have Group-wide insurance cover for insurable risks.

Risks relating to the existing IT architecture in the United States. T-Mobile US is exposed to risks in relation to its IT infrastructure: The performance of sales and customer service systems has decreased over time, which led 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 sales and service.

Future viability of the IT architecture in the United States. 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, disruptions of operation, 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 and is currently being implemented. Furthermore, T-Mobile US had to take IT measures 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 relating to the IT architecture in the United States. T-Mobile US is making significant investments in the IT infrastructure with the aim of improving the customer service systems. If this results in a significant improvement in processes, then the savings we make could be higher than previously assumed.

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. We employ organizational, contractual, and procurement strategy measures to counteract such risks. We set up the Ideas Garden program together with Procurement, Controlling and Technology: With this program, we plan to make our technical investments even more efficient and save costs. In a range of projects in the program, we have therefore developed a large number of cross-functional and in some cases disruptive measures. The initial results of these projects give us confidence that the Ideas Garden can further improve our cash capex.

Data privacy and data security. After more than three years of negotiations, the EU institutions have agreed on a new law to govern data protection: the European General Data Protection Regulation will broadly replace the existing national legislation and thus create a consistent standard for Europe. We welcome the fact that the long negotiation process has been brought to a positive close. The General Data Protection Regulation is a vital step on the way to a true single European market in which the same rules apply to all its players. The newly adopted regulations assure Europe of a high level of data protection and, at the same time, will pave the way for new digital business models. Thus our fundamental demands have been met. Additionally, the new data protection legislation closes a major regulatory gap when it comes to service providers outside of the EU. The impact of the new European General Data Protection Regulation on the competition situation with non-European market players (e.g., Google, Facebook, or Apple) in particular remains to be seen. However, opportunities have also been missed: Despite the aim of creating one single legislation for all of Europe, the member states have again been granted the option in a few key areas of permitting special national solutions, for instance in profiling and in the assignment of a data protection officer. Regrettably, data in the hands of telecommunications providers will still be subject to separate, more stringent regulation until the ePrivacy Directive is revised. This will still mean competitive disadvantages for European telecommunications providers in some areas. The adoption of the law marks the start of a two-year transition period in which the companies concerned have time to adjust to the new situation. The increased data protection requirements will not change much for us, since, for example, new processes such as the Privacy Impact Assessment for assessing risks in the event of data privacy violations have long been common practice for us.

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 this 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 welcome the European General Data Protection Regulation, which has laid the foundation for the same rules to apply for all companies offering their services on the European market. Thus consumers have the same rights and there is a level playing field all over Europe. 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. We exchange the information we obtain from all these systems 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. In order to create greater transparency and thus be better able to tackle the threats, we are increasingly engaging in partnerships, e. g., with public and private organizations. With the Security by Design principle we have established security as a fixed component in our development process for new products and information systems. In addition, we carry out intensive and mandatory digital security tests.



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

Deutsche Telekom plans to accelerate its growth through IT security solutions. To this end, it has pooled all of the security departments under the umbrella of T-Systems. With the help of this end-to-end security portfolio, Deutsche Telekom plans to secure new market shares and to drive forward the current megatrends, such as the Internet of Things and Industry 4.0, which require new security concepts. Furthermore, the Group is planning to substantially build out its partner ecosystem in the area of IT security. □

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 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 our brand value. In order to avoid this, we engage in a constant, intensive and constructive dialog, in particular with our customers, the media, and the financial world. For us, the top priority is to take as balanced a view as possible of the interests of all stakeholders and thereby uphold our reputation as a reliable partner.



Sustainability at Deutsche Telekom

Sustainability risks. ☒ For us, comprehensive risk and opportunities management also means considering the opportunities and risks arising from ecological or social aspects or from the management of our Company. To this end, we actively and systematically involve all relevant stakeholders in the process of identifying current and potential risks and opportunities. We also participate in a number of working groups and committees. In parallel to continuously monitoring ecological, social and governance issues, we also systematically determine our stakeholders' positions on these issues. The key tools here are: our year-round open online materiality survey for all stakeholders ☒; our bi-monthly NGO report, which systematically analyzes press publications of the NGOs relevant for us; our involvement in working groups and committees, countless national and international business associations and social organizations, e. g., GeSI, BITKOM, Econsense, and BAGSO; stakeholder dialog formats organized by us, such as the CR Forum and Dialog Days on sustainability in procurement; and our various publications, such as the press review and newsletter.



See section "Corporate responsibility," PAGE 100 ET SEQ.

We have identified the following as the main issues for our sustainability management:

- **Reputation.** How we deal with sustainability issues also entails both opportunities and risks for our reputation. A high level of service quality is one of the most important factors for improving customer perception. This is why customer satisfaction has been embedded in our Group management as a non-financial performance indicator. Transparency and reporting help to promote the trust of other external stakeholders in our Group. Our annual and CR reports also serve this purpose. However, issues such as business practices, data protection, or work standards in the supply chain also entail reputational risks: If there are negative media reports in connection with our brands, products, or services, this can cause substantial damage to our reputation. As part of our sustainability management, we continuously review such potential risks and take measures to minimize them.
- **Climate protection.** At present, we do not see any severe risks to the achievement of our climate protection targets for our reference period ☒. We see climate protection above all as an opportunity: ICT products and services have the potential to save almost ten times as many carbon emissions in other industries as the ICT industry causes itself (SMARTer2030 study). This creates an opportunity to reduce 20 percent of global carbon emissions by 2030, and to maintain worldwide emissions at the level of 2015 with simultaneous economic growth. The additional revenue potential here amounts to USD 6.5 trillion, USD 2.0 trillion thereof for the ICT industry alone. Furthermore, the ICT industry can save costs totaling USD 4.9 trillion. Specifically, this means for Germany, for example, that potential savings of more than 19 million metric tons of CO₂ could be made by 2020 based on the 2012 level, for example, through broadband in Germany. In addition, the economic stimulus resulting from the broadband roll-out could create an estimated 162,000 new jobs. Additional opportunities arise, for example, from changed customer expectations, political measures to ensure the transition to renewable energy sources, and the growing interests of sustainable investors (SRI) in the subject of renewable energy. Environmentally-friendly products and services enable us to tap into new customer 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 showed measurable successes again in its second year; we will expand it further in 2016. Better working conditions at our suppliers reduce the number of work-related accidents and the turnover rate. This increases productivity, while at the same time lowering costs for recruitment and training. Thus not only do we strengthen CR performance at our suppliers, we also significantly reduce identified risks. As part of our global procurement activities, we can be exposed to country- and supplier-specific risks. These include, for example, the

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use of child labor, the conscious acceptance of environmental damage or inadequate local working and safety conditions. However, the reporting of NGOs or media can give rise to risks to the Company's reputation, but also to supply risks. We systematically review our suppliers and in that way reduce these risks. In the renowned RobecoSAM sustainability rating, our supply chain management in the reporting year was rated just as highly as in the prior year with 93 out of 100 points. Our partnerships with suppliers that comply with international sustainability standards ensure a high level of product quality and reliable 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 EMF thresholds or the implementation of precautionary measures in mobile communications, e. g., amendments to building law or labeling requirements for handsets.

Over the past few years, recognized expert organizations such as the World Health Organization (WHO) and the International Commission on Non-Ionizing Radiation Protection (ICNIRP) have repeatedly reviewed the current limit values for mobile communications and confirmed that – if these values are complied with – the use of mobile technology is safe based on current scientific knowledge. ICNIRP regularly reviews the recommendations for the limit values based on current scientific knowledge.

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 dealing with this issue is our EMF Policy, with which we commit ourselves to more transparency, information, participation, and financial support of independent mobile communications research, 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. This also applies after many years of collaboration with municipalities with regard to building out the mobile network were enshrined in law in 2013; previously, this collaboration was based on voluntary self-commitments by the network operators.

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 048

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 relating to charges for the 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 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. A further hearing took place in June 2015, which was resumed in January 2016. There is no reason to adjust the provisions for risk recognized in 2014 in the statement of financial position.

See section "Corporate responsibility," PAGE 100 ET SEQ.


Sustainability at Deutsche Telekom

- **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 Higher 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. Dr. Harisch 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 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, which the Federal Court of Justice rejected on April 14, 2015. Dr. Harisch’s claim of approximately EUR 612 million plus interest has therefore been dismissed with final and binding effect. In the appeal proceedings brought by telegate AG, the Düsseldorf Higher Regional Court dismissed the appeal filed by telegate AG in a ruling dated April 22, 2015 and did not allow further
- appeal. telegate AG filed a complaint against the non-allowance of appeal with the Federal Court of Justice in May 2015.
- **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 or claimed 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 or based their claims on allegedly excessive charges for the provision of subscriber data in the joint ventures. The amounts claimed by the complainants totaled around EUR 470 million plus interest at the end of 2014. So far, the Frankfurt/Main Regional Court rejected 22 out of 81 claims in the first instance. Two of these rulings are legally binding, the claim total was accordingly reduced to approximately EUR 467 million plus interest. The complainants filed appeals against the other rulings with the Frankfurt/Main Higher Regional Court. On October 22, 2015, Deutsche Telekom AG, DeTeMedien GmbH and the majority of the partnering publishers of telephone directories concluded an agreement to settle their disputes, as a result of which 54 publishers applied to the court to waive their claims. Seven publishers withdrew their appeals, as a result of which the rulings of the first instance that rejected the claims became legally binding with immediate effect upon receipt by the court of the withdrawals. At present, 18 proceedings are still pending with a remaining claim total of approximately EUR 132 million (plus interest).
- **Claims relating to charges for the shared use of cable ducts.** With an action filed in spring 2012, Kabel Deutschland Vertrieb und Service GmbH (KDG) – now Vodafone Kabel Deutschland GmbH – is asserting two claims: first, Telekom Deutschland GmbH is to reduce the annual charge for the rights to use cable duct capacities in the future; second, it is to partially refund payments made in this connection since 2004. KDG quantified the amount of the claims incurred up to and including 2012 at approximately EUR 340 million plus interest. In its ruling on August 28, 2013, the Frankfurt/Main Regional Court dismissed the complaint. In the appeal proceedings, KDG also quantified its claims for 2013 through an extension of claim and is now seeking a refund of charges allegedly paid in excess of approximately EUR 407 million as well as the alleged benefit for Telekom Deutschland GmbH from additional interest around EUR 34 million, plus interest in each case. On December 9, 2014, the Frankfurt/Main Higher Regional Court rejected the appeal and disallowed a further appeal. In response to the subsequent complaint against non-allowance of appeal filed by KDG, the Federal Court of Justice allowed KDG’s appeal in a ruling dated December 15, 2015. In similar proceedings, Telekom Deutschland GmbH also received a claim filed on January 23, 2013 in which Unitymedia Hessen GmbH & Co. KG, Unitymedia NRW GmbH and Kabel BW GmbH demand that Telekom Deutschland GmbH cease charging the complainants more than a specific and precisely stated amount for the shared use of cable ducts. For charges allegedly paid in excess for the shared use of cable ducts from 2009 up to and including 2012, Unitymedia Hessen GmbH & Co. KG is currently demanding payment of approximately EUR 36.5 million plus interest, Unitymedia NRW GmbH EUR 90.8 million plus interest, and Kabel BW GmbH EUR 61.5 million

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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 approvals 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 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 0.8 GHz, 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 order of the Federal Network Agency with regard to the auction. In addition to the already final and binding dismissals of the appeals of broadcasting and cable network operators, the last decision by the Cologne Administrative Court in the ruling dated September 3, 2014 to dismiss the claim of a telecommunications company is now also final and binding. All complainants have also appealed against the allocation of frequencies to Telekom Deutschland GmbH; this has not yet been ruled upon. The risk remaining due to the appeal proceedings still pending is classified as low and consequently we will not report further on the series of proceedings in the future.

- **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 (Bundessonderzahlungsgesetz) 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. Accordingly, the risk remaining is classified as low and consequently we will not report further on the proceedings in the future.

- **Claim for compensation against OTE.** In May 2009, Lannet Communications S.A. filed an action against OTE claiming compensation for damages of around EUR 176 million plus interest arising from an allegedly unlawful termination of services by OTE – mainly interconnection services, unbundling of local loops, and leasing of dedicated lines. A hearing took place on May 30, 2013; a ruling has not yet been issued.

- **Patents and licenses.** Like many other large telecommunications and Internet providers, Deutsche Telekom is exposed to a growing number of intellectual property rights disputes. There is a risk that we may have to pay license fees and/or compensation; we are also exposed to a risk of cease-and-desist orders, for example relating to the sale of a product or the use of a technology.

- **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. In the ruling dated October 2, 2015, the competent administrative court dismissed the claim of Deutsche Telekom for a reduction in the payment obligation. Deutsche Telekom filed an appeal against this ruling in November 2015.

Furthermore, Deutsche Telekom intends to defend itself and/or pursue its claims resolutely in each of these court, conciliatory, and arbitration proceedings.

Proceedings concluded

- **Claims for damages due to price squeeze.** Various competitors had filed lawsuits 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 the European Commission had identified a squeeze in 2003 as part of a decision to impose fines. In the last proceedings still pending and brought by EWE Tel GmbH against Telekom Deutschland GmbH with a claim of approximately EUR 82 million plus interest, the parties settled the dispute in October 2015. The Federal Court of Justice had previously rejected the complaints filed by the respective parties against non-allowance of appeal, in a ruling dated June 16, 2015. Thus no more claims are pending in this series of proceedings.



For information on the retrospective new rulings on rate approvals and settlement agreements concluded in this connection, see "Risks and opportunities resulting from regulation," PAGES 131 and 132.

- **Claim for compensation against Slovak Telekom.** In 1999, an action was filed against Slovak Telekom based on the allegation 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 March 2015, the parties agreed on a settlement of the dispute. The settlement was confirmed by the responsible court in Bratislava in May 2015; the proceedings are therefore terminated with final and binding effect. In July 2015, Deutsche Telekom was able to realize its contractual claims to a refund of the amount paid by Slovak Telekom for the settlement, in accordance with the amount of its shareholding in Slovak Telekom at the time.

ANTI-TRUST PROCEEDINGS

Like all companies, our Group is subject to the regulations of anti-trust law. Against this background, we have also significantly expanded our compliance activities in this area in recent years. In 2015, independent auditors certified our anti-trust compliance management system as effective in accordance with IDW AuS 980. Nevertheless, Deutsche Telekom and its subsidiaries, joint ventures, and associates are subject to proceedings under competition law or civil follow-on actions in individual countries. In the following, we describe major anti-trust and consumer protection actions. We consider the respective allegations and claims for damages to be unfounded.

Proceedings by the Anti-Monopoly Commission in Poland. On November 23, 2011, the national Anti-Monopoly Commission (UOKiK) concluded investigations started in 2010. It decided that T-Mobile Polska (formerly PTC) and other Polish telecommunications companies had fixed prices in breach of anti-trust law and imposed a fine on T-Mobile Polska of PLN 34 million (approximately EUR 8 million). T-Mobile Polska believes these allegations are unfounded and thus appealed the decision. On June 19, 2015, the competent court canceled the fine on the grounds that the competition authorities were unable to prove the alleged price fixing. The national competition authorities appealed the decision of the court and a decision is pending. Any fine would only fall due after the decision becomes final and legally binding. The same applies to another fine of PLN 21 million (approximately EUR 5 million) imposed by UOKiK on T-Mobile Polska on January 2, 2012 for an alleged breach of consumer protection law. Overall, the risk remaining is classified as low and consequently we will not report further on the proceedings in the future.


European Commission proceedings against Slovak Telekom and Deutsche Telekom. The European Commission decided 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. The fines were paid in January 2015. Slovak Telekom and Deutsche Telekom challenged the European Commission's decision on December 29, 2014 before the Court of the European Union. In particular, we 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 and complied with applicable law. In particular, intense competition and the ongoing retail price decline on the Slovak broadband market argue against any obstruction of competitors by Slovak Telekom.

Claims for damages against Slovak Telekom following the European Commission's decision to impose fines. Following the decision of the European Commission on October 15, 2014, both Orange Slovensko and SWAN filed civil action against Slovak Telekom with the competent court in Bratislava in August 2015, claiming compensation for damages of EUR 232 million and EUR 50 million respectively, plus interest. These claims seek compensation for alleged damages due to Slovak Telekom's abuse of a dominant market position, as determined by the European Commission. In December 2014, Slovak Telekom and Deutsche Telekom filed an appeal against the decision of the European Commission with the Court of the European Union; in addition, Slovak Telekom considers the complaint by Orange Slovensko to be largely unfounded. The complaint by SWAN has not yet been officially served to Slovak Telekom. It is uncertain whether SWAN is waiting for the outcome of the proceedings in relation to Orange Slovensko or, following publication of the European Commission's decision, considers it unlikely that a claim will be successful. It is currently not possible to estimate the financial impact of these proceedings with sufficient certainty.

FINANCIAL RISKS

Liquidity, credit, currency, interest rate risks

With regard to its assets, liabilities and planned transactions, our Group is particularly exposed to liquidity risks, credit risks, and the risk of changes in exchange and interest rates. Our financial risk management aims to contain these risks through ongoing operational and finance activities. To contain the risks, we use selected derivative and non-derivative hedging instruments (hedges) depending on the risk assessment. However, we only hedge the risks that affect our 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 containment measures. 

Liquidity risks. To ensure the Group's and Deutsche Telekom AG's solvency and financial flexibility at all times, we maintain a liquidity reserve in the form of credit lines and cash as part of our liquidity management. This liquidity reserve is to cover the capital market maturities of the next 24 months at any time. For medium- to long-term financing, we primarily



For the evaluation,
please refer to
TABLE 047, PAGE 129.

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use bonds issued in a variety of currencies and jurisdictions. These instruments are generally issued via Deutsche Telekom International Finance B.V. and are forwarded within the Group as internal loans.

GRAPHIC 46 below shows the development of the liquidity reserve in relation to maturity dates. As of the end of 2015 and in the preceding quarters, we clearly met our targets for the liquidity reserve to cover maturities due in the respective coming 24 months.

In addition to the reported liabilities to banks, Deutsche Telekom had standardized bilateral credit agreements with 23 banks for a total of EUR 13.5 billion at December 31, 2015. As of December 31, 2015, we had utilized EUR 0.2 billion of these credit lines. According to the credit agreements, the terms and conditions depend on our rating. The bilateral credit agreements have an original maturity of 36 months and can, after each period of twelve months, be extended by a further twelve months to renew the maturity of 36 months. From today's perspective, access to the international debt capital markets is not jeopardized. In November 2015, T-Mobile US issued bonds with a total volume of USD 2.0 billion. In addition, T-Mobile US took out a USD 2.0 billion syndicated loan (Term Loan B). These two transactions serve the purpose of prefinancing the spectrum auction expected to begin in spring 2016. In December 2015, OTE issued a bond with a total volume of EUR 0.4 billion and repaid two bonds worth EUR 0.3 billion at the same time, one of which prematurely.

Credit risks. Through our operating business and certain financing activities, we are exposed to a credit risk, i. e., the risk that a counterparty will not fulfill its contractual obligations. As a rule, we only conclude transactions with regard to financing activities with counterparties that have at least a credit rating of BBB+/Baa1; this is connected with an operational credit management system. On a decentralized basis, we continuously monitor accounts receivable in operations at the individual units. Our business with corporate customers, especially international carriers, is subject to special solvency monitoring.

For derivative transactions, we 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. We reduce the credit risk arising from derivative transactions further by exchanging collateral. For receivables balances for existing collateral agreements, we receive security from the counterparty in the form of readily available cash; in the event of payables balances, we provide such security in return.

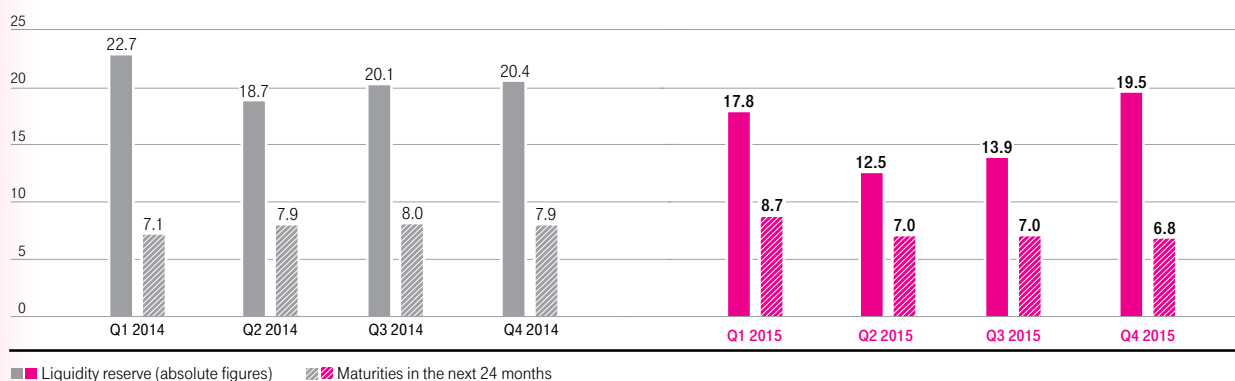
Currency risks. The currency risks result from investments, financing measures, and operations. Risks from foreign currency fluctuations are hedged if they affect the Group's cash flows (i. e., if the cash flow is not denominated in the functional currency of the respective Group company). Foreign-currency risks that do not influence the Group's cash flows (i. e., the risks resulting from the translation of assets and liabilities of foreign operations into the Group's reporting currency) are generally not hedged, however. We may nevertheless also hedge this foreign-currency risk under certain circumstances.

Interest rate risks. Our interest rate risks mainly result from interest-bearing liabilities and exist primarily in the eurozone and the United States. To minimize the effects of interest rate fluctuations in these regions, we manage the interest rate risk for net debt denominated in euros and U. S. dollars separately. Once a year, our Board of Management stipulates the desired mix of fixed- and variable-interest net debt for a planning period of at least three years. In order to adjust the interest structure of net debt to this prescribed composition, Group Treasury uses interest rate derivatives, taking into account the existing and planned debt structure.

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

For additional explanations, please refer to Note 37 "Financial instruments and risk management" in the notes to the consolidated financial statements, PAGE 226 ET SEQ.

G 46
Liquidity reserve and maturities in 2015 compared with 2014
billions of €




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, 2015, 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. A lower rating would result in interest rate rises for some of the bonds issued.

Sales of shares by the Federal Republic or KfW Bankengruppe. As of December 31, 2015, the Federal Republic and KfW Bankengruppe jointly held approximately 31.8 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 172 ET SEQ.

ACCOUNTING-RELATED INTERNAL CONTROL SYSTEM

Deutsche Telekom AG's internal control system (ICS) is based on the internationally recognized COSO (Committee of Sponsoring Organizations of the Treadway Commission) Internal Control – Integrated Framework, COSO I, as amended on May 14, 2013.

The Audit Committee of the Supervisory Board 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 inspection 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.

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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. 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 of the Supervisory Board of Deutsche Telekom AG. In order to ensure a high-quality accounting-related ICS, Internal Audit is closely involved in all stages of the process.

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 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, 2015: around 20 million in total). The "trust" shares, as they are known, (at December 31, 2015: around 19 million) relate to the acquisition of VoiceStream and Powertel (now T-Mobile US) in 2001 and are allocable to Deutsche Telekom at December 31, 2015 in the same way as treasury shares. As regards the shares issued to trusts, the trustee waived voting rights and subscription rights and, in general, dividend rights for the duration of the trusts' existence. The trusts were dissolved at the beginning of 2016 and the trust assets transferred to a custody account of Deutsche Telekom AG.

Capital increase. The resolution on the dividend payout of EUR 0.50 per share for the 2014 financial year gave shareholders the choice between payment in cash or having their dividend entitlement converted into Deutsche Telekom AG shares. Dividend entitlements of Deutsche Telekom AG shareholders amounting to EUR 1.1 billion for shares from authorized capital (2013 authorized capital) were contributed in June 2015 and thus did not have an impact on cash flows. Deutsche Telekom AG carried out an increase in issued capital of EUR 0.2 billion against contribution of dividend entitlements for this purpose in June 2015. This increased capital reserves by EUR 0.9 billion, the number of shares by 71,080,623.

Treasury shares. The shareholders' meeting resolved on May 24, 2012 to authorize the Board of Management to purchase shares in the Company by May 23, 2017, with the amount of share capital accounted for by these shares totaling up to EUR 1,106,257,715.20, provided the shares to be purchased on the basis of this authorization in conjunction with the other shares of the Company that the Company has already purchased and still possesses or are to be assigned to it under § 71d and § 71e AktG do not at any time account for more than 10 percent of the Company's share capital. Moreover, the requirements under § 71 (2) sentences 2 and 3 AktG must be complied with. Shares shall not be purchased for the purpose of trading in treasury shares. This authorization may be exercised in full or in part. The purchase can be carried out in partial tranches spread over various purchase dates within the authorization period until the maximum purchase volume is reached. Dependent Group companies of Deutsche Telekom AG within the meaning of § 17 AktG or third parties acting for the account of Deutsche Telekom AG or for the account of dependent Group companies of Deutsche Telekom AG within the meaning of § 17 AktG are also entitled to purchase the shares. The shares are purchased through the stock exchange in adherence to the principle of equal treatment (§ 53a AktG). Shares can instead also be purchased by means of a public purchase or share exchange offer addressed to all shareholders, which, subject to a subsequently approved exclusion of the right to offer shares, must also comply with the principle of equal treatment.



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, PAGE 206 ET SEQ.



The Statement is available to the public on Deutsche Telekom's website www.telekom.com/289aGerman-CommercialCode

The shares may be used for one or several of the purposes permitted by the authorization granted by the shareholders' meeting on May 24, 2012 under item 7 on the agenda. The shares may also be used for purposes involving an exclusion of subscription rights. They may also be sold on the stock market or by way of an offer to all shareholders, or withdrawn. The shares may also be used to fulfill the rights of Board of Management members to receive shares in Deutsche Telekom AG, which the Supervisory Board has granted to these members as part of the arrangements governing the compensation of the Board of Management, on the basis of a decision by the Supervisory Board to this effect.

Under the resolution of the shareholders' meeting on May 24, 2012, the Board of Management is also authorized to acquire the shares through the use of equity derivatives.

On the basis of the above authorization by the shareholders' meeting on May 24, 2012 and a corresponding authorization by the shareholders' meeting on May 12, 2011, 110 thousand shares were acquired in June 2011, 206 thousand shares in September 2011, and 268 thousand shares in January 2013. The total volumes amounted to EUR 2,762 thousand in the 2011 financial year, and EUR 2,394 thousand in the 2013 financial year (excluding transaction costs). This increased the number of treasury shares by 316 thousand and 268 thousand, respectively.

In the 2015 financial year, Deutsche Telekom made use of the authorization by the shareholders' meeting on May 24, 2012. The Board of Management decided on September 29, 2015 to acquire a total of 950 thousand shares. On September 30, 2015 and October 1, 2015, shares were acquired in accordance with the authorization for a total acquisition price of EUR 14,787 thousand (excluding transaction costs) with an average purchase price of EUR 15.57 per share. The treasury shares resulting from the share buy-back accounted for EUR 2,432 thousand of share capital as at December 31, 2015. Retained earnings thus decreased by EUR 12,355 thousand.

As part of the Share Matching Plan, a total of 2 thousand shares were transferred free of charge to the custody accounts of eligible participants in the 2012 and 2013 financial years. A further 90 thousand treasury shares were transferred free of charge in the 2014 financial year.

Furthermore, a total of 140 thousand shares were reallocated in January, May and June 2015 and transferred free of charge to the custody accounts of eligible participants of the Share Matching Plan. As of December 31, 2015, sales of treasury shares resulting from the transfers in the reporting period accounted for EUR 358 thousand of share capital. Retained earnings thus increased by EUR 877 thousand.

In November 2015, Deutsche Telekom sold 1,882 thousand treasury shares from its portfolio. The selling price was EUR 31,274 thousand (excluding transaction costs). The portion of the proceeds that exceeded the notional value of the shares, amounting to EUR 26,457 thousand, was allocated to the capital reserves. The sale proceeds received were recognized under Deutsche Telekom AG's cash and cash equivalents.

As of December 31, 2015, the disposal of treasury shares resulting from the sale in the reporting period accounted for EUR 4,817 thousand of share capital.

As part of the acquisition of VoiceStream Wireless Corp., Bellevue, and Powertel, Inc., Bellevue, in 2001 Deutsche Telekom issued new shares from authorized capital to a trustee, for the benefit of holders of warrants, options, and conversion rights, among others. 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. The trust relationship was terminated at the start of 2016 and the deposited shares were transferred to a custody account of Deutsche Telekom AG.

Authorized capital and contingent capital. 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 (**2013 authorized capital**). Following the increases in share capital against contribution of dividend entitlements in the 2014 and 2015 financial years, the 2013 authorized capital amounts to EUR 1,777,979,476.48. The remaining 2013 authorized capital was entered in the commercial register on June 17, 2015.

As of December 31, 2015, the share capital 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

1. 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

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2. 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. Upon consummation of the sale of the stake in the EE joint venture to the BT Group plc. on January 29, 2016, these contractual restrictions ceased to apply.

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

64 German and 190 foreign subsidiaries are fully consolidated in Deutsche Telekom's consolidated financial statements (December 31, 2014: 56 and 197). 14 associates (December 31, 2014: 13) and 8 joint ventures (December 31, 2014: 6) are also included using the equity method. 

BUSINESS COMBINATIONS

Deutsche Telekom did not effect any material business combinations in the 2015 financial year.

COMPENSATION REPORT

The "Compensation report" details the compensation system underlying Board of Management compensation as well as the specific remuneration received by the individual members of the Board of Management. It takes into consideration the requirements of the German Commercial Code taking account of the provisions of German Accounting Standard No. 17 (GAS 17), the recommendations of the German Corporate Governance Code (GCGC), and the International Financial Reporting Standards (IFRS).

Changes in the composition of the Board of Management and contract extensions. Following a resolution of the Supervisory Board dated February 25, 2015, Dr. Christian P. Illek took over the office of Chief Human Resources Officer and Labor Director with effect from April 1, 2015. In its meeting on December 16, 2015, the Supervisory Board extended Claudia Nemat's term of office as a member of the Board of Management for another five years starting from October 1, 2016.

COMPENSATION OF THE BOARD OF MANAGEMENT

Basis of Board of Management compensation. On February 24, 2010, the Supervisory Board resolved on a new system for the compensation of the Board of Management members, taking into account the provisions specified in the German Act on the Appropriateness of Management Board Remuneration (Gesetz zur Angemessenheit der Vorstandsvergütung - VorstAG) that has been in effect since August 5, 2009. The shareholders' meeting of Deutsche Telekom AG on May 3, 2010 approved this new system. The compensation of Board of Management members comprises various components. Under the terms of their service contracts, members of the Board of Management are entitled to an annual fixed remuneration and annual variable performance-based remuneration (Variable I), a long-term variable remuneration component (Variable II), as well as fringe benefits and deferred benefits based on a company pension entitlement. The Supervisory Board defines the structure of the compensation system for the Board of Management and reviews this structure and the appropriateness of compensation at regular intervals.

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," **PAGES 178 and 179.**

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

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

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

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

In the event of temporary incapacity for work caused by illness, accident, or any other reason for which the respective Board of Management member is not responsible, the fixed basic remuneration continues to be paid; in the event of an uninterrupted period of absence due to illness of more than one month, claims to variable remuneration are reduced pro rata in line with the uninterrupted period of absence. The continued payment of remuneration ends at the latest after an uninterrupted period of absence of six months, or for a maximum of three months following the end of the month in which the Board of Management member's permanent incapacity for work is established.

Variable performance-based remuneration

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

Variable I. The annual variable remuneration of Board of Management members is based on the achievement of targets set by the Supervisory Board of Deutsche Telekom AG for each member of the Board of Management at the beginning of the financial year. The set of targets is composed of corporate targets (50 percent) related to revenue, unadjusted EBITDA and free cash flow, as well as personal targets for the individual members of the Board of Management. The personal targets consist of targets oriented toward the sustained success of the Company concerning the implementation of the strategy (30 percent) and value adherence (adherence to Guiding Principles), which accounts for 20 percent. The agreement on targets and the level of target achievement for the respective financial year are determined by the plenary session of the Supervisory Board. Levels of target achievement exceeding 100

percent are rewarded on a straight-line basis, capped at 150 percent of the award amount. Any higher levels of target achievement will not be taken into consideration. To further ensure the long-term incentive effect and orientation toward the sustained development of the Company, a third of the variable remuneration set by the plenary session of the Supervisory Board must be invested in shares of Deutsche Telekom AG; these shares must be held by the respective Board member for a period of at least four years.

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

In the 2015 financial year, the following absolute nominal amounts were pledged to the Board of Management members in the event of 100-percent target achievement.

T 049

	2015 tranche	2014 tranche
Reinhard Clemens	650,000	650,000
Niek Jan van Damme	644,000	640,083
Thomas Dannenfeldt	550,000	550,000
Timotheus Höttges	1,342,000	1,092,000
Dr. Christian P. Illek (since April 1, 2015)	515,625	-
Dr. Thomas Kremer	550,000	550,000
Claudia Nemat	675,000	675,000

Information on the Share Matching Plan. In the 2015 financial year, the Board of Management members, as described, are contractually obliged to invest a third of Variable I in shares of Deutsche Telekom AG. Deutsche Telekom AG will grant one additional share for every share acquired as part of this Board of Management member's aforementioned personal investment (Share Matching Plan) on expiration of the four-year lock-up period, provided they are still a member of the Board of Management.

GAS 17 and IFRS 2 require disclosure not only of the total expense related to share-based payment from matching shares in the 2015 financial year and the fair value of the matched shares at their grant date, but also of the number of entitlements to matching shares and their development in the current financial year.

The fair value of the matching shares at grant date shown in TABLE 050 does not represent a component of remuneration for the Board of Management members in 2015. It is an imputed value of the entitlements to matching shares determined on the basis of relevant accounting policies. Here, the fair value equates to the share price at grant date less an expected dividend markdown.

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TABLE 050 is based on expected target achievement for the 2015 financial year and thus on the estimated amount of the personal investment to be made by the respective Board of Management member to establish his or her entitlements to matching shares. The final number of entitlements to matching shares identified for the 2015 financial year may be higher or lower than the amounts estimated here.

The total share-based payment expense for entitlements to matching shares from 2010 to 2015 to be recognized for the financial years 2014 and 2015, pursuant to IFRS 2, is included in the two last columns of TABLE 050.

T 050

	Number of entitlements granted to matching shares since 2010 at the beginning of the financial year	Number of new entitlements to matching shares granted in 2015	Number of shares transferred in 2015 as part of the Share Matching Plan	Fair value of the entitlements to matching shares at grant date €	Cumulative total share-based payment expense in 2015 for matching shares for the years 2011 through 2015 €	Cumulative total share-based payment expense in 2014 for matching shares for the years 2010 through 2014 €
Reinhard Clemens	127,282	13,710	22,133	190,015	161,823	186,836
Niek Jan van Damme	117,804	13,586	17,908	188,309	155,728	169,408
Thomas Dannenfeldt	12,649	11,603	0	160,823	69,482	54,916
Timotheus Höttges	164,420	28,312	24,914	392,408	235,655	222,952
Dr. Christian P. Illek (since April 1, 2015)	-	8,152	-	121,621	24,409	-
Dr. Thomas Kremer	42,708	11,603	0	160,823	86,360	57,619
Claudia Nemat	71,269	14,241	0	197,373	136,066	97,441

By December 31, 2015, Deutsche Telekom had acquired 565,596 shares for the purpose of awarding matching shares to Board of Management members as part of the Share Matching Plan. In 2015, matching shares were again transferred to individual members of the Board of Management. A total of 64,955 shares were transferred to Board of Management members in 2015 (2014: 89,518).

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

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

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

Company pension plan

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

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

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

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

Service cost and defined benefit obligations for each member of the Board of Management are shown in TABLE 051:

T 051

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	Service cost 2015	Defined benefit obligation (DBO) Dec. 31, 2015	Service cost 2014	Defined benefit obligation (DBO) Dec. 31, 2014
Reinhard Clemens	779,940	5,829,077	599,763	5,427,515
Niek Jan van Damme	312,100	2,445,816	288,661	2,129,080
Thomas Dannenfeldt	288,525	573,411	246,151	293,973
Timotheus Höttges	1,096,569	9,138,086	818,212	8,695,342
Dr. Christian P. Illek (since April 1, 2015)	204,741	204,741	-	-
Dr. Thomas Kremer	254,966	965,594	243,743	703,470
Claudia Nemat	296,866	1,344,197	247,026	1,069,351

An annual contribution of EUR 290,000 was allocated to Niek Jan van Damme in accordance with the provisions of the new company pension plan. The contributions for Thomas Dannenfeldt, Dr. Christian P. Illek, Dr. Thomas Kremer and Claudia Nemat amount to EUR 250,000 each for each year of service rendered.

The pension expense resulting from the company pension plan is shown as service cost.

Board of Management compensation for the 2015 financial year. In reliance on legal requirements and other guidelines, a total of EUR 17.6 million (2014: EUR 13.9 million) is reported in TABLE 052 as total compensation for the 2015 financial year for the members of the Board of Management.

The Board of Management compensation comprises the fixed annual remuneration as well as other benefits, non-cash benefits and remuneration in kind, short-term variable remuneration (Variable I), as well as a special bonus for extraordinary performance if applicable, and a one-time sign-on bonus, fully earned tranches of long-term variable remuneration (Variable II), and the fair value of the matching shares. This was calculated on the basis of the estimated amount of Variable I at the grant date and the resulting number of entitlements to matching shares.

The fixed annual remuneration, other benefits, and a one-time sign-on bonus are totally unrelated to performance.

Total compensation. The compensation of the Board of Management is shown in detail in TABLE 052:

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		Non-performance-based compensation		Performance-based compensation			Total compensation
		Fixed annual remuneration	Other remuneration	Short-term variable remuneration	Long-term variable performance-based remuneration (Variable II)	Long-term variable performance-based remuneration (fair value of matching shares)	
Reinhard Clemens	2015	840,000	17,914	780,650	578,500	190,015	2,407,079
	2014	840,000	17,350	714,350	429,000	186,512	2,187,212
Niek Jan van Damme	2015	850,000	30,333	791,476	489,500	188,309	2,349,618
	2014	850,000	26,758	708,760	363,000	180,295	2,128,813
Thomas Dannenfeldt	2015	700,000	25,040	693,550	-	160,823	1,579,413
	2014	700,000	22,433	641,300	-	157,817	1,521,550
Timotheus Höttges	2015	1,450,000	67,166	1,753,994	578,500	392,408	4,242,068
	2014	1,450,000	22,359	1,307,124	429,000	313,339	3,521,822
Dr. Christian P. Illek (since April 1, 2015)	2015 ^a	525,000	1,226,828	495,413	-	121,621	2,368,862
	2014	-	-	-	-	-	-
Dr. Thomas Kremer	2015	700,000	62,854	665,500	438,510	160,823	2,027,687
	2014	700,000	60,983	856,650	234,438	157,817	2,009,888
Claudia Nemat	2015	900,000	69,704	810,675	600,750	197,373	2,578,502
	2014	900,000	65,900	764,775	361,969	193,685	2,286,329
	2015	5,965,000	1,499,839	5,991,258	2,685,760	1,411,372	17,553,229
	2014 ^b	5,440,000	215,783	4,992,959	1,817,407	1,189,465	13,655,614

^aThe other remuneration relating to Dr. Christian P. Illek includes a one-time payment of EUR 1.2 million as a sign-on bonus.

^bRemuneration relating to Board of Management members who left the Company in the course of 2014 is no longer included in the table.

The amounts shown in the "Long-term variable performance-based remuneration (Variable II)" column had been pledged to the eligible Board of Management members in the 2012 financial year. As he joined the Company after the commencement of the current plan tranche of Variable II, a pro-rata pledge was granted to Dr. Thomas Kremer also in 2012.

Dr. Christian P. Illek received a one-time special payment of EUR 1.2 million upon joining the Board of Management in April 2015. The special payment was intended to recompense him for the proven loss of entitlements to shares of his former employer. At the same time, Dr. Christian P. Illek was obligated to invest the net payout amount of this special payment in shares in Deutsche Telekom AG, which are subject to a staggered lock-up period. Dr. Christian P. Illek met his obligation to acquire shares in Deutsche Telekom AG in May 2015.

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

Former members of the Board of Management. A total of EUR 7.1 million (2014: EUR 9.2 million) was granted for payments to and entitlements for former members of the Board of Management as well as any surviving dependents.

Provisions (measured in accordance with IAS 19) totaling EUR 188.1 million (December 31, 2014: EUR 196.9 million) were recognized for current pensions and vested rights to pensions for this group of persons and their surviving dependents.

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

Table view in accordance with the requirements of the German Corporate Governance Code

The following tables are based on model tables 1 and 2 recommended by the German Corporate Governance Code, which present the total compensation granted for the reporting year and the remuneration components allocated.

Benefits granted for the reporting year

T 053

Compensation of the Board of Management

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	Timotheus Höttges			
	Function: Chairman of the Board of Management (CEO) since January 1, 2014			
	2014	2015	2015 (min.)	2015 (max.)
Fixed remuneration	1,450,000	1,450,000	1,450,000	1,450,000
Fringe benefits	22,359	67,166	67,166	67,166
Total fixed annual remuneration	1,472,359	1,517,166	1,517,166	1,517,166
One-year variable remuneration	1,092,000	1,342,000	0	2,013,000
Multi-year variable remuneration	1,405,339	1,734,408	0	4,026,000
Of which: 2014 Variable II (4-year term)	1,092,000			
Of which: 2015 Variable II (4-year term)		1,342,000	0	2,013,000
Of which: 2014 Share Matching Plan (4-year term)	313,339			
Of which: 2015 Share Matching Plan (4-year term)		392,408	0	2,013,000
Total	3,969,698	4,593,574	1,517,166	7,556,166
Service cost	818,212	1,096,569	1,096,569	1,096,569
TOTAL COMPENSATION	4,787,910	5,690,143	2,613,735	8,652,735

	Dr. Christian P. Illek			
	Function: Human Resources since April 1, 2015			
	2014	2015	2015 (min.)	2015 (max.)
Fixed remuneration	-	525,000	525,000	525,000
Fringe benefits	-	1,226,828	1,226,828	1,266,828
Total fixed annual remuneration	-	1,751,828	1,751,828	1,791,828
One-year variable remuneration	-	412,500	0	618,750
Multi-year variable remuneration	-	637,246	0	1,392,188
Of which: 2014 Variable II (4-year term)				
Of which: 2015 Variable II (4-year term)		515,625	0	773,438
Of which: 2014 Share Matching Plan (4-year term)				
Of which: 2015 Share Matching Plan (4-year term)		121,621	0	618,750
Total	-	2,801,574	1,751,828	3,802,766
Service cost	-	204,741	204,741	204,741
TOTAL COMPENSATION	-	3,006,315	1,956,569	4,007,507

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Reinhard Clemens				Niek Jan van Damme				Thomas Dannenfeldt			
Function: T-Systems since December 1, 2007				Function: Germany since March 1, 2009				Function: Finance (CFO) since January 1, 2014			
2014	2015	2015 (min.)	2015 (max.)	2014	2015	2015 (min.)	2015 (max.)	2014	2015	2015 (min.)	2015 (max.)
840,000	840,000	840,000	840,000	850,000	850,000	850,000	850,000	700,000	700,000	700,000	700,000
17,350	17,914	17,914	17,914	26,758	30,333	30,333	30,333	22,433	25,040	25,040	25,040
857,350	857,914	857,914	857,914	876,758	880,333	880,333	880,333	722,433	725,040	725,040	725,040
650,000	650,000	0	975,000	628,333	644,000	0	966,000	550,000	550,000	0	825,000
836,512	840,015	0	1,950,000	820,378	832,309	0	1,932,000	707,817	710,823	0	1,650,000
650,000				640,083				550,000			
	650,000	0	975,000		644,000	0	966,000		550,000	0	825,000
186,512				180,295				157,817			
	190,015	0	975,000		188,309	0	966,000		160,823	0	825,000
2,343,862	2,347,929	857,914	3,782,914	2,325,469	2,356,642	880,333	3,778,333	1,980,250	1,985,863	725,040	3,200,040
599,763	779,940	779,940	779,940	288,661	312,100	312,100	312,100	246,151	288,525	288,525	288,525
2,943,625	3,127,869	1,637,854	4,562,854	2,614,130	2,668,742	1,192,433	4,090,433	2,226,401	2,274,388	1,013,565	3,488,565

Dr. Thomas Kremer				Claudia Nemat			
Function: Data Privacy, Legal Affairs and Compliance since June 1, 2012				Function: Europe and Technology since October 1, 2011			
2014	2015	2015 (min.)	2015 (max.)	2014	2015	2015 (min.)	2015 (max.)
700,000	700,000	700,000	700,000	900,000	900,000	900,000	900,000
60,983	62,854	62,854	62,854	65,900	69,704	69,704	69,704
760,983	762,854	762,854	762,854	965,900	969,704	969,704	969,704
550,000	550,000	0	825,000	675,000	675,000	0	1,012,500
707,817	710,823	0	1,650,000	868,685	872,373	0	2,025,000
550,000				675,000			
	550,000	0	825,000		675,000	0	1,012,500
157,817				193,685			
	160,823	0	825,000		197,373	0	1,012,500
2,018,800	2,023,677	762,854	3,237,854	2,509,585	2,517,077	969,704	4,007,204
243,743	254,966	254,966	254,966	247,026	296,866	296,866	296,866
2,262,543	2,278,643	1,017,820	3,492,820	2,756,611	2,813,943	1,266,570	4,304,070

Benefits allocated for the reporting year

Unlike TABLE 053 of benefits granted, PAGES 148 and 149, this table contains not the target values for short- and long-term variable remuneration components, but rather the actual benefits allocated for 2015. 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 TABLE 053 of benefits granted shows the fair values of remuneration at the grant date.

T 054

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	
	2014	2015	2014	2015	2014	2015
Fixed remuneration	1,450,000	1,450,000	840,000	840,000	850,000	850,000
Fringe benefits	22,359	67,166	17,350	17,914	26,758	30,333
Total fixed annual remuneration	1,472,359	1,517,166	857,350	857,914	876,758	880,333
One-year variable remuneration	1,307,124	1,753,994	714,350	780,650	708,760	791,476
Multi-year variable remuneration	758,558	965,664	720,364	917,069	614,594	763,439
Of which: Variable II (4-year term) ^a	429,000	578,500	429,000	578,500	363,000	489,500
Of which: Share Matching Plan (4-year term) ^b	329,558	387,164	291,364	338,569	251,594	273,939
Other	0	0	0	0	0	0
Total	3,538,041	4,236,824	2,292,064	2,555,633	2,200,112	2,435,248
Service cost	818,212	1,096,569	599,763	779,940	288,661	312,100
TOTAL COMPENSATION	4,356,253	5,333,393	2,891,827	3,335,573	2,488,773	2,747,348

	Thomas Dannenfeldt		Dr. Christian P. Illek		Dr. Thomas Kremer		Claudia Nemat	
	Function: Finance (CFO) since January 1, 2014		Function: Human Resources since April 1, 2015		Function: Data Privacy, Legal Affairs and Compliance since June 1, 2012		Function: Europe and Technology since October 1, 2011	
	2014	2015	2014	2015	2014	2015	2014	2015
Fixed remuneration	700,000	700,000	-	525,000	700,000	700,000	900,000	900,000
Fringe benefits	22,433	25,040	-	1,226,828 ^c	60,983	62,854	65,900	69,704
Total fixed annual remuneration	722,433	725,040	-	1,751,828	760,983	762,854	965,900	969,704
One-year variable remuneration	641,300	693,550	-	495,413	606,650	665,500	764,775	810,675
Multi-year variable remuneration	0	0	-	0	234,438	438,510	361,969	600,750
Of which: Variable II (4-year term) ^a	0	0	-	0	234,438	438,510	361,969	600,750
Of which: Share Matching Plan (4-year term) ^b	0	0	-	0	0	0	0	0
Other	0	0	-	0	250,000	0	0	0
Total	1,363,733	1,418,590	-	2,247,241	1,852,071	1,866,864	2,092,644	2,381,129
Service cost	246,151	288,525	-	204,741	243,743	254,966	247,026	296,866
TOTAL COMPENSATION	1,609,884	1,707,115	-	2,451,982	2,095,814	2,121,830	2,339,670	2,677,995

^a Variable II as shown in the column for 2015 relates to the payment of the 2012 tranche.

^b The Share Matching Plan relates to the non-cash benefit arising from the inflow of the matching shares with the corresponding personal investment having been made in 2011.

^c The fringe benefits relating to Dr. Christian P. Illek include a one-time payment of EUR 1.2 million as a sign-on bonus.

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COMPENSATION OF THE SUPERVISORY BOARD

The compensation received by the members of the Supervisory Board is specified under § 13 of the Articles of Incorporation of Deutsche Telekom AG. Under the compensation system that came into effect on January 1, 2013, members of the Supervisory Board receive fixed annual compensation of EUR 70,000.00.

The Chairman of the Supervisory Board receives a further EUR 70,000.00 and the Deputy Chairman EUR 35,000.00. Members of the Supervisory Board also receive compensation as follows for activities on Supervisory Board committees:

- The Chairman of the Audit Committee receives EUR 80,000.00, ordinary members of the Audit Committee EUR 40,000.00.
- The Chairman of the General Committee receives EUR 35,000.00, ordinary members of the General Committee EUR 25,000.00.
- The Chairman of any other committee receives EUR 30,000.00, ordinary members of any other committee EUR 20,000.00.

Chairmanship and membership of the Nomination Committee and the Mediation Committee are not remunerated.

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

The total compensation of the members of the Supervisory Board in 2015 amounted to EUR 2,683,500.00 (plus VAT).

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

The compensation of the individual members of the Supervisory Board for 2015 is as follows:

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Member of the Supervisory Board	Fixed remuneration	Meeting attendance fee	Total
Baldauf, Sari	90,000.00	8,000.00	98,000.00
Bednarski, Josef ^a	110,000.00	13,000.00	123,000.00
Dr. Bernotat, Wulf H.	110,000.00	13,000.00	123,000.00
Brandl, Monika	90,000.00	12,000.00	102,000.00
Geismann, Johannes	135,000.00	26,000.00	161,000.00
Dr. von Grünberg, Hubertus	100,000.00	7,000.00	107,000.00
Hanas, Klaus-Dieter	70,000.00	7,000.00	77,000.00
Hauke, Sylvia ^b	110,000.00	13,000.00	123,000.00
Hinrichs, Lars	90,000.00	7,000.00	97,000.00
Kallmeier, Hans-Jürgen ^c	130,000.00	15,000.00	145,000.00
Prof. Dr. Kaschke, Michael (since April 22, 2015)	59,166.67	3,000.00	62,166.67
Kollmann, Dagmar P.	166,666.67	20,000.00	186,666.67
Kolmsee, Ines (January 31, 2015 to April 8, 2015)	33,333.33	2,000.00	35,333.33
Kreusel, Petra Steffi ^d	110,000.00	11,000.00	121,000.00
Prof. Dr. Lehner, Ulrich (Chairman)	255,833.33	29,000.00	284,833.33
Litzenberger, Waltraud (until December 31, 2015)	160,000.00	25,000.00	185,000.00
Schröder, Lothar (Deputy Chairman) ^e	205,000.00	23,000.00	228,000.00
Dr. Schröder, Ulrich	125,000.00	11,000.00	136,000.00
Sommer, Michael	90,000.00	8,000.00	98,000.00
Spoo, Sibylle	70,000.00	7,000.00	77,000.00
Streibich, Karl-Heinz	90,000.00	11,000.00	101,000.00
Dr. h. c. Walter, Bernhard (until January 11, 2015) †	12,500.00	-	12,500.00
	2,412,500.00	271,000.00	2,683,500.00

^aIn addition to remuneration for his activities as a member of the Supervisory Board of Deutsche Telekom AG, Josef Bednarski also received other remuneration amounting to EUR 5,250.00 (including meeting attendance fees) in the 2015 financial year (for his mandate as member of the supervisory board of Deutsche Telekom Kundenservice GmbH).

^bIn addition to remuneration for her activities as a member of the Supervisory Board of Deutsche Telekom AG, Sylvia Hauke also received other remuneration amounting to EUR 16,000.00 (including meeting attendance fees) in the 2015 financial year (for her mandate as member of the supervisory board of Telekom Deutschland GmbH).

^cIn addition to remuneration for his activities as a member of the Supervisory Board of Deutsche Telekom AG, Hans-Jürgen Kallmeier also received other remuneration amounting to EUR 16,500.00 (including meeting attendance fees) in the 2015 financial year (for his mandate as member of the supervisory board of T-Systems International GmbH).

^dIn addition to remuneration for her activities as a member of the Supervisory Board of Deutsche Telekom AG, Petra Steffi Kreusel also received other remuneration amounting to EUR 14,500.00 (including meeting attendance fees) in the 2015 financial year (for her mandate as member of the supervisory board of T-Systems International GmbH).

^eIn addition to remuneration for his activities as a member of the Supervisory Board of Deutsche Telekom AG, Lothar Schröder also received other remuneration amounting to EUR 30,000.00 (including meeting attendance fees) in the 2015 financial year (EUR 21,000.00 for his mandate as member of the supervisory board of Telekom Deutschland GmbH and EUR 9,000.00 as Chairman of the Data Privacy Advisory Council).