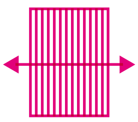
WE BELIEVE IN A FUTURE FULL OF POSSIBILITIES

THE 2012 FINANCIAL YEAR.

LIFE IS FOR SHARING.

Slide the panel horizontally over the illustration.



Even small changes can have a big impact. New ideas can challenge conventional views. As you read this report, let us take you on a journey through the world of Deutsche Telekom and discover how this panel makes pictures move and opens up endless possibilities. Wherever you see the “Deutsche Telekom innovation” symbol in the management report, you will find examples of Deutsche Telekom‘s innovative capabilities.

CONTENTS.

2012 FACTS AND FIGURES

LIFE IS FOR SHARING.

SHORT PROFILE.

Deutsche Telekom is an integrated telecommunications company that offers products and services from a single source. We provide fixed-network and mobile services, Internet, and TV for consumers, as well as ICT solutions for business customers and multinational corporations.

Our high-speed networks form the backbone of modern communication. Thanks to our Internet- and cloud-based services, our customers enjoy unrestricted and convenient access to information, communication, and entertainment.

We are one of the world's leading integrated telecommunications companies. Quality, security, and sustainability are our top priorities. We live up to our social responsibility by engaging in programs to protect the climate and the environment and in initiatives to promote education and integration.

CONTENTS.

DEUTSCHE TELEKOM AT A GLANCE.

In 2012 we succeeded in meeting our key financial targets with adjusted EBITDA of EUR 18.0 billion, and with free cash flow of EUR 6.2 billion we even exceeded them. Net revenue was slightly down by 0.8 percent year-on-year. While we recorded a slight decline in Germany, our home market, positive exchange rate effects resulted in moderate growth in the United States. Developments at our subsidiaries in Eastern Europe continued to be dominated by the challenging economic environment, intense competition, and massive regulatory intervention. As expected, adjusted EBITDA declined by 3.8 percent, with cost-cutting measures not fully compensating for higher expenditure to improve our market position in Germany and the United States and a decline in revenue in the Europe operating segment.

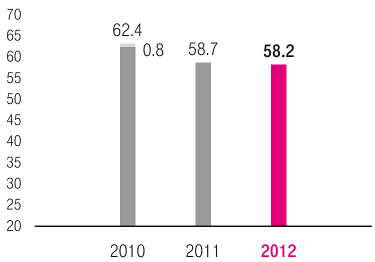
On October 3, 2012, we concluded an agreement with MetroPCS on the combination of our business activities in the United States. The combined company's improved position in terms of mobile spectrum and an expanded customer base mean that we will be able to compete more aggressively with the other national mobile carriers in the United States. Although the agreed business combination triggered the recognition of an impairment loss on goodwill and other non-current assets totaling EUR 7.4 billion (after taxes) that reduced our net profit significantly, we believe that this transaction generates value and makes entrepreneurial sense.

In 2012 we reduced net debt by EUR 3.3 billion to EUR 36.9 billion. Positive effects included, in particular, free cash flow, the cash inflows in connection with the cell tower deal between T-Mobile USA and Crown Castle, and the sale of the shares in Telekom Srbija.

We presented our growth plans at our Capital Markets Day in early December 2012 in Bonn. We plan to invest in the Company's future, notably in modern broadband networks in Germany, the United States, and Europe. This will give us a clear edge over many of our competitors. At the event we also presented our financial strategy for 2013 through 2015. In light of the considerable investments we are planning, we have decided to adjust our dividend to a sustainable level. We also announced a new sales partnership between T-Mobile USA and Apple that will help us, over the coming year, to eliminate the competitive disadvantages currently faced by T-Mobile USA.

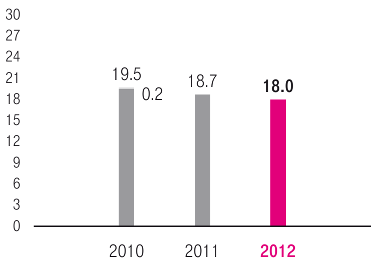
We are scaling up investments in our networks and continuing to expand our broadband infrastructure. These investments in the Company's future will pay off. We plan to grow again as early as in 2014, with revenue stabilizing in Germany and renewed growth in Europe and the United States. In 2014 we also expect to see an increase in total revenue as well as higher earnings compared to the prior year. Our Systems Solutions operating segment has been restructured, preparing the ground for reducing our expenditure on intragroup IT services. Finally, we plan to generate profitable growth in our business with corporate customers.

Net revenue. (billions of €)



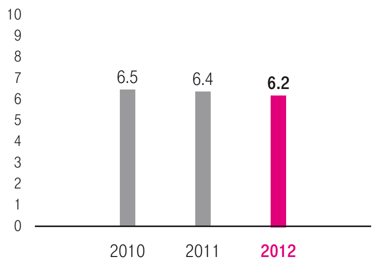
T-Mobile UK

Adjusted EBITDA. (billions of €)



T-Mobile UK

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



[a] And before PTC and AT&T transactions.

SELECTED FINANCIAL DATA OF THE GROUP.

T 001

		Change compared to prior year %[a]	2012 billions of €	2011 billions of €	2010 billions of €
REVENUE AND EARNINGS					
Net revenue		(0.8)	58.2	58.7	62.4
Of which: domestic[a]	%	(0.6)	44.3	44.9	43.7
Of which: international[a]	%	0.6	55.7	55.1	56.3
Profit from operations (EBIT)		n.a.	(3.8)	5.6	5.5
Net profit (loss)		n.a.	(5.3)	0.6	1.7
Net profit (loss) (adjusted for special factors)		(11.3)	2.5	2.9	3.4
EBITDA[a, b, c]		(9.4)	18.1	20.0	17.3
EBITDA (adjusted for special factors)[a, b, c]		(3.8)	18.0	18.7	19.5
EBITDA margin (adjusted for special factors)[a]	%	(0.9)	30.9	31.8	31.2
PROFITABILITY					
ROCE	%	(6.1)	(2.3)	3.8	3.5
STATEMENT OF FINANCIAL POSITION					
Total assets		(11.9)	107.9	122.5	127.8
Shareholders' equity		(23.5)	30.5	39.9	43.0
Equity ratio[a]	%	(4.3)	28.3	32.6	33.7
Net debt[a, c]		(8.1)	36.9	40.1	42.3
Relative debt (Net debt/EBITDA (adjusted for special factors))[a]		n.a.	2.1	2.1	2.2
Gearing (Net debt/Shareholders' equity)[a]		n.a.	1.2	1.0	1.0
Cash capex		0.3	(8.4)	(8.4)	(9.9)
CASH FLOWS					
Net cash from operating activities		(16.3)	13.6	16.2	14.7
Free cash flow (before dividend payments, spectrum investment, and before PTC and AT&T transactions)[a, c, d, e]		(2.8)	6.2	6.4	6.5
Net cash used in investing activities		28.1	(6.7)	(9.3)	(10.7)
Net cash used in financing activities		(10.8)	(6.6)	(6.0)	(6.4)
EMPLOYEES					
Average number of employees	thousands	(3.3)	232	240	252
Revenue per employee[a]	thousands of €	2.6	250.4	244.0	247.2
T-SHARE – KEY FIGURES					
Earnings per share (basic and diluted) in accordance with IFRS	€	n.a.	(1.22)	0.13	0.39
Dividend per share	€	0.0	0.70	0.70	0.70
Total dividend[f]	billions of €	0.0	3.0	3.0	3.0
Share buy-back[g]	billions of €	0.0	0.0	0.0	0.4
Total number of ordinary shares at the reporting date[h]	millions	0.0	4,321	4,321	4,321

2009	2008	2007	2006	2005
billions of €	billions of €	billions of €	billions of €	billions of €
64.6	61.7	62.5	61.3	59.6
43.4	46.8	49.1	52.9	57.4
56.6	53.2	50.9	47.1	42.6
6.0	7.0	5.3	5.3	7.6
0.4	1.5	0.6	3.2	5.6
3.4	3.4	3.0	3.9	4.7
19.9	18.0	16.9	16.3	20.1
20.7	19.5	19.3	19.4	20.7
32.0	31.6	30.9	31.7	34.8
3.9	–	–	–	–
127.8	123.1	120.7	130.2	128.5
41.9	43.1	45.2	49.7	48.6
32.8	35.0	37.5	38.2	37.8
40.9	38.2	37.2	39.6	38.6
2.0	2.0	1.9	2.0	1.9
1.0	0.9	0.8	0.8	0.8
(9.2)	(8.7)	(8.0)	(11.8)	(9.3)
15.8	15.4	13.7	14.2	15.1
7.0	7.0	6.6	3.0	6.2
(8.6)	(11.4)	(8.1)	(14.3)	(10.1)
(5.1)	(3.1)	(6.1)	(2.1)	(8.0)
258	235	244	248	244
250.8	262.5	256.5	246.9	244.3
0.08	0.34	0.13	0.74	1.31
0.78	0.78	0.78	0.72	0.72
3.4	3.4	3.4	3.1	3.0
–	–	–	–	–
4,361	4,361	4,361	4,361	4,198

[a] Calculated on the basis of millions for the purpose of greater precision. Changes to percentages expressed as percentage points.
[b] Deutsche Telekom defines EBITDA as profit/loss from operations before depreciation, amortization and impairment losses.
[c] EBITDA, EBITDA adjusted for special factors, net debt, and free cash flow are non-GAAP figures not governed by the International Financial Reporting Standards (IFRS). They should not be viewed in isolation as an alternative to profit or loss from operations, net profit or loss, net cash from operating activities, the debt reported in the consolidated statement of financial position, or other Deutsche Telekom key performance indicators presented in accordance with IFRS. For detailed information and calculations, please refer to the section on “Development of business in the Group” of the combined management report in this Annual Report, **PAGE 90 et seq.**
[d] Figures for 2006 include EUR 3.3 billion for the acquisition of licenses.
[e] Since the beginning of the 2007 financial year, Deutsche Telekom has defined free cash flow as cash generated from operations less interest paid and net cash outflows for investments in intangible assets (excluding goodwill) and property, plant and equipment. Prior-year figures have been adjusted accordingly.
[f] Subject to approval from the 2013 shareholders’ meeting concerning the dividend payments for the 2012 financial year. For more detailed explanations, please refer to **NOTE 28** “Dividend per share” in the notes to the consolidated financial statements, **PAGE 253**.
[g] Relating to the shareholder remuneration policy adopted in 2010 for the 2010 to 2012 financial years.
[h] Including treasury shares held by Deutsche Telekom AG.

KEY DATA OF THE GROUP.

T 002

		2012	2011	2010	2009	2008	2007
KEY DATA OF THE GROUP [a]							
Fixed-network lines	millions	32.4	34.1	36.0	38.5	41.5	44.7
Retail broadband lines	millions	17.2	16.9	16.4	15.4	13.9	11.4
Mobile customers	millions	132.3	129.3	128.5	134.5	130.9	118.4
GERMANY							
Fixed-network lines	milions	22.4	23.4	24.7	26.2	28.3	30.8
Retail broadband lines	milions	12.4	12.3	12.0	11.5	10.6	9.0
TV (including satellite)	milions	2.0	1.6	1.2	0.8	0.4	0.1
Mobile customers [b]	milions	36.6	35.4	34.7	39.1	39.1	36.0
Unbundled local loop lines (ULLs)	milions	9.4	9.6	9.5	9.1	8.3	6.4
Wholesale bundled lines	milions	0.5	0.7	1.0	1.6	2.5	3.5
Wholesale unbundled lines	milions	1.3	1.2	1.0	0.6	0.2	–
EUROPE							
Fixed-network lines	milions	10.0	10.6	11.3	12.3	13.2	13.9
Retail broadband lines	milions	4.8	4.6	4.4	3.9	3.3	2.4
Wholesale bundled lines	milions	0.2	0.2	0.2	0.2	0.3	0.4
Wholesale unbundled lines	milions	0.1	0.1	0.0	0.0	0.0	0.0
Unbundled local loop lines (ULLs)	milions	2.0	1.8	1.5	1.1	0.7	0.3
Mobile customers	milions	61.9	60.3	60.1	61.6	59.0	52.6
UNITED STATES							
Mobile customers	milions	33.4	33.2	33.7	33.8	32.8	29.8
SYSTEMS SOLUTIONS							
Computing & Desktop Services							
Number of servers managed and serviced	units	57,121	58,053	58,073	47,092	56,734	39,419
Number of workstations managed and serviced	millions	1.93	2.00	1.95	1.86	1.51	1.46
Systems Integration							
Hours billed [c]	millions	6.3	n.a.	n.a.	n.a.	n.a.	n.a.
Utilization rate [d]	%	85.1	n.a.	n.a.	n.a.	n.a.	n.a.

Prior-year figures have been adjusted on a pro forma basis. Totals calculated on the basis of precise figures and rounded to millions.

Group
[a] Including business customers (corporate mobile customers and fixed-network lines) that were reclassified from the Europe to the Systems Solutions segment with effect from January 1, 2011.

Germany
[b] Stationary wireless solutions have been reported under mobile communications since October 1, 2011.

Europe
The Europe operating segment includes the national companies in Greece, Romania, Hungary, Poland, the Czech Republic, Croatia, the Netherlands, Slovakia, Austria, Bulgaria, Albania, the F.Y.R.O. Macedonia, and Montenegro.

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

The OTE group has been fully consolidated since February 1, 2009. Prior-year figures have been adjusted accordingly on a pro forma basis.

Zapp (Romania) has been consolidated since November 1, 2009. Prior-year figures have not been adjusted.

The fixed-network and broadband lines in the Netherlands are included in the figures for all years shown.

System Solutions
[c] Cumulative figures as of the reporting date.
[d] Ratio of average number of hours billed to maximum possible hours billed per period.

PRINCIPAL SUBSIDIARIES.

T 003

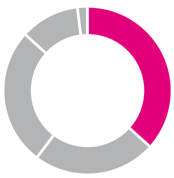
Name and registered office	Deutsche Telekom share Dec. 31, 2012 %	Net revenue 2012 millions of €	Profit (loss) from operations 2012 millions of €	Shareholders' equity 2012 millions of €	Average number of employees 2012
Telekom Deutschland GmbH, Bonn, Germany	100.00	22,388	4,683	5,501	13,814
T-Mobile USA, Inc., Bellevue, Washington, United States [a, b]	100.00	15,371	(7,547)	6,182	30,184
T-Systems International GmbH, Frankfurt/Main, Germany	100.00	7,073	(424)	1,162	22,937
Hellenic Telecommunications Organization S.A. (OTE), Athens, Greece [a]	40.00	4,685	296	3,673	26,951
Magyar Telekom Nyrt., Budapest, Hungary [a, b]	59.23	2,018	301	2,336	11,291
T-Mobile Netherlands Holding B.V., The Hague, Netherlands [a, b]	100.00	1,664	246	2,150	1,720
PTC, Polska Telefonia Cyfrowa S.A., Warsaw, Poland [b]	100.00	1,678	241	2,160	4,760
T-Mobile Czech Republic a.s., Prague, Czech Republic [b]	60.77	1,044	344	1,749	2,850
Hrvatski Telekom d.d., Zagreb, Croatia [a]	51.00	992	258	1,991	5,767
T-Mobile Austria Holding GmbH, Vienna, Austria [a, b]	100.00	878	(234)	1,516	1,235
Slovak Telekom a.s., Bratislava, Slovakia [a]	51.00	837	109	1,928	3,906

[a] Consolidated subgroup.
[b] Indirect shareholding of Deutsche Telekom AG.

In accordance with § 313 HGB, the full statement of investment holdings, which forms part of the notes to the consolidated financial statements, is published in the electronic Federal Gazette (elektronischer Bundesanzeiger) together with the consolidated financial statements. It is available upon request from Deutsche Telekom AG, Bonn, Investor Relations, and on Deutsche Telekom's website (@ WWW.TELEKOM.COM) via the following path: INVESTOR RELATIONS/CORPORATE GOVERNANCE/ANNUAL DOCUMENT. Furthermore, the statement of investment holdings includes a full list of all subsidiaries that exercise simplification options in accordance with § 264 (3) HGB or disclosure simplification options in accordance with § 264b HGB.

@ For information about our places of operations, please visit WWW.TELEKOM.COM/WORLDWIDE.

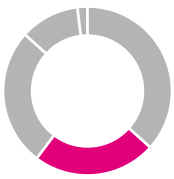
THE OPERATING SEGMENTS.



■ **36.8 %** of net revenue

GERMANY. PAGES 105 – 110

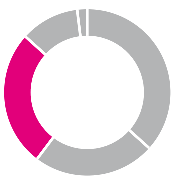
In our home market of Germany, we held our own well in the market in the face of regulatory interventions and intense competition. Revenue amounted to EUR 22.7 billion, a decrease by 2.0 percent, half as much as in 2011. EBITDA decreased to EUR 9.2 billion in the reporting year. The number of subscribers to our Internet-based television service Entertain increased by 26.6 percent year-on-year, to approximately 2.0 million. In the same period, the number of mobile customers increased to 36.6 million and the number of fast VDSL lines grew by as much as 48.1 percent.



■ **23.6 %** of net revenue

EUROPE. PAGES 111 – 117

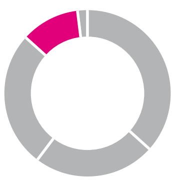
The companies in our Europe operating segment held their own well in a turbulent environment despite tougher conditions. The number of broadband lines climbed 3.9 percent, in part thanks to IPTV business. With a significant increase in the number of contract customers, our mobile customer base grew to around 62 million. We slowed down the decline in revenue overall to 4.0 percent (adjusted for exchange rate effects) despite massive regulatory intervention and the still strained economic situation in most countries in our segment. The strict application of our efficiency programs partially offset the decline in revenue and enabled us to keep our adjusted EBITDA margin at a consistently high level.



■ **26.4 %** of net revenue

UNITED STATES. PAGES 118 – 121

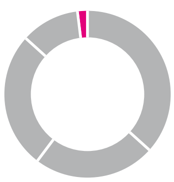
In the United States, positive exchange rate effects drove moderate revenue growth. Following a decline in customer numbers in prior years, T-Mobile USA increased its customer base to 33.4 million as of December 31, 2012. There was strong growth in prepaid service revenues, primarily due to the ongoing success of 4G prepaid products with monthly flat rates. At EUR 3.8 billion, adjusted EBITDA remained almost unchanged year-on-year; EBITDA for 2012 was adjusted to exclude special factors, mainly in connection with income of EUR 1.4 billion from the sale of cell sites.



■ **11.4 %** of net revenue

SYSTEMS SOLUTIONS. PAGES 122 – 124

T-Systems provides information and communication technology for corporate customers. In the reporting year, order entry increased by 18.1 percent year-on-year due to the conclusion of major new deals, including in the growth area of cloud computing. Adjusted EBITDA increased by 11.2 percent, partly as a result of the restructuring and efficiency enhancement program launched. Effective July 1, 2012, we reorganized the Group's IT infrastructure and transferred all internal IT units to the new Telekom IT unit within the Systems Solutions operating segment.



■ **1.8 %** of net revenue

GROUP HEADQUARTERS & SHARED SERVICES. PAGES 125 – 126

Group Headquarters performs strategic and cross-segment management functions for the Deutsche Telekom Group while Shared Services cover all other operating functions not directly related to the operating segments' core business activities, including financial accounting, HR services, operational procurement, and units such as Real Estate Services and Mobility Solutions, a provider of fleet management and mobility services. Shared Services also include our personnel service provider, Vivento, which is responsible for providing employees with new employment opportunities as part of the workforce restructuring program.

T 004

	Change %	2012 billions of €	2011 billions of €	2010 billions of €	2009 billions of €	2008 billions of €
TOTAL REVENUE	**(2.0)**	**22.7**	**23.2**	**24.2**	**25.4**	**26.4**
Profit from operations (EBIT)	(3.9)	4.3	4.5	5.1	5.1	4.6
EBITDA (adjusted for special factors)	(4.1)	9.2	9.6	9.7	9.6	9.8
Average number of employees	(2.7)	68,653	70,525	76,912	84,584	89,961

	Change %	2012 billions of €	2011 billions of €	2010 billions of €	2009 billions of €	2008 billions of €
TOTAL REVENUE	**(4.7)**	**14.4**	**15.1**	**16.8**	**19.6**	**15.9**
Profit from operations (EBIT)	90.3	1.5	0.8	1.0	0.1	1.4
EBITDA (adjusted for special factors)	(6.1)	4.9	5.2	5.7	6.4	5.0
Average number of employees	(3.6)	57,955	60,105	65,435	69,277	39,174

	Change %	2012 billions of €	2011 billions of €	2010 billions of €	2009 billions of €	2008 billions of €
TOTAL REVENUE	**3.8**	**15.4**	**14.8**	**16.1**	**15.5**	**15.0**
Profit (loss) from operations (EBIT)	n.a.	(7.5)	(0.7)	2.1	2.2	2.3
EBITDA (adjusted for special factors)	0.2	3.8	3.8	4.2	4.3	4.2
Average number of employees	(12.6)	30,184	34,518	37,795	38,231	36,076

	Change %	2012 billions of €	2011 billions of €	2010 billions of €	2009 billions of €	2008 billions of €
TOTAL REVENUE	**0.6**	**10.0**	**10.0**	**9.9**	**8.8**	**9.3**
Profit (loss) from operations (EBIT)	(3.1)	(0.3)	(0.3)	(0.2)	(0.01)	0.08
EBITDA (adjusted for special factors)	11.2	0.7	0.7	0.8	0.9	0.8
Average number of employees	1.0	52,742	52,241	47,924	45,328	46,095

	Change %	2012 billions of €	2011 billions of €	2010 billions of €	2009 billions of €	2008 billions of €
TOTAL REVENUE	**0.0**	**3.0**	**3.0**	**3.1**	**2.4**	**2.8**
Profit (loss) from operations (EBIT)	n.a.	(1.8)	1.3	(2.5)	(1.2)	(1.3)
EBITDA (adjusted for special factors)	(12.6)	(0.7)	(0.6)	(0.9)	(0.3)	(0.2)
Average number of employees	(0.7)	22,808	22,980	24,428	20,181	23,581

For detailed tables on the development of our operating segments and Group Headquarters & Shared Services, please refer to the combined management report, **PAGE 104 et seq.**

The figures for 2011 and 2010 have been adjusted for better comparability. For more information, please refer to **NOTE 32** “Segment reporting” in the notes to the consolidated financial statements, **PAGE 256 et seq.**

ECOLOGICAL PERFORMANCE INDICATORS.

“We take responsibility” – this slogan reflects our commitment to society and the environment.

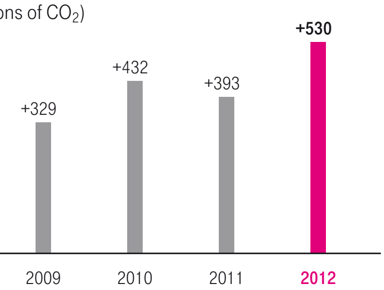
Deutsche Telekom’s core business is providing our society with all imaginable services and amenities required for connected life and work. We are focusing on long-term challenges and have to live up to our responsibility to society as a whole. Three of the most important challenges are protecting the climate, improving services for connected life and work, and ensuring equal opportunity access to the information and knowledge society.

These three action areas are at the core of our broad range of activities in the field of corporate responsibility (CR). We have developed CR-specific steering parameters, what we call our CR key performance indicators (CR KPIs), to measure our success. For instance, the CO_2 Emissions and Energy Consumption CR KPIs as presented below are parameters for measuring Deutsche Telekom’s ecological performance. For further information on Deutsche Telekom’s commitment to corporate responsibility, please refer to the **“CORPORATE RESPONSIBILITY” SECTION** in the combined management report, **PAGE 131 et seq.**

CO_2 Emissions CR KPI.

(Changes compared against 2008 base year in thousands of metric tons of CO_2)

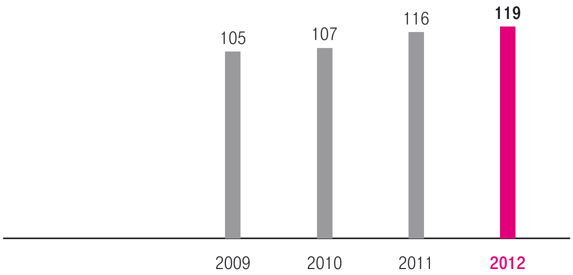
Figure in 2008:
3,117 thousands of metric tons of CO_2



	2009	2010	2011	2012
CO_2 emissions ('000 t)	3,446	3,549	3,510	**3,647**
Changes compared against 2008 (%)	+11	+14	+13	**+17**

Changes in CO_2 emissions (Scopes 1 and 2) compared against 2008 (base year). Emissions are measured in CO_2 equivalent values based on energy and fuel consumption in accordance with the Greenhouse Gas Protocol and employing the emission factors specified by the International Energy Agency and the Greenhouse Gas Protocol.

Energy Consumption CR KPI. [a]



	2009	2010	2011	2012
Revenue (billions of €)	57.6	58.4	55.4	**55.7**
Power consumption ('000 MWh)	6,049.2	6,262.6	6,409.4	**6,636.8**

Energy Consumption CR KPI: Ratio of energy consumption in thousands of MWh to relevant revenue in billions of €, calculated as Monetary Power Efficiency Indicator (MPEI).

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

FINANCIAL CALENDAR.

Financial calendar.

Press conference on the 2012 financial statements and presentation of the 2012 Annual Report	February 28, 2013
Group report Jan. 1 to Mar. 31, 2013	May 8, 2013
2013 shareholders' meeting (Cologne)	May 16, 2013
Dividend payout [a]	June 12, 2013
Group report Jan. 1 to June 30, 2013	August 8, 2013
Group report Jan. 1 to Sept. 30, 2013	November 7, 2013
Press conference on the 2013 financial statements and presentation of the 2013 Annual Report	February 27, 2014

[a] Deutsche Telekom plans to pay out the dividend either in cash or in kind (shares). The cash dividend is expected to be paid out on June 12, 2013.

@ For more dates, an updated schedule, and information on webcasts please go to WWW.TELEKOM.COM/FINANCIAL-CALENDAR.

CONTACTS.

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Corporate Communications
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Phone +49 (0) 228 181 4949
Fax +49 (0) 228 181 94004

www.telekom.com

Please refer all questions relating to the T-Share to Investor Relations at:

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

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Investor Relations
14 Wall Street, Suite 6B
New York, NY 10005, USA
Phone +1-212-424-2959
Phone +1-877-DT-SHARE (TOLL-FREE)
Fax +1-212-424-2977
E-mail: investor.relations@usa.telekom.de

Deutsche Telekom's Annual Report is available on the Internet at:

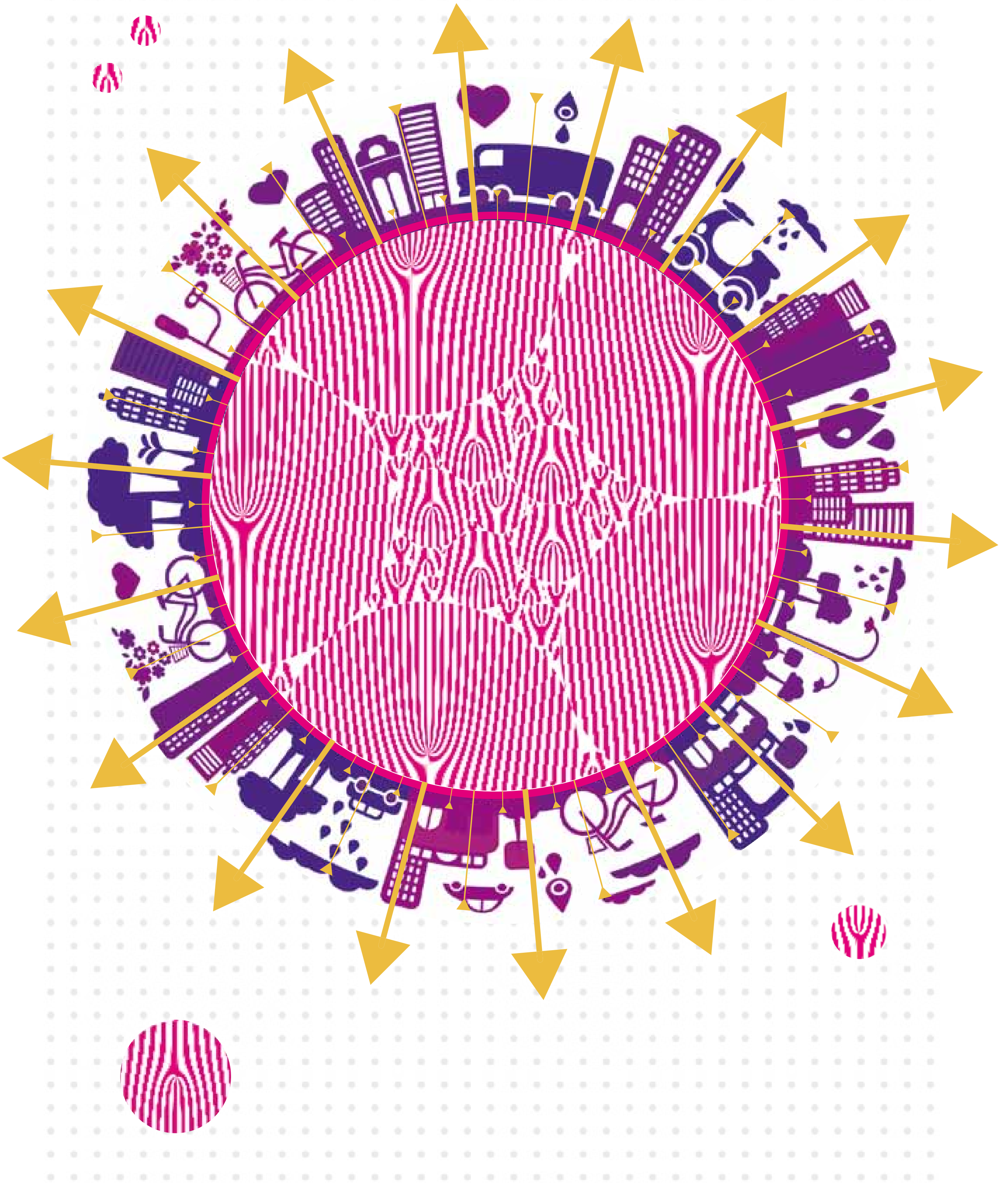
www.telekom.com/geschaeftsbericht2012
www.telekom.com/annualreport2012

WE DEVELOP AND SHAPE THE DIGITAL WORLD. WE LIVE IN THIS WORLD AND PROTECT IT.

WE HAVE THE BEST NETWORK.

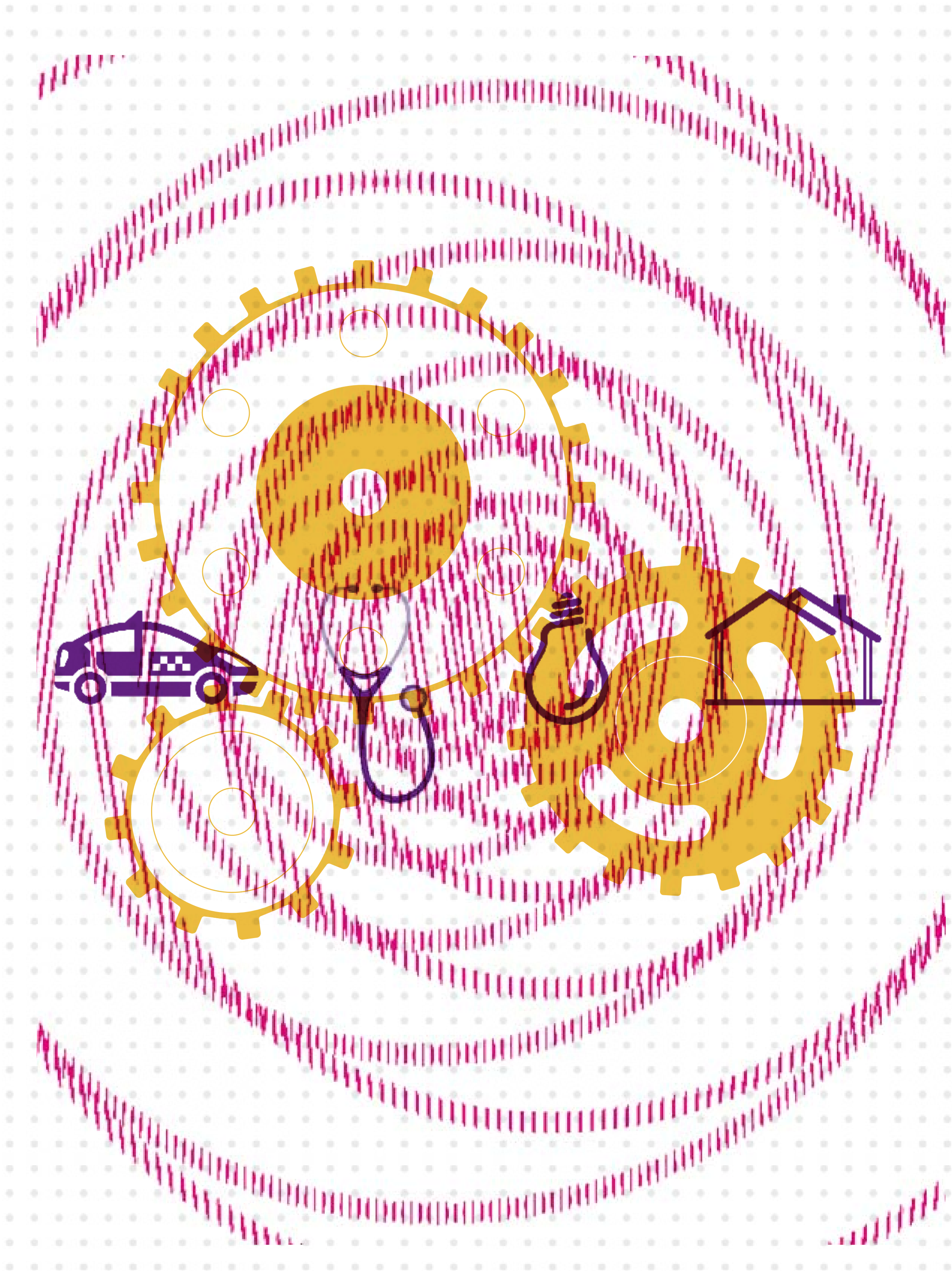
WE'RE CONTINUING TO BUILD THE BEST NETWORK THERE IS.

SMARTPHONES, TABLETS AND CO. HAVE BECOME INDISPENSABLE COMPANIONS. OUR MOBILE AND FIXED NETWORKS FORM THE BACKBONE OF THIS LIGHTNING-SPEED DIGITIZATION OF SOCIETY. THE QUALITY OF THESE NETWORKS IS CRUCIAL WHEN IT COMES TO ENSURING GLITCH-FREE COMMUNICATION AND PERMANENT ONLINE ACCESS. DEUTSCHE TELEKOM SWEPT UP ALL THE MAJOR NETWORK QUALITY AWARDS IN 2012, AND WE ARE CONTINUING TO BUILD OUT OUR NETWORKS AT HIGH SPEED. WHAT'S MORE, VECTORING HAS THE POTENTIAL TO ALLOW USERS ALL OVER GERMANY SUPERFAST FIXED-NETWORK INTERNET ACCESS. THANKS TO LTE, OUR MOBILE CUSTOMERS CAN ENJOY PRACTICALLY THE SAME SPEEDS AS THEY HAVE WITH THE FIXED NETWORK.



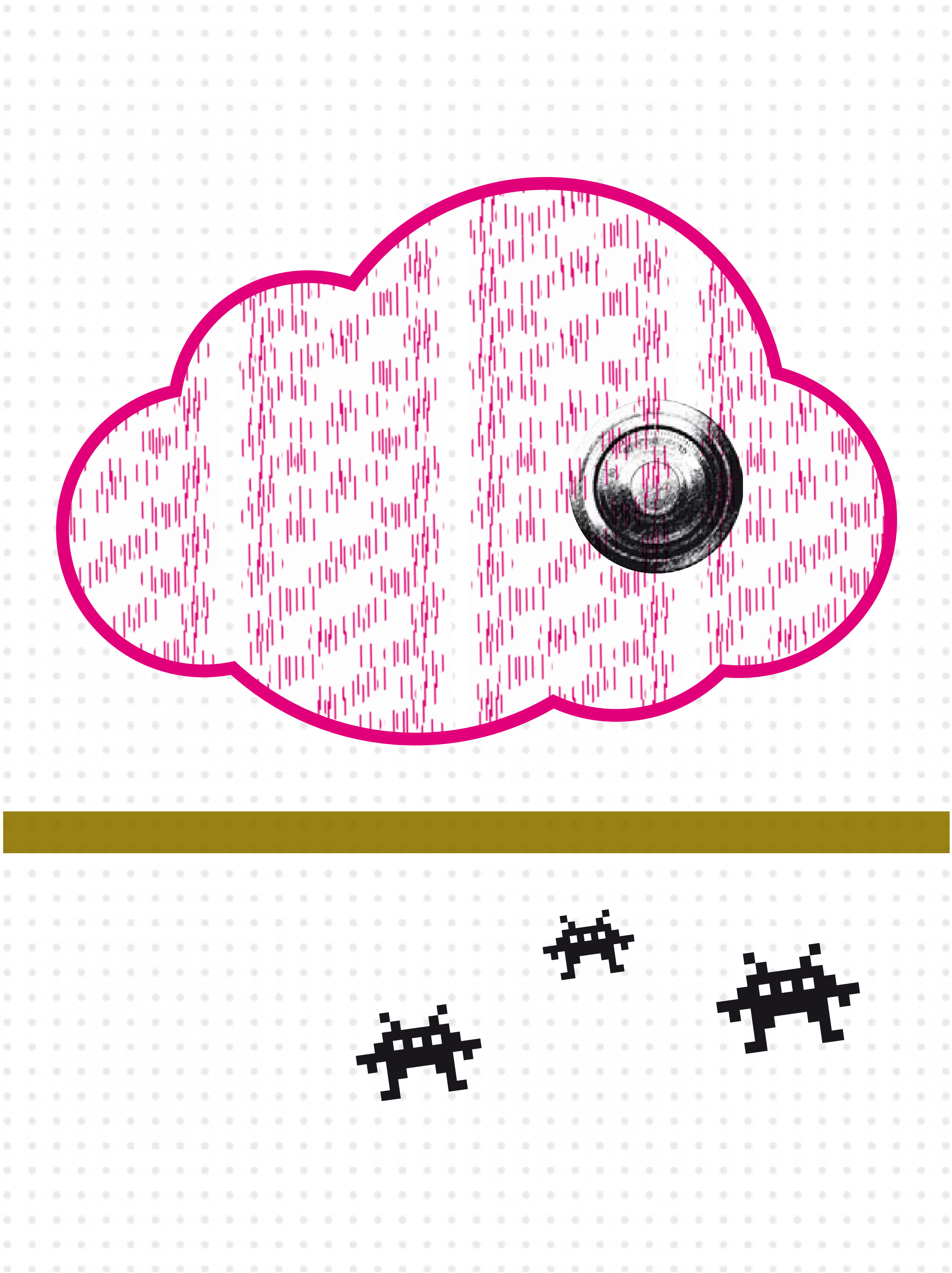
WE’RE DEVELOPING THE DIGITAL WORLD FOR EVERYONE’S BENEFIT.

THE DIGITAL WORLD IS FUNDAMENTALLY CHANGING THE WAY WE COMMUNICATE. THIS WORLD IS FASCINATING AND LIMITLESS. WE’RE ABLE TO ACCESS OUR FILES ON THE ROAD, USE WIFI CONNECTIONS IN CABS, OR FIND A VACANT CHARGING STATION ONLINE WHILE IN AN E-CAR. BEFORE WE GET HOME, WE CAN CHOOSE TO TURN UP THE HEATING A FEW DEGREES. WE CAN LOWER THE BLINDS AT NIGHT WHILE WE’RE AWAY ON VACATION. PATIENTS CAN TRANSMIT THEIR HEART RATE AND BLOOD PRESSURE READINGS ONLINE TO THEIR PHYSICIANS. DEUTSCHE TELEKOM WORKS WITH LEADING TECHNOLOGY COMPANIES TO DEVELOP NEW, CROSS-INDUSTRY SOLUTIONS. WHETHER ENERGY, SECURITY, HEALTH, OR OTHER ASPECTS OF OUR DAILY LIVES, THE AIM IS ALWAYS THE SAME: GREATER CONVENIENCE THROUGH CONNECTED APPLICATIONS.



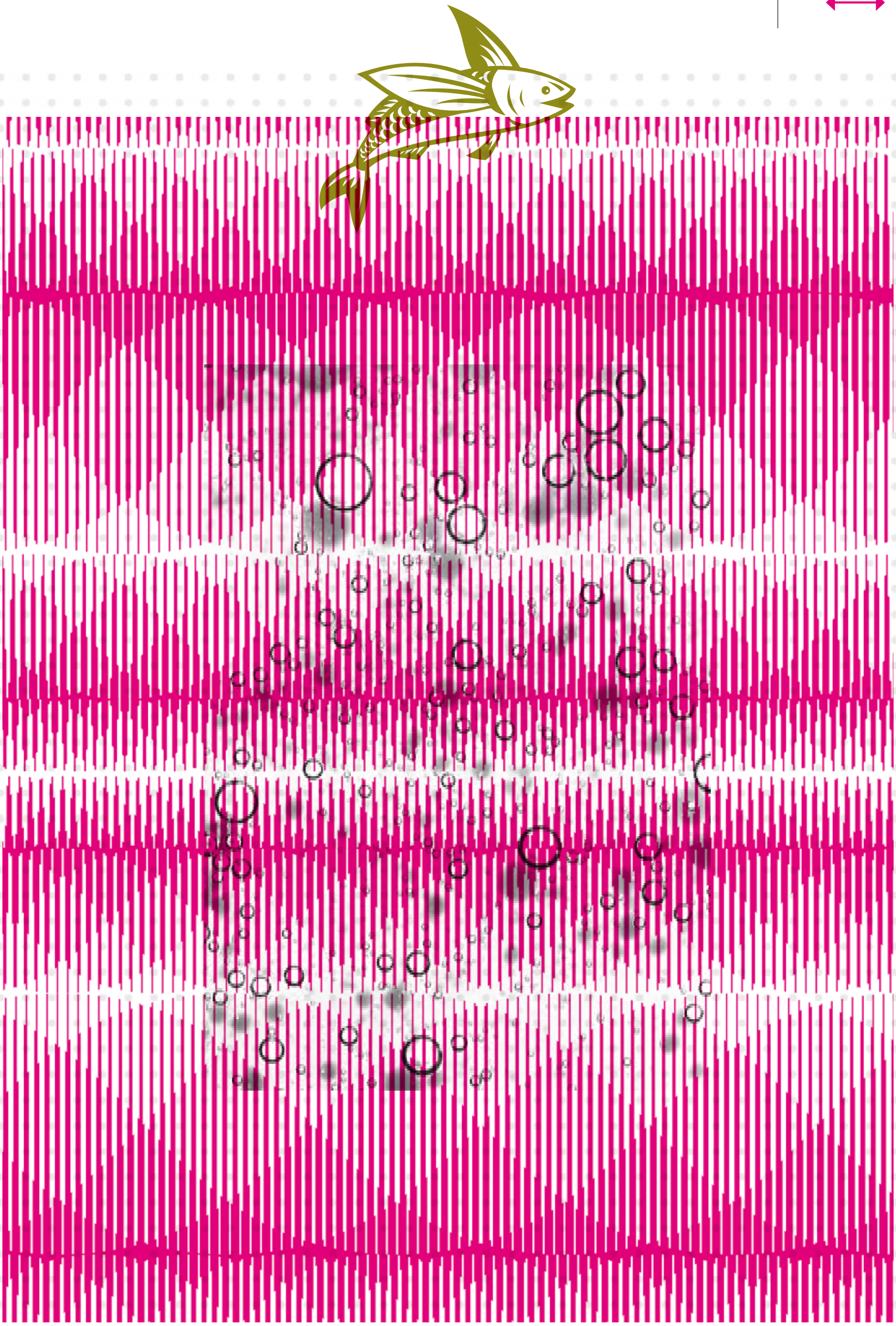
WE PROTECT OUR MOST VALUED ASSETS.

THE HONEYPOTS ARE OUT, AND THE HACKERS ARE SWARMING IN FROM THE WORLD WIDE WEB TO ATTACK OUR SPECIALLY PREPARED TRAPS. DEUTSCHE TELEKOM REGISTERS UP TO 400,000 ATTEMPTED ATTACKS EVERY SINGLE DAY. WE ANALYZE THE HACKERS' ACTIVITIES TO MINIMIZE THE VULNERABILITY OF OUR SYSTEMS AND KEEP THEM – AND OUR CUSTOMERS – AS SAFE AS POSSIBLE. THE HONEYPOTS ARE JUST ONE OF MANY MEASURES WE'VE PUT IN PLACE SO WE CAN KEEP A PERMANENT AND WATCHFUL EYE ON THE INCREASING DANGERS LURKING ONLINE. HOWEVER, INTERNET SAFETY CAN'T BE MAINTAINED BY ONE COMPANY ALONE – IT'S A JOINT EFFORT. THAT'S WHY WE ORGANIZED THE FIRST CYBER SECURITY SUMMIT FOR THE GERMAN PRIVATE SECTOR IN 2012.



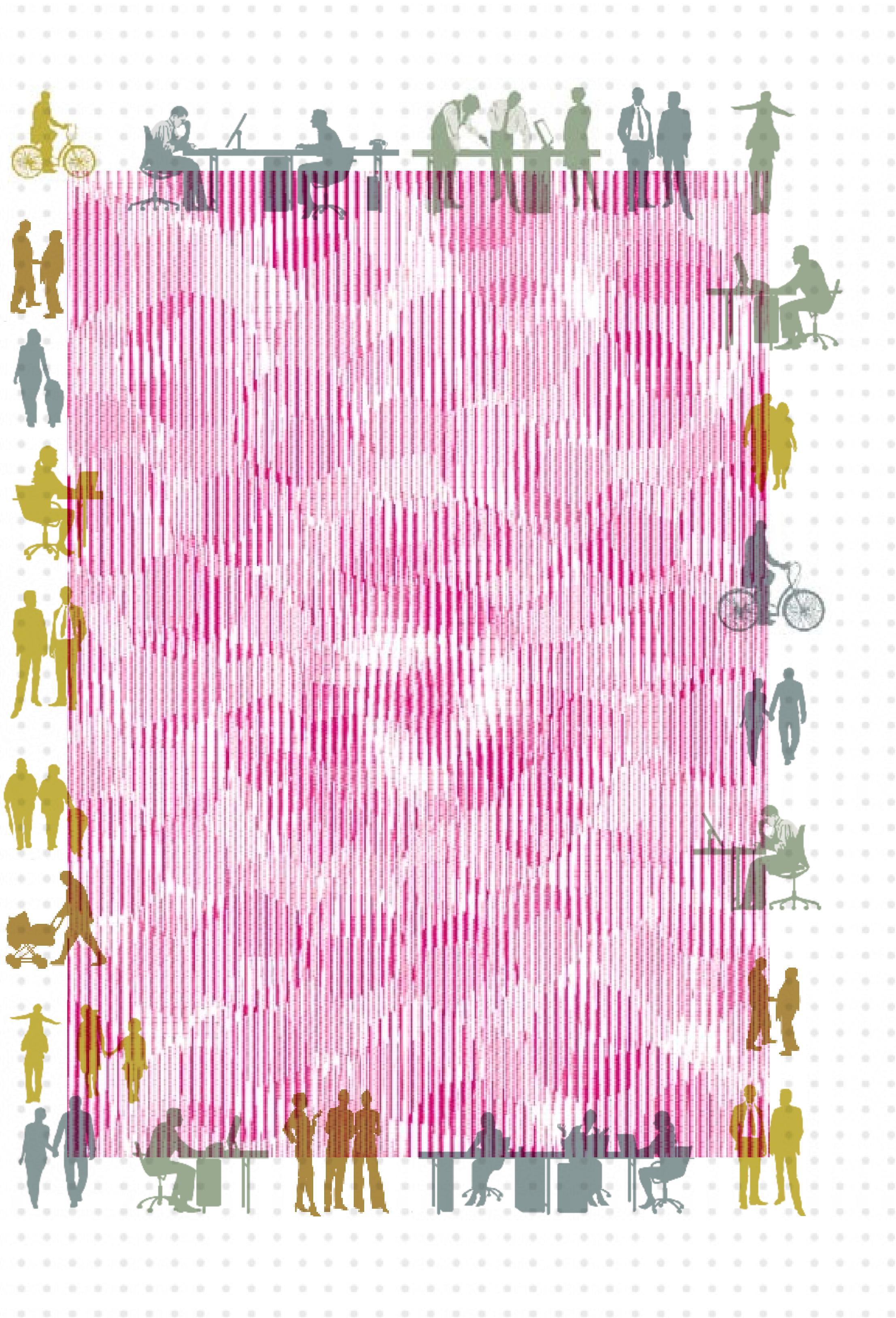
WE CULTIVATE FRESH IDEAS.

THERE'S PRACTICALLY NO OTHER MARKET WHERE INNOVATION PROGRESSES AS RAPIDLY AS IT DOES IN IT AND TELECOMMUNICATIONS. COMPANIES THAT WANT TO BE AT THE CUTTING EDGE NEED A LIVELY, CREATIVE COMMUNITY OF THINKERS. WE'RE ENGAGED IN A RISING NUMBER OF COOPERATION ARRANGEMENTS AND A VARIETY OF PARTNER MODELS INVOLVING MAJOR GLOBAL CORPORATIONS AS WELL AS YOUNG ENTREPRENEURS AND NEW START-UPS. THIS GIVES DEUTSCHE TELEKOM AND ITS CUSTOMERS ACCESS TO OUR PARTNERS' HOTTEST NEW DEVELOPMENTS – AN APPROACH THAT ALLOWS ALL PARTIES TO BENEFIT FROM THE TECHNICAL PROGRESS THAT'S TAKING PLACE IN THE DIGITAL WORLD.



WE ACCOMMODATE OUR EMPLOYEES' PERSONAL LIFE CHOICES.

PEOPLE'S LIFESTYLES ARE BECOMING MORE AND MORE DIVERSE. WE HAVE RESPONDED BY ADAPTING AND UPDATING OUR CONVENTIONAL WORKING PATTERNS. TODAY, DEUTSCHE TELEKOM'S EMPLOYEES CAN CHOOSE FROM A WIDE RANGE OF POSSIBILITIES TO MAINTAIN A WORK-LIFE BALANCE: PART-TIME SCHEMES FOR MANAGERS, CHILDCARE, REDUCED HOURS FOR EMPLOYEES CARING FOR OLD OR SICK RELATIVES, JOB SHARING, MOBILE OFFICES, PROFESSIONAL HEALTH MANAGEMENT SCHEMES, AND TRAINING INITIATIVES. WE WANT TO CREATE A DIVERSE, FLEXIBLE, AND OPEN CORPORATE CULTURE. THIS INCLUDES MAINTAINING A WELL-BALANCED MIX OF WOMEN AND MEN OF ALL AGES.



OUR FOCUS IS ON SHARING THE DIGITAL WORLD WITH MORE AND MORE PEOPLE.

WE CREATE CONNECTIONS.


IF "Plan A" Didn't Work. The alphabet has 25 more letters! Stay Cool.
STAY HUNGRY STAY FOOLISH



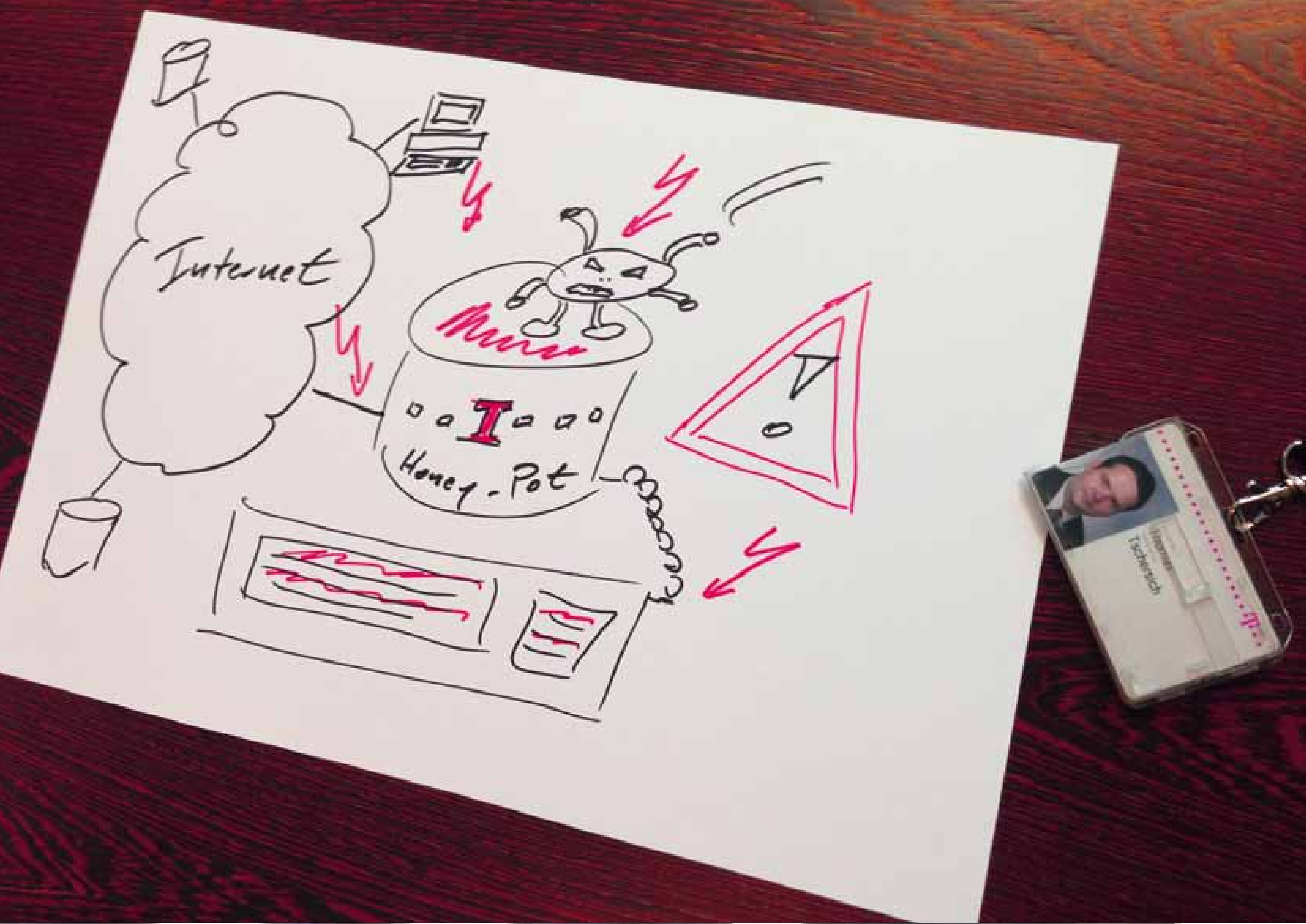
voller Empfang!

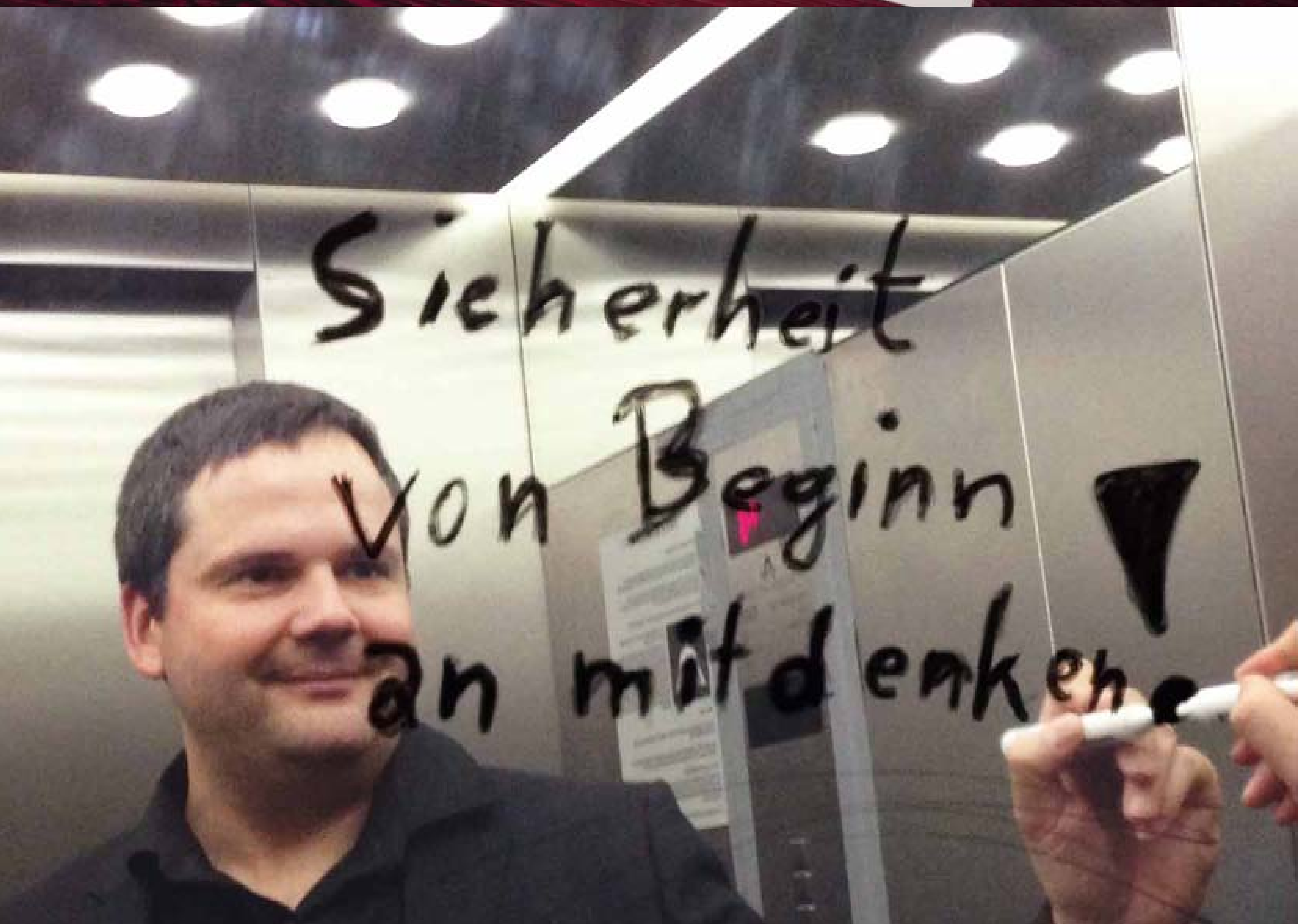

PAPA
IST
FRÜHER
ZUHAUSE.
P

Mehr Zeit
FÜR UNS!


Alles okay
sagt mein
Doc!
S.


Unsere neuen
Fensterschließautomaten


Internet
Honey-Pot


Sicherheit
von Beginn
an mitdenken!

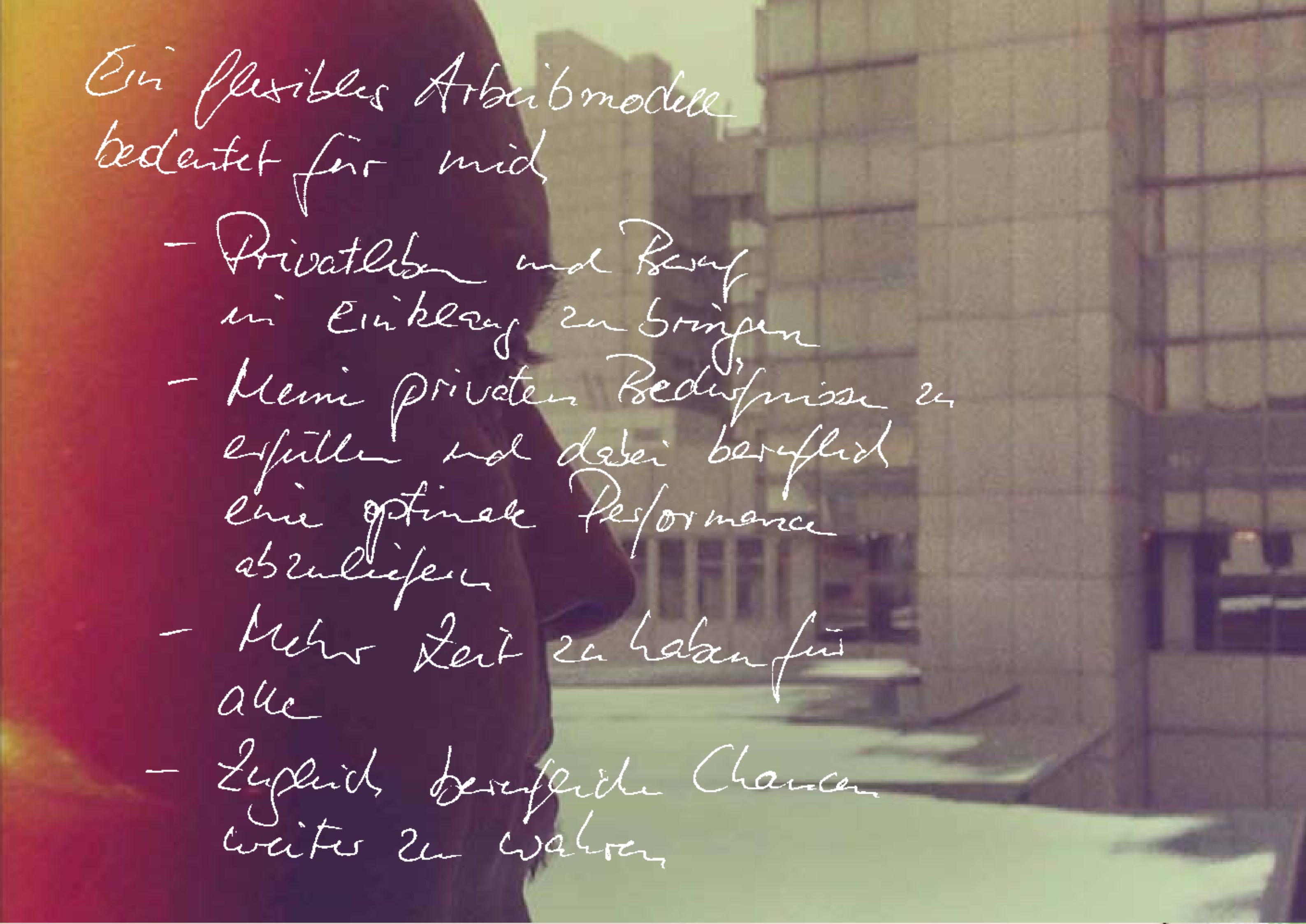

INVE$TOR
Olli
NIKO
Fee Beyer
hub:raum
DEUTSCHE TELEKOM
hubraum
Olli
railsonfire


CONTENT
1st!


hub:raum
HOWDO

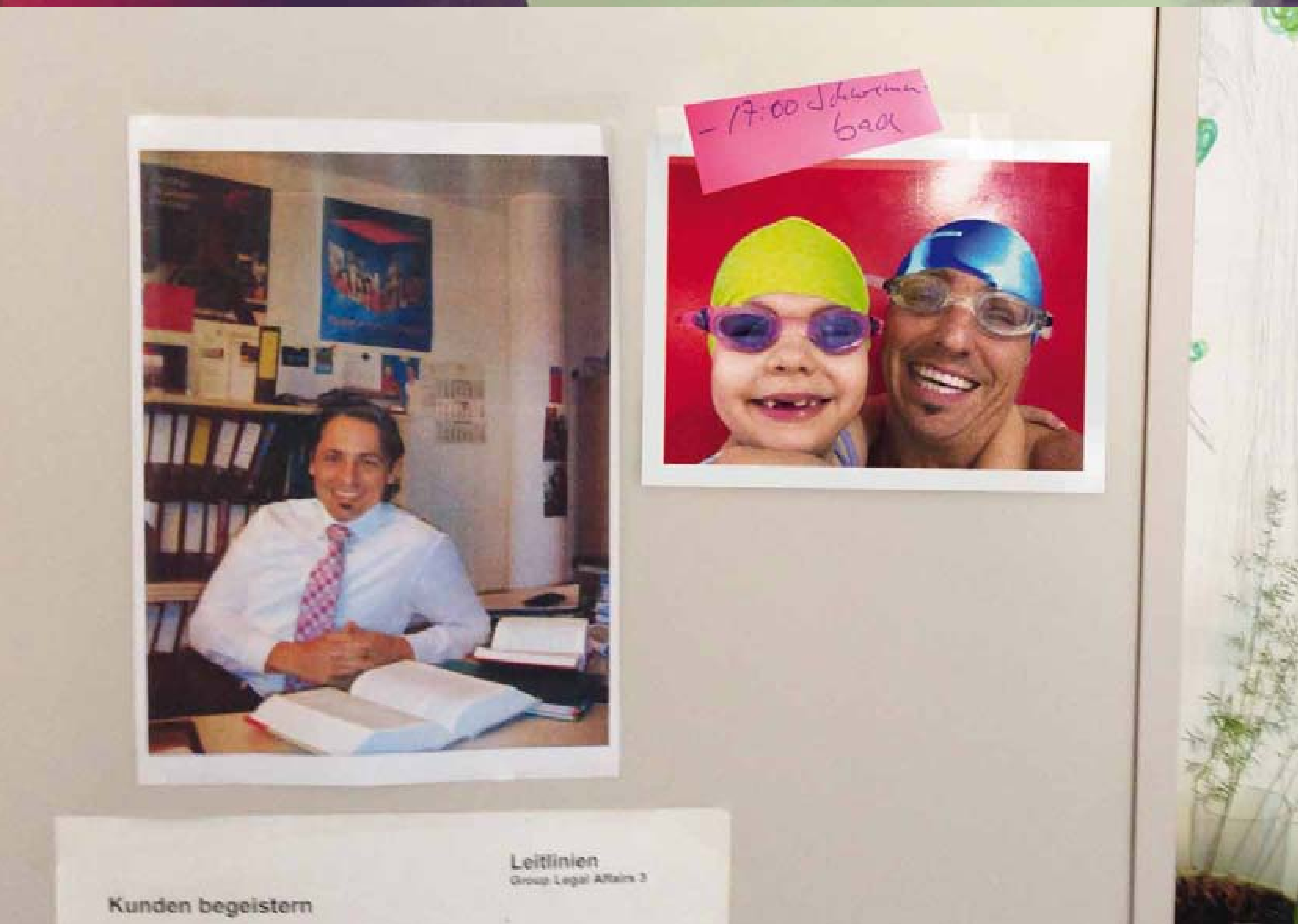

BLINKIST


Mi.
Do.
Fr.
Mo.
Di.
Do.

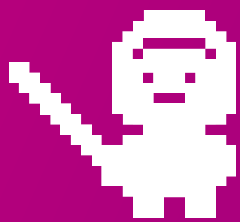


Ein flexibles Arbeitsmodell bedeutet für mich

- Privatleben und Beruf in Einklang zu bringen
- Meine privaten Bedürfnisse zu erfüllen und dabei beruflich eine optimale Performance abzuliefern
- Mehr Zeit zu haben für alle
- Zugleich berufliche Chancen weiter zu wahren



WE LOOK FOR UN-
CONVENTIONAL WAYS
AND ARE OPEN TO
NEW DEVELOPMENTS.



WE TAP INTO NEW
TRENDS AND IDEAS.

MOBILE INTERNET

Users (millions)

950

2010

1,890

2015

Source: Morgan Stanley/Nielsen

DATA VOLUME IN INTERNET TRAFFIC

Between 2012 and 2016 the volume of data traffic flowing over the Internet will increase by 33 percent every year. 1.8 zettabytes will be transmitted. 1.8 zettabytes is the same amount of information as contained on 200 billion HD videos (each 120 minutes long).

Source: IDC, Deutsche Telekom AG

ON-THE-GO VIDEO CALLS

Forecast for Western Europe (billions)

2

2014

5

2016

Source: Jupiter Research

CELL PHONE IN STORES

7 out of 10 consumers use their cell phones when in shops to check the Internet for any better prices.

Source: KPMG & EHI Retail Institut, Trends im Handel 2020, 2012

ELECTRICITY METERS

55 %

Some 18 percent of all households worldwide now have "smart" electricity meters in place. The corresponding figure by 2020 will be 55 percent.

Source: Pike Research

APP DOWNLOADS

310

The number of apps downloaded every year will climb to 310 million by 2016.

Source: Gartner Symposium in Barcelona 2012, Key Note by Peter Sondergaard (Head of Analysts)

CLOUD

20 %

By 2020 a third of all data will either be stored in or accessed via the cloud. Global revenue from cloud services will grow by 20 percent a year. Total spending on innovative IT applications and cloud computing is likely to reach over one billion U.S. dollars by 2014.

Source: www.ajoconnor.com/blog

SMARTPHONE USERS IN GERMANY

Users (millions)

01/2009 .... **6.31**

01/2010 .... **8.43**

12/2010 .... **14.03**

07/2011 .... **17.80**

12/2011 .... **21.30**

07/2012 .... **27.30**

10/2012 .... **29.50**

Source: ComScore

Forrester Research group expects one billion smartphone users by 2016.

TO OUR SHARE-HOLDERS

OUR INNOVATION CULTURE RELIES ON FAST DECISIONS AND IMPLEMENTATION ON THE BASIS OF LEAN PROCESSES. WE PROMOTE NEW IDEAS AND ENTREPRE-NEURIAL INITIATIVE. WE ARE CREATIVE.

27 TO OUR SHAREHOLDERS

René Obermann, Chairman of the Board of Management.

LETTER TO OUR SHAREHOLDERS.

Dear shareholders,

We achieved our financial targets once again in 2012. We continue to represent reliability in a period of economic instability and a very tough general situation in our industry. In addition, we have further developed our strategy and intend to invest heavily in the rollout of our networks to lay the foundations for future growth.

But let's take a look at the main performance indicators first: With regard to the adjusted EBITDA – earnings before interest, taxes, depreciation and amortization – we achieved our target of 18.0 billion euros. And we even slightly exceeded our free cash flow target, achieving 6.2 billion euros. This allows us to propose a dividend of 0.70 euros per share, as previously announced.

In the United States, we have taken a decision that will strengthen our business sustainably. We want to grow by merging T-Mobile USA with the mobile provider MetroPCS. We had to perform an impairment test for T-Mobile USA as part of this transaction, which ultimately meant we recorded a loss of 5.3 billion euros for the Group instead of recording a net profit. This is due to the fact that the revaluation had to be based on the price of MetroPCS's shares immediately before the announcement of the agreement, which means that synergies and economies of scale resulting from the merger were not taken into account. However, this special factor does not reflect the true economic development of the Deutsche Telekom Group. Excluding this one-off, non-cash effect, adjusted net profit stood at 2.5 billion euros.

In operational terms, there was a mixed picture in the United States in 2012. Measured in dollars, revenues and earnings fell. This was primarily due to the fact that the number of contract cancellations was still substantial at 1.4 million, although the rate slowed over the course of the year. There was an encouraging trend in the prepaid segment, where we gained around 1.6 million new customers. However, this could not prevent service revenues from falling overall in 2012. Despite this, the United States remains a very attractive and growing market, especially in the mobile data business. We are confident that with very attractive, easy-to-understand offers and the rapid rollout of our mobile network, it will not be long before we are participating in this growth again.

Business in Germany was again key to our respectable overall results in 2012. We held our EBITDA margin at over 40 percent in this segment. However, we are not satisfied with the trend in mobile service revenues. We are particularly feeling the effects of price pressures and free online voice and text messaging services. By contrast, growth in mobile data volumes remained very robust, and rose by almost 20 percent. This was partly driven by record smartphone sales: We sold 1.5 million Internet-ready cell phones in the fourth quarter alone. In the fixed network market we have been more successful in tying customers to us for the long term, particularly with high-speed VDSL lines. We won almost 300,000 customers in this market in 2012. Our television service Entertain also continues to be a success – with almost 2 million customers by the end of the year.

In the rest of Europe, figures more or less matched our expectations. Although revenues and results declined, this was in large part down to regulatory decisions and special taxes, which have taken huge amounts of money out of the markets. By contrast, there was good customer growth: The customer base for mobile contracts increased by another 4 percent, for example. That in itself is far from a matter of course in view of the ongoing economic difficulties in many countries, and we are doing better than most of our competitors in this regard. One notable sign of trust in our subsidiaries is that OTE recently successfully issued 700 million euros of bonds onto the market, and is the first Greek issuer to do so for some time.

The trend for systems solutions for corporate customers is encouraging – especially in terms of the adjusted EBITDA, which grew by more than 11 percent in 2012. Incoming orders also performed well, rising by around 18 percent, with the fourth quarter being particularly strong. The most important deal was certainly the early renewal of our contract with Shell, which is worth a total of 1.8 billion euros. We are making a bigger and bigger impact with our cloud solutions, for example with computing capacities, storage services, and software that our customers can book and pay for on demand.

Our range of cloud computing services is not just for corporate customers, however. Since last year, our Business Marketplace has also enabled small and medium-sized companies to gain convenient access to innovative cloud services, including accounting software, videoconferencing solutions and additional storage space without the need for additional IT resources. We've also further simplified our processes for partnerships with other companies in 2012 as part of our aim to become more flexible and agile as a Group. Here's just one example of our success so far: Since October we have been the exclusive partner of the music streaming service Spotify in Germany.

All in all – and this is the message for the 2012 financial year – Deutsche Telekom is still in a very solid position. Our operative business outperformed the industry average, our financing is sound and we are able to borrow on excellent terms. In the year just ended we further reduced our financial liabilities by more than 3 billion euros, and we also became more innovative and faster as a company. All this was only possible thanks to our employees' massive dedication to transforming the Group – be it in product development, sales, service or one of the many other parts of the company. My thanks go to all of them.

From this strong foundation, we are now taking the next step. There is a clear overarching direction to our plans for 2013 through 2015: We are investing in order to return to growth in the medium term. In contrast to many of our competitors, we are in fact increasing the level of our investment to almost 30 billion euros over the next three years – focusing on the rollout of high-performance broadband mobile and fixed networks.

In Germany, we are building the most modern integrated network possible. We are accelerating LTE rollout in mobile communications, which will allow us to offer the latest generation of high-speed mobile Internet to around 85 percent of the population. At the same time we are expanding our fiber-optic network and making it faster. With the help of vectoring technology, some 65 percent of households will be able to take advantage of speeds of up to 100 megabits per second. Furthermore, we are linking LTE and vectoring together with the aim of enabling download speeds of up to 200 megabits per second and upload speeds of up to 90 megabits per second. Overall, we have earmarked some 6 billion euros for the rollout of the broadband fixed network alone. We assume at this point that the investment-friendly regulatory policy announced by the EU will be swiftly implemented at national level – including the conditions required for the use of vectoring.

We also continue to drive forward the rollout of the LTE network in the United States, investing around 4 billion US dollars for this purpose in the coming years. This will substantially improve our position in the growing U.S. market. One very important factor here is that we have signed a sales agreement with Apple for the joint marketing of products in the future. This is another key step forward on the way to increasing our competitiveness.

These initiatives will create the basis for a return to overall growth in the Group from 2014. Revenues in Germany are expected to stabilize by then. Income in our European segment is expected to grow organically, that is to say excluding regulatory and exchange rate effects. Furthermore, we aim to increase revenues in the United States again by 2014.

Dear shareholders, we know how important transparency and reliability are for our investors. You expect us to make realistic plans and set realistic targets – which are then met. And you expect us to generate an attractive, reliable return on your capital. That is exactly what this Board of Management stands for, and will continue to stand for.

2012 was certainly not an easy year for our industry, but Deutsche Telekom is better equipped today than many others to prevail in such difficult economic conditions. The value of our T-share is one indicator of this. Total shareholder return – that is to say the total return from the share price plus dividends – increased by 3.7 percent in 2012 and performed better than that of most of our competitors, some of whom even recorded substantial losses.

As I have already said, together with the Supervisory Board we will propose a stable dividend of 0.70 euros per share for the 2012 financial year at the shareholders' meeting. We are adjusting our dividend plans for 2013 and 2014 to a still very attractive 0.50 euros. This is a conscious decision in favor of important, forward-facing investments. We are giving you the clear opportunity to be part of a Deutsche Telekom Group that continues to offer good returns while aiming for future growth thanks to bold capital expenditure planning and the right strategy.

Bonn, February 2013

Sincerely,

René Obermann
Chairman of the Board of Management, Deutsche Telekom AG

THE BOARD OF MANAGEMENT OF DEUTSCHE TELEKOM AG IN 2012/2013.

THE BOARD OF MANAGEMENT OF DEUTSCHE TELEKOM AG IN 2012/2013.

"COMPANIES DON'T BECOME INNOVATIVE SIMPLY BY PRESSING A BUTTON OR BY ORDER FROM ABOVE. INNOVATION HAS TO BE NURTURED AND BROUGHT TO LIFE FROM THE INSIDE, AND IT REQUIRES THE COURAGE TO TAKE RISKS."

René Obermann.
Chairman of the Board of Management.
Born in 1963. René Obermann joined the Deutsche Telekom Group in 1998 as member of the management at T-Mobile Deutschland GmbH, where he took over as Managing Director in April 2000. One year later he also assumed international responsibility for the European business of T-Mobile International AG & Co. KG as as Member of the Board of Management for European Operations and Group Synergies. Between 2002 and 2006, Obermann was CEO of T-Mobile International AG & Co. KG and also a member of the Deutsche Telekom Group's Board of Management. After finishing his commercial training at BMW AG in Munich, René Obermann started his own business, ABC Telekom. When in 1991 the Hong Kong-based conglomerate Hutchison Whampoa acquired a stake in this business, Obermann became Managing Partner of the Hutchison Mobilfunk GmbH and served as Chairman of the company's Management Board between 1993 and 1998. René Obermann has been Chairman of Deutsche Telekom AG's Board of Management since November 2006.

"OUR CUSTOMERS CONSIDER US TO BE THE MOST TRUSTED COMPANY IN THE INDUSTRY. THAT'S BOTH AN ENDORSEMENT AND A STIMULUS."

Thomas Kremer.
Board member responsible for Data Privacy, Legal Affairs and Compliance.
Born in 1958. Thomas Kremer has been Member of Deutsche Telekom AG's Board of Management with responsibility for Data Privacy, Legal Affairs and Compliance since June 2012. Previously, he worked for ThyssenKrupp AG. He joined Krupp's legal department in 1994 and took over as head of the Legal & Compliance Corporate Center in 2003. In addition, he was made Chief Compliance Officer of the ThyssenKrupp Group in 2007 and was appointed General Counsel in 2011. Thomas Kremer spent a period of time working as an attorney at Sozietät Schäfer, Wipprecht, Schickert (now CMS Hasche Sigle) in Düsseldorf. After graduating with a degree in law, Thomas Kremer worked as a research assistant at the University of Bonn. His areas of research included laws governing limited liability companies, stock corporations, and corporate groups. He gained a doctorate in law in 1994.

"WE DRIVE THE INTEGRATION OF IT AND COMMUNICATION. OUR SOLUTIONS MINIMIZE THE DISTANCE BETWEEN COMPANIES AND CUSTOMERS – SAFELY AND SIMPLY."

Reinhard Clemens.
Board member responsible for T-Systems.
Born in 1960. Reinhard Clemens has been Member of Deutsche Telekom AG's Board of Management with responsibility for T-Systems and CEO of T-Systems since December 1, 2007. On January 1, 2012 he also assumed general responsibility for all of the Group's IT activities. Reinhard Clemens launched his career as General Manager of the Association for Industry Automation in 1990. He joined IBM in 1994, where he held various positions until 2011, mainly in sales, service and outsourcing, before being appointed board member of Systematics AG. In 2001 Clemens joined the German office of EDS as chairman of the executive board with responsibility for sales, business operations and strategy in Central Europe. Reinhard Clemens holds a degree in electrical engineering from RWTH Aachen University.

"WE USE TECHNOLOGY TO OFFER OUR CUSTOMERS A BEST-IN-CLASS EXPERIENCE AND TO HIGHLIGHT DEUTSCHE TELEKOM'S ROLE AS A TECHNOLOGY PIONEER. THAT'S HOW WE SHAPE THE FUTURE IN LINE WITH OUR CUSTOMERS' NEEDS."

Niek Jan van Damme.
Board member responsible for Germany and Managing Director of Telekom Deutschland GmbH.
Born in 1961. Niek Jan van Damme has been Member of Deutsche Telekom AG's Board of Management since March 2009. Since July 2009 he has headed the Germany department, where he is in charge of the sales, marketing and service activities in connection with fixed-network and mobile products for consumers and business customers in Germany. In April 2010 he was also appointed Managing Director of Telekom Deutschland GmbH. Between April and September 2011 he held temporary responsibility for the Europe Board department. Niek Jan van Damme was Chairman of the Managing Board of T-Mobile Netherlands from January 2004 through 2009. Niek Jan van Damme holds a degree in business administration from Vrije Universiteit Amsterdam. He began his career at Procter & Gamble in 1986, then joined Dutch retailer Ahold in 1993 before moving to Floor Heijn Retail in 1997. In June 1999 he began working for Ben Nederland, the predecessor company to T-Mobile Netherlands.

"AGAINST THE GENERAL INDUSTRY TREND, WE ARE INVESTING HEAVILY IN STATE-OF-THE-ART NETWORKS SO WE CAN BOOST OUR GROWTH AREAS."

Timotheus Höttges.
Board member responsible for Finance.
Born in 1962. After studying business administration in Cologne, Timotheus Höttges started his career with Mummert + Partner, a business consulting firm in Hamburg, before moving on to the VIAG group in 1992. He joined Deutsche Telekom in September 2000, where he has held various positions including Managing Director of T-Mobile Deutschland and Member of the T-Mobile International Board of Management with responsibility for Sales and Service Operations Europe, before being appointed to the Group Board of Management and taking over the T-Home and Sales & Services department. On March 1, 2009 he became Member of the Deutsche Telekom AG Board of Management with responsibility for Finance.

"TECHNOLOGICAL LEADERSHIP AND CROSS-COUNTRY COOPERATION – THE KEY TO SUCCESS IN EUROPE."

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

"GOING FORWARD, WE WILL HAVE TO MAINTAIN A PRODUCTIVE MIX OF OLDER STAFF WITH YEARS OF EXPERIENCE AND YOUNGER EMPLOYEES WITH NEW SKILL SETS."

Marion Schick.
Board member responsible for Human Resources.
Born in 1958. Marion Schick has been Member of Deutsche Telekom AG's Board of Management with responsibility for Human Resources and Labor Director since May 2012. Previously, she was Minister for Cultural Affairs, Youth and Sports of the German Land of Baden-Württemberg. Until 2010, Marion Schick was Senior Vice President Personnel and Legal Affairs at Fraunhofer-Gesellschaft, a major research organization. She was President of Munich University of Applied Sciences from 2000 to 2008 – the first woman in Bavaria ever to hold the position of university president. From 2006 to 2008, she also chaired the Conference of the Rectors and Presidents of Bavaria's universities of applied sciences. Marion Schick's academic career began in 1993, when she was appointed professor of human resources management, cost accounting, and general business administration at Munich University of Applied Sciences. She holds a degree in business education from Ludwig Maximilian University Munich.

SUPERVISORY BOARD'S REPORT TO THE 2013 SHAREHOLDERS' MEETING.

For Deutsche Telekom, the 2012 financial year was marked by future strategic planning for the U.S. business, the persistently challenging macroeconomic environment in Southern and Eastern Europe, and ongoing high competitive and regulatory pressure. Despite these ongoing challenges, the Group generated good results in the 2012 financial year and fulfilled expectations. The Supervisory Board exercised its statutory functions as an advisory and supervisory body and gave the Board of Management its full support.

SUPERVISORY BOARD ACTIVITIES IN THE 2012 FINANCIAL YEAR.

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

TOP ROW, LEFT TO RIGHT: Michael Sommer, Dagmar P. Kollmann, Dr. Ulrich Schröder, Hermann Josef Becker, Klaus-Dieter Hanas, Dr. Hans Bernhard Beus.
MIDDLE ROW, LEFT TO RIGHT: Hans-Jürgen Kallmeier, Dr. Hubertus von Grünberg, Sylvia Hauke, Prof. h.c. (CHN) Dr.-Ing. E. h. Dr. Ulrich Middelmann, Sibylle Spoo, Dr. h.c. Bernhard Walter, Lothar Holzwarth.
BOTTOM ROW, LEFT TO RIGHT: Dr. Wulf H. Bernotat, Waltraud Litzenberger, Prof. Dr. Ulrich Lehner, Lothar Schröder, Monika Brandl.

Not pictured: Sari Baldauf, Lawrence H. Guffey.

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

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

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

- The business strategy in the United States (above all network modernization, acquisition of spectrum, disposal of tower portfolio, combination with MetroPCS).
- The integrated network strategy for broadband roll-out in Germany.
- The development of the Greek OTE group.
- The implementation of the Group strategy.
- The support for innovations and technological developments with the focus on the Cloud, intelligent networks, digital business units and T-Venture.
- The further development of the regulatory and competitive environment and the resulting implications for the Group's strategy and planning.
- The development of the Group's portfolio of shareholdings with the focus on southeastern Europe.
- The participation in frequency auctions in European countries (Romania, Croatia, Netherlands, Czech Republic).
- The Group's budget and medium-term planning as well as the finance strategy and shareholder remuneration policy.
- The appointment of a new Board member responsible for Data Privacy, Legal Affairs and Compliance.
- The participation of Telekom Deutschland in the bidding process for the award of Bundesliga rights.
- The development of staffing requirements, headcount, and qualitative personnel planning.
- The Group's risk and compliance situation.
- The results of the impairment tests that must be carried out at regular intervals under International Financial Reporting Standards (IFRS), and review of accounting methods used for intangible assets in accordance with German GAAP.
- The corporate governance, with special emphasis given to the recommendations and suggestions of the German Corporate Governance Code.
- The annual financial statements, the consolidated financial statements for the 2011 financial year.
- The motions for resolution to the 2012 ordinary shareholders' meeting, in particular the Supervisory Board's recommendation to the shareholders' meeting concerning the appointment of external auditors and the Supervisory Board's recommendation to the shareholders' meeting concerning the appointment of members of the Supervisory Board as shareholders' representatives.

- The efficiency and adequate independence of the Supervisory Board.
- The long-term succession planning for the Board of Management.
- The appropriateness of Board of Management compensation and the principles of the Board of Management compensation system.
- The release of the Chairman of the Board of Management at the end of 2013 at his own request, early announcement of the planned appointment of the current Chief Financial Officer as his successor.

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

ORGANIZATION OF THE SUPERVISORY BOARD'S ACTIVITIES.

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

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

The **Finance Committee** mainly deals with complex financial and business management topics within the Company. Members: Prof. h. c. (CHN) Dr.-Ing. E.h. Dr. Ulrich Middelmann (Chairman), Hermann Josef Becker (until December 31, 2012), Silvia Hauke (since January 1, 2013), Dr. Wulf H. Bernotat, Monika Brandl, Lothar Holzwarth, Dr. Ulrich Schröder.

The **Audit Committee's** area of responsibility is defined by German legislation and the German Corporate Governance Code. These include, in particular, monitoring the accounting process, the effectiveness of the internal control system, the internal auditing systems, compliance and data privacy. The committee also handles matters relating to the audit of the Company's financial statements, verifies the independence of the external auditors, and monitors any additional services provided by the external auditors, the commissioning of the external auditor, the stipulation of the main focuses of the audit and the agreement on fees. After thorough discussion, the Audit Committee issued a recommendation to the Supervisory Board about the external auditors to be nominated by the 2013 shareholders' meeting.

Dr. h. c. Bernhard Walter, Chairman of the Audit Committee, is an independent member and has expert knowledge of accounting and auditing (§ 100 (5) of the German Stock Corporation Act (Aktiengesetz – AktG)). He is also particularly knowledgeable and experienced in the application of accounting standards and internal control procedures. The other Committee members are: Hermann Josef Becker (until December 31, 2012), Petra Steffi Kreusel (since January 1, 2013), Hans Martin Bury (until October 31, 2012), Lawrence H. Guffey, Hans-Jürgen Kallmeier, Dagmar P. Kollmann (since November 1, 2012), Waltraud Litzenberger.

In the 2012 financial year, the Audit Committee again held its annual extraordinary meeting on fundamental issues in addition to its regular meetings. The 2012 extraordinary meeting mainly dealt with the effectiveness of risk management, compliance, accounting, data privacy and data security, financial statement audits, the responsibilities of the Audit Committee, and new developments in the fields of legislation and accounting.

The **Staff Committee** deals with personnel matters at Deutsche Telekom, in particular the Company's staff structure and human resources development and planning. In particular, the Staff Committee discussed matters relating to headcounts and staffing requirement planning for the purpose of preparing Supervisory Board resolutions on budgets and medium-term planning. Members: Lothar Schröder (Chairman), Ulrich Hocker (until May 24, 2012), Dagmar P. Kollmann (since June 21, 2012), Prof. Dr. Ulrich Lehner, Waltraud Litzenberger.

The **Nomination Committee** is responsible for proposing to the Supervisory Board suitable candidates for the latter to subsequently recommend to the shareholders' meeting for election. In accordance with the recommendation outlined in the German Corporate Governance Code, this committee consists exclusively of shareholder representatives. Members: Prof. Dr. Ulrich Lehner and Dr. Hans Bernhard Beus.

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

The **Technology and Innovation Committee** supports and promotes innovation and technological developments at infrastructure and product level and supports the Board of Management with advice on how to tap new growth areas. Members: Dr. Hubertus von Grünberg (Chairman), Hans-Jürgen Kallmeier, Prof. Dr. Ulrich Lehner (until December 31, 2012), Sari Baldauf (since January 1, 2013), Lothar Schröder.

A **special committee for U.S. business** was set up in January 2012. Members: Prof. Dr. Ulrich Lehner (Chairman), Dr. Wulf H. Bernotat, Monika Brandl, Lothar Holzwarth, Prof. h. c. (CHN) Dr.-Ing. E. h. Dr. Ulrich Middelmann, Lothar Schröder.

In addition, a **special committee for the acquisition of Bundesliga rights** was set up for the period March to April 2012. Members: Prof. Dr. Ulrich Lehner (Chairman), Dr. Wulf H. Bernotat, Lothar Holzwarth, Waltraud Litzenberger, Prof. h.c. (CHN) Dr.-Ing. E.h. Dr. Ulrich Middelmann, Lothar Schröder.

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

MEETINGS OF THE SUPERVISORY BOARD.

In the 2012 financial year, the Supervisory Board held four regular meetings and three extraordinary meetings. The Supervisory Board also met for an in-depth conference to discuss issues of strategic relevance. The General Committee of the Supervisory Board met seven times during the reporting year (including one joint meeting with the Finance Committee). The Audit Committee convened six times in the 2012 financial year, the Finance Committee had seven meetings (one together with the General Committee and one in combination with the special committee for U.S. business). The Staff Committee and the Nomination Committee of the Supervisory Board held two meetings each, and the Technology and Innovation Committee met three times. The Special Committee for Bundesliga rights met once and the special committee for U.S. business four times (of which one meeting was held together with the Finance Committee). There was no need for a meeting of the Mediation Committee in the reporting year. With regard to the frequency of the Board members' participation in Supervisory Board meetings in the 2012 financial year, there were no events that would have to be reported pursuant to the recommendations of the German Corporate Governance Code.

CONFLICTS OF INTEREST.

Ulrich Hocker was a member of the Supervisory Board of Deutsche Telekom AG until May 24, 2012 and at the same time President of Deutsche Schutzvereinigung für Wertpapierbesitz e.V. (DSW). DSW represents and supports the interests of investors vis-à-vis Deutsche Telekom AG in various matters. To ensure from the outset that no conflict of interest could arise in this respect, Mr. Hocker declared before the Supervisory Board that, as a member of the Supervisory Board, he would decline to receive reports or information, vote on resolutions, and attend Supervisory Board and committee meetings that dealt with matters in which DSW was representing or supporting interests against Deutsche Telekom AG. There were, however, no conflicts of interest requiring any of the measures mentioned above.

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

CORPORATE GOVERNANCE.

❑ The Company's corporate governance policy is also presented in greater detail in a separate section of the Annual Report, **PAGES 47 – 51**.

The Supervisory Board and Board of Management are aware that good corporate governance is essential for corporate success. The provisions of the German Corporate Governance Code are hence reflected in the Company's statutes. The Board of Management and the Supervisory Board last issued their declaration of conformity with the Corporate Governance Code in December 2012.

CHANGES IN THE COMPOSITION OF THE BOARD OF MANAGEMENT.

The Supervisory Board resolved on February 22, 2012 to appoint Dr. Thomas Kremer as the Board member responsible for Data Privacy, Legal Affairs and Compliance. He succeeded Dr. Balz effective June 1, 2012.

On July 4, 2011, the Supervisory Board appointed Prof. Dr. Marion Schick as the Board member responsible for Human Resources and as Labor Director with effect from May 3, 2012.

The Supervisory Board resolved on December 20, 2012 to agree to Mr. René Obermann's request to terminate his appointment as Chairman of the Board of Management effective December 31, 2013.

Mr. Timotheus Höttges was appointed Deputy Chairman of the Board of Management effective January 1, 2013 as per resolution of December 20, 2012. He will continue heading the Finance department and is to be appointed Chairman of the Board of Management in the course of 2013, effective January 1, 2014.

CHANGES IN THE COMPOSITION OF THE SUPERVISORY BOARD.

Shareholders' representatives: At the shareholders' meeting on May 24, 2012, the Supervisory Board members holding office, Dr. Hans Bernhard Beus, who had previously been court-appointed as a member of the Supervisory Board, and Lawrence H. Guffey, who stood for a second term of office, were elected to the Supervisory Board for the period up to the end of the shareholders' meeting that will approve the actions of the Supervisory Board for the 2016 financial year.

Ulrich Hocker resigned his seat on the Supervisory Board with effect from the end of the shareholders' meeting on May 24, 2012. The shareholders' meeting elected Dagmar P. Kollmann to the Supervisory Board for the period up to the end of the shareholders' meeting that will approve the actions of the Supervisory Board for the 2016 financial year.

Hans Martin Bury resigned from the Supervisory Board effective October 31, 2012. Sari Baldauf has been appointed a shareholders' representative on the Supervisory Board by the relevant district court effective November 1, 2012 until the end of the 2013 shareholders' meeting.

Employees' representatives: Michael Löffler resigned from the Supervisory Board effective May 31, 2012. Klaus-Dieter Hanas was appointed an employees' representative on the Supervisory Board by the relevant district court effective June 1, 2012.

Hermann Josef Becker resigned from the Supervisory Board effective December 31, 2012. Petra Steffi Kreusel was appointed an employees' representative on the Supervisory Board by the relevant district court effective January 1, 2013 until the end of the 2013 shareholders' meeting.

The Supervisory Board would like to thank the former members of both Boards for their valuable service.

REVIEW OF ANNUAL FINANCIAL STATEMENTS OF THE PARENT COMPANY AND CONSOLIDATED FINANCIAL STATEMENTS FOR THE 2012 FINANCIAL YEAR.

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

PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Frankfurt/Main, which was appointed as auditor of the single-entity financial statements and auditor of the consolidated financial statements ("external auditor") for the 2012 financial year by the shareholders' meeting on the recommendation of the Audit Committee and proposed for appointment by the entire Supervisory Board, audited the annual financial statements as of December 31, 2012, which were prepared in accordance with the provisions of the German Commercial Code (Handelsgesetzbuch – HGB), and the management report, which was combined with the Group management report, as well as the consolidated financial statements as of December 31, 2012, which were prepared in accordance with IFRS as adopted by the EU and the additional requirements of German commercial law pursuant to § 315a (1) HGB, and the Group management report, which was combined with the management report, and issued an unqualified audit opinion for each document.

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

The external auditor also confirmed to the Audit Committee and the Supervisory Board in their financial statement review meetings on February 26/27, 2013 that there are no circumstances that may give rise to doubts about the external auditor's impartiality. In this context, the external auditor also reported on any services performed in addition to auditing services. In the Supervisory Board meeting on February 27, 2013, the Audit Committee informed the Supervisory Board about its monitoring of the external auditor's independence while taking account of the non-audit services provided and about its conclusion that the external auditor continues to be independent as necessary.

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

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

Prior to the review and resolution by the Supervisory Board, the Audit Committee conducted a thorough review of the aforementioned documents. The annual financial statements, the consolidated financial statements, and the combined management report and Group management report, as well as the Board of Management's proposal for the appropriation of net income were explained in detail by the Board of Management to the members of the Audit Committee at its meeting on February 26, 2013. The members of the Board of Management also answered the committee members' questions. Moreover, the external auditor explained its audits, in particular the key audit areas defined in agreement with the Audit Committee and the Supervisory Board, the main results of its audit, and its audit report. The external auditor did not identify any material weaknesses in the internal control system, the risk management system, or the accounting process. The members of the Audit Committee acknowledged and critically reviewed the audit report and audit opinion, and discussed them, as well as the audits themselves, with the external auditor. The review included questions about the nature and extent of the audit and about the audit findings. The Audit Committee satisfied itself that the audit and the audit report were compliant. In particular, it satisfied itself that the audit report, and the audit conducted by the external auditor, met the legal requirements. The Audit Committee agrees with the external auditor that there are no material weaknesses, in particular with regard to the accounting process, in the internal control or risk management systems. The Audit Committee recommended to the Supervisory Board to approve the results of the audit conducted by the external auditor and, since it had no objections to the documents submitted by the Board of Management, to approve the annual financial statements and the consolidated financial statements, as well as the combined management report and Group management report, and to support the Board of Management's proposal for the appropriation of net income.

The Supervisory Board performed the final review of the annual financial statements, the consolidated financial statements, and the combined management report and Group management report, as well as the Board of Management's proposal for the appropriation of net income on February 27, 2013, taking into account the report and recommendations of the Audit Committee and the external auditor's audit report. The members of the Board of Management attended this meeting, explained the documents they had submitted, and answered the questions from the Supervisory Board. The external auditor was present and reported on its audits and the main findings of its audits, explained its audit report, and answered the questions raised by the Supervisory Board, in particular relating to the nature and extent of the audits and the audit findings. Based on this and the report presented by the Audit Committee, the Supervisory Board satisfied itself that the audit and the audit report were compliant. The Supervisory Board followed the Audit Committee's recommendation and approved the result of the external auditor's audit.

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

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

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

When the Board of Management and the Supervisory Board approved the Company's medium-term financial planning for the next three years on December 20, 2012, the Supervisory Board conducted an in-depth examination of the medium-term financial and investment plans, discussing in particular the development of earnings, free cash flow, and balance sheet ratios. The Board of Management's proposal concerning the appropriation of net income was examined by the Audit Committee on February 26, 2013 and by the Supervisory Board on February 27, 2013. The external auditor was present at both meetings. The Supervisory Board followed the Audit Committee's recommendation to approve and support the Board of Management's proposal to pay out shareholder remuneration of around EUR 3,010.2 million and to carry forward around EUR 9.8 million to unappropriated net income.

REVIEW OF THE DEPENDENT COMPANY REPORT.

The Board of Management presented its dependent company report for the 2012 financial year to the Supervisory Board in good time.

The external auditor audited the dependent company report and issued the following audit opinion:
"Based on the results of our statutory audit and our judgment we confirm that
1. the actual information included in the report is correct;
2. the Company's compensation with respect to the legal transactions listed in the report was not inappropriately high."

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

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

Prior to the review and resolution by the Supervisory Board, the Audit Committee conducted a thorough review of the aforementioned documents. At its meeting on February 26, 2013, the Audit Committee asked the members of the Board of Management to explain the details of the dependent company report. The members of the Board of Management also answered the committee members' questions. Moreover, the external auditor, who also attended the meeting, reported on its audit, in particular its key audit areas and the significant results of its audit, and explained its audit report. The members of the Audit Committee acknowledged and critically reviewed the audit report and audit opinion, and discussed them, as well as the audit itself, with the external auditor. The review included questions about the nature and extent of the audit and about the audit findings. The Audit Committee satisfied itself that the audit and the audit report were compliant. In particular, it satisfied itself that the audit report, and the audit conducted by the external auditor, met the legal requirements. The Audit Committee recommended to the Supervisory Board to approve the results presented by the external auditor and, as the committee saw no grounds for objections to the Board of Management's declaration on the dependent company report, to pass a corresponding resolution.

The Supervisory Board performed the final review at its meeting on February 27, 2012, taking into account the resolution and the Audit Committee's recommendation as well as the external auditor's report. The members of the Board of Management also attended this meeting, explained the dependent company report, and answered questions from the Supervisory Board. The external auditor was also present and reported on its audit of the dependent company report and the main findings of its audit, explained its audit report, and answered questions from the Supervisory Board, particularly relating to the nature and extent of the audit of the dependent company report and the audit findings. Based on this and the report presented by the Audit Committee, the Supervisory Board satisfied itself that the audit of the dependent company report and the audit report were compliant. In particular, it satisfied itself that the audit report, and the audit conducted by the external auditor, met the legal requirements. The Supervisory Board examined the dependent company report in particular for accuracy. In doing so, it also satisfied itself that the group of dependent companies had been defined with due care and that the necessary systems had been put in place for recording legal transactions and measures subject to disclosure. The review revealed no reason to raise objections to the dependent company report. The Supervisory Board followed the Audit Committee's recommendation and approved the result of the external auditor's audit of the dependent company report. Based on the final result of the Supervisory Board's own review of the dependent company report, the Supervisory Board has no objections to the Board of Management's declaration on the dependent company report.

The Supervisory Board would like to thank the members of the Board of Management and all of Deutsche Telekom's employees for their commitment and dedication in the 2012 financial year.

Bonn, February 27, 2013
The Supervisory Board

Prof. Dr. Ulrich Lehner
Chairman

CORPORATE GOVERNANCE REPORT.

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

For more information, please visit WWW.TELEKOM.COM/INVESTOR_RELATIONS/CORPORATE-GOVERNANCE/ERKLAERUNG-NACH-289-A-HGB/26912 (text available in German only).

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

In the 2012 financial year, the Board of Management and Supervisory Board once again carefully examined the corporate governance of Deutsche Telekom AG and the Deutsche Telekom Group as well as the contents of the German Corporate Governance Code. During the reporting period just ended, as in prior years, Deutsche Telekom AG again fulfilled all of the Code's recommendations. The Supervisory Board and Board of Management of Deutsche Telekom AG therefore released an unqualified Declaration of Conformity with the German Corporate Governance Code on December 30, 2012:

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

I. The Supervisory Board and Board of Management of Deutsche Telekom AG hereby declare that, in the period since submission of the most recent declaration of conformity pursuant to § 161 AktG on December 30, 2011, Deutsche Telekom AG has complied with the recommendations of the Government Commission for a German Corporate Governance Code announced by the Federal Ministry of Justice on July 2, 2010 in the official section of the electronic Federal Gazette (Bundesanzeiger), without exception.

II. The Board of Management and Supervisory Board of Deutsche Telekom AG hereby declare further that Deutsche Telekom AG has complied with the recommendations of the Government Commission for a German Corporate Governance Code, published by the Federal Ministry of Justice in the official section of the Federal Gazette (Bundesanzeiger) on June 15, 2012, without exception.

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

Please refer to WWW.TELEKOM.COM/DECLARATION-OF-CONFORMITY

Cooperation between the Supervisory Board and the Board of Management. The Supervisory Board and the Board of Management work closely together for the good of the Company and maintain regular contact. The Supervisory Board of Deutsche Telekom AG holds four regular meetings a year. In 2012 there were also three extraordinary meetings and one in-depth conference on the strategic alignment of the Company. The Board of Management keeps the Supervisory Board fully and regularly informed in good time, in particular of all relevant business developments, plans, corporate strategy, potential risks, risk management, compliance, as well as of any deviations from original business plans and of significant business transactions relating to the Company and significant subsidiaries and associates. The Board of Management regularly submits written and oral reports. The reporting obligations of the Board of Management have been specified by the Supervisory Board and go beyond statutory requirements. The activities of the Board of Management and the Supervisory Board are specified in separate Rules of Procedure. Those that govern the Board of Management provide guidance on its schedule of responsibilities and the majorities required for resolutions, among other issues. The Chairmen of the two Boards exchange information regularly.

For details about cooperation between the Board of Management and Supervisory Board, please refer to the section "Supervisory Board's report to the shareholders' meeting," PAGES 36 – 46.

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

For details about changes to the composition of the Supervisory Board during the reporting period, please refer to the section "Supervisory Board's report to the shareholders' meeting," PAGES 36 – 46.

Composition of the Supervisory Board. The Supervisory Board of Deutsche Telekom AG consists of twenty members, ten representing the shareholders and ten representing the employees. The Supervisory Board members representing the shareholders are elected by the shareholders' meeting by simple majority. As in previous years, elections to the Supervisory Board were held for individual members at the last shareholders' meeting on May 24, 2012. The terms of office of the individual Supervisory Board members representing the shareholders end on different dates. This ensures continuity in terms of the Supervisory Board's composition. The Supervisory Board members representing employees were most recently elected by the employees at the delegates' assembly on December 4, 2008 according to the provisions of the German Codetermination Act (Mitbestimmungsgesetz – MitbestG).

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

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

Regarding the achievement level of the Supervisory Board membership target: Ms. Dagmar P. Kollmann was elected to the Supervisory Board at the 2012 shareholders' meeting, bringing the proportion of women on the Supervisory Board to 25 percent. In November 2012, Ms. Sari Baldauf was appointed to the Supervisory Board, initially by court order, until the end of the 2013 shareholders' meeting and in January 2013, Ms. Petra Steffi Kreusel was appointed by court order as an employees' representative. These appointments bring the proportion of women on the Supervisory Board to 35 percent, which means that the target of raising the women's share to 30 percent by the end of 2015 has already been exceeded in 2013. The Supervisory Board is composed in such a way that its members as a group possess the knowledge, ability and expert experience required to properly complete its tasks. The members of the Supervisory Board represent various different professions and some of them have an international background. The avoidance of conflicts of interest and compliance with the standard age limit were taken into consideration in the appointments to the Supervisory Board.

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

Tasks assigned to the Supervisory Board. The Supervisory Board appoints the members of the Board of Management, advises the Board of Management on issues concerning the governance of the Company and supervises and reviews its activities. The Supervisory Board is directly involved in all decisions of strategic importance to the Company. The work of the Supervisory Board is specified in its Rules of Procedure. To clarify the reporting requirements on the part of the Board of Management, the Supervisory Board has drawn up a catalog of transactions subject to approval. This catalog forms an integral part of the Rules of Procedure for the Supervisory Board and the Board of Management, respectively. The Supervisory Board assesses the efficiency of its work on a regularly basis. The last self-assessment was carried out in 2011. The next will be performed in 2013. The work of the Audit Committee was subjected to an internal efficiency audit in 2012 based on a comprehensive questionnaire and intense discussion within the Supervisory Board.

In order to perform its tasks more effectively, the Supervisory Board has seven standing committees in place. The General Committee deals with personnel matters of the Board of Management and prepares the meetings for the Supervisory Board. The Staff Committee deals with personnel questions not connected with the Board of Management. The Finance Committee mainly deals with complex financial and business management topics within the Company. The Audit Committee performs the tasks required by law and in accordance with the German Corporate Governance Code. These include, in particular, monitoring the accounting process, the effectiveness of the internal control system, the internal auditing systems, compliance and data privacy. The Technology and Innovation Committee supports and promotes innovation and technological developments at infrastructure and product level and supports the Board of Management with advice on how to tap new growth areas. Furthermore, the Supervisory Board has formed a Nomination Committee, which consists exclusively of shareholder representatives. The Nomination Committee is responsible for proposing to the Supervisory Board suitable candidates for the latter to subsequently recommend to the shareholders' meeting for election. Finally, the Mediation Committee, which was formed in accordance with § 27 (3) of the Codetermination Act. Two special, non-permanent committees were set up in January 2012 and March 2012, one to deal with matters relating to the Company's business in the United States, and one for the acquisition of Bundesliga rights.

For details about the composition, tasks, and working methods of the committees, please refer to the section "Supervisory Board's report to the shareholders' meeting," **PAGES 36 – 46.**

The committees' respective chairpersons report to the Supervisory Board on a regular basis on the work of the committees. The Chairman of the Audit Committee, Dr. h.c. Bernhard Walter, is particularly knowledgeable and experienced in the fields of accounting, auditing and internal control procedures. Dr. Walter has never served on the Board of Management of the Company. He fulfills the requirements of § 100 (5) AktG.

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

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

For further details of the members of the Supervisory Board and any seats they hold on the supervisory boards of other companies, please refer to **PAGES 294 – 296.**

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

For more information, please refer to the section "Risk and opportunity management," **PAGES 149 – 169.**

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

For details, please refer to the 2011 Corporate Responsibility Report under **WWW.CR-REPORT.TELEKOM.COM**

Compliance. Compliance involves the observance of legal requirements and internal Group rules. Deutsche Telekom has a Group-wide compliance organization that is continuously being improved.

There is also a Compliance Committee which supports the Board of Management in further developing the framework for an effective compliance management system. The members of the Compliance Committee are experienced managers in the areas of compliance, legal affairs, data privacy, and human resources. The Chief Compliance Officer, appointed by the Board of Management, is the chairwoman of the Compliance Committee. A compliance officer has been appointed for each of the operating segments. Individual business units have additional compliance officers/contacts depending on their respective size and risk situation. The significance attached to compliance is underlined by the decision to pool all compliance activities in the Board of Management department for Data Privacy, Legal Affairs and Compliance. The appropriateness and effectiveness of Deutsche Telekom's compliance organization was confirmed by an external auditor in 2010.

Please also refer to: **WWW.TELEKOM.COM/COMPANY/AT-A-GLANCE/COMPLIANCE/98946**

Deutsche Telekom has implemented a comprehensive compliance management system. A compliance program is set once a year based on a structured risk evaluation process performed throughout the Group.

For more information about the compliance program, please visit Deutsche Telekom's website at **WWW.TELEKOM.COM/COMPANY/AT-A-GLANCE/COMPLIANCE/64470**

The compliance program also includes the Code of Conduct, the Code of Ethics and various policies. The Code of Conduct defines how employees and management should practice value-based and legally compliant conduct in their daily business activities. The Code of Ethics addresses the members of the Board of Management of Deutsche Telekom AG and persons within the Group who carry special responsibility for financial reporting. It obliges these individuals to comply with the principles of honesty, integrity, transparency and ethical conduct. Other compliance-relevant Group policies were implemented or revised in the course of 2012, including the Anti-trust Policy and the Group Policy on Avoiding Corruption Risks when Working with Consultants.

The Code of Conduct and the Code of Ethics are published on Deutsche Telekom's website at **WWW.TELEKOM.COM/GOVERNANCE**

Internal controls over financial reporting. Deutsche Telekom has implemented a process to systematically assess the effectiveness of its internal controls over financial reporting. Evidence of its effectiveness throughout the Group has again been provided for the 2012 financial year. The Audit Committee assumes the task of monitoring the accounting and financial reporting processes on behalf of the Supervisory Board. The system of internal controls over financial reporting is updated on an ongoing basis and monitored separately by Internal Audit and external auditors.

The Audit Committee also monitors the effectiveness of the internal control system, which goes beyond financial reporting and therefore fulfills the requirements of the German Accounting Law Modernization Act (Bilanzrechtsmodernisierungsgesetz – BilMoG).

For a description of the main features of the accounting-related internal control system, please refer to the section of the same name, **PAGE 170.**

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

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

Bonn, February 27, 2013
The Supervisory Board and the Board of Management

THE T-SHARE.

■ Stock markets recovered from 2011 low ■ T-Share stable despite weak trend in the European telecoms sector ■

T 005

T-Share information.

		2012	2011
XETRA CLOSING PRICE	€		
Share price on the last trading day		8.60	8.87
Year high		10.04	11.32
Year low		7.71	7.95
TRADING VOLUME			
German exchanges	billions of shares	3.9	4.7
MARKET CAPITALIZATION ON THE LAST TRADING DAY	billions of €	**37.2**	**38.3**
WEIGHTING OF THE T-SHARE IN MAJOR STOCK INDEXES ON THE LAST TRADING DAY			
DAX 30	%	3.8	5.1
Dow Jones Euro STOXX 50®	%	1.6	2.0
T-SHARE – KEY FIGURES			
Earnings per share (basic and diluted)	€		0.13
Proposed dividend	€	0.70	0.70
Number of shares issued	millions, at year-end	4,321.32	4,321.32

CAPITAL MARKETS ENVIRONMENT.

The further slowdown in the global economy and the ongoing international sovereign debt crisis initially dominated activity on the capital markets in 2012. Moreover, the consolidation of national budgets in many countries impacted negatively on private households and companies.

While the U.S. economy recorded moderate growth in 2012 and unemployment declined slightly in the course of the year, the sovereign debt crisis continued to have an adverse effect on companies and consumers. Europe has been in recession since spring 2012 and even the engine, Germany, slipped into stagnation towards the end of 2012.

Nevertheless, the stock markets recorded strong growth in the second half of 2012. Expansionary monetary policies around the world as well as the European Central Bank's clear commitment to save the euro and shore up foundering national budgets by buying government bonds caused sharp rises in share prices in the second half of the year.

DEVELOPMENT OF INTERNATIONAL INDEXES.

The DAX climbed substantially over the course of the year. Ultimately it rose by 25 percent during 2012, closing the year at 7,612 points. It reached an annual high of 7,672 points on December 20, 2012. The low of 5,969 points was reached on June 5, 2012.

The Dow Jones Euro STOXX 50® also performed well. The index increased by 11 percent year-on-year on a total return basis (share price performance plus reinvested dividend, i.e., similar to the DAX), closing the year at 2,636 points. The year high of 2,660 points was reached on December 27, 2012, the year low of 2,069 points on June 1, 2012.

Japan's Nikkei made a strong recovery compared with 2011, ending the year at plus 21 percent. Its closing price of 10,395 points as of year-end 2012 also marked the annual high. The low of 8,296 points was recorded on June 4, 2012.

In the United States, the Dow Jones increased by 6 percent year-on-year, closing the year at 13,104 points. This index also hit its lowest point on June 4, 2012, falling to an annual low of 12,101 points. The S&P-500 climbed 12 percent in 2012.

After a bumpy first half of the year, the stock markets ended 2012 with a very positive overall result. While the U.S. indexes continued their positive trend from 2011, the DAX and the Nikkei compensated the losses suffered in the prior year with strong growth in 2012. Only the Dow Jones Euro STOXX 50® failed to compensate its losses from 2011 in full.

T-SHARE PERFORMANCE.

Overall, the European telecommunications sector did not profit from the upwards movement in the stock markets. On the contrary, profit warnings and dividend reductions at a number of Deutsche Telekom's competitors caused the sector index Dow Jones STOXX Telecommunications® to slump by 12 percent in 2012. By contrast, the T-Share ended the year at a closing price of EUR 8.60, or minus 6 percent. On a total return basis (share price performance plus reinvested dividend, i.e., similar to the DAX), however, our share recorded growth of 2 percent compared with minus 6 percent for the Dow Jones STOXX Telecommunications®.

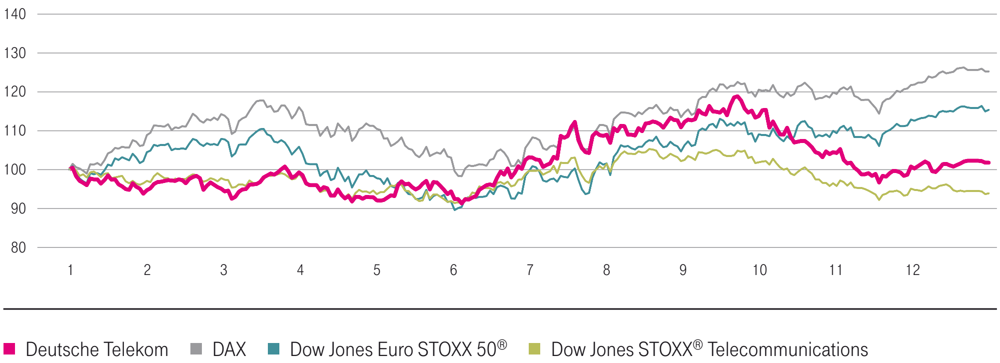
Deutsche Telekom outperformed its international peers with this development, catching up with and overtaking its competitors in terms of valuation, measured by enterprise value in relation to adjusted EBITDA. Deutsche Telekom achieved a multiple of 4.7 in 2012 compared with an industry average of 4.4.[1]

For the majority of the first half of 2012, the T-Share ranged between EUR 8.50 and EUR 9; it fell in May after the distribution of the dividend and the intensifying global budget deficit and economic crises, reaching its annual low of EUR 7.71 on June 5, 2012. In the following months, the price recovered substantially, reaching an annual high of EUR 10.04 on September 21, 2012. In the months up to the start of December, the share's performance was impacted by bad news from the sector as a whole as well as ongoing speculation about Deutsche Telekom's future dividend policy and fiber-optic strategy. The mood calmed down and the price began to recover slightly after Deutsche Telekom's Capital Markets Day on December 6/7, where both the future dividend policy and the fiber-optic strategy were key topics.

[1] Source: FactSet, Citigroup, November 2012

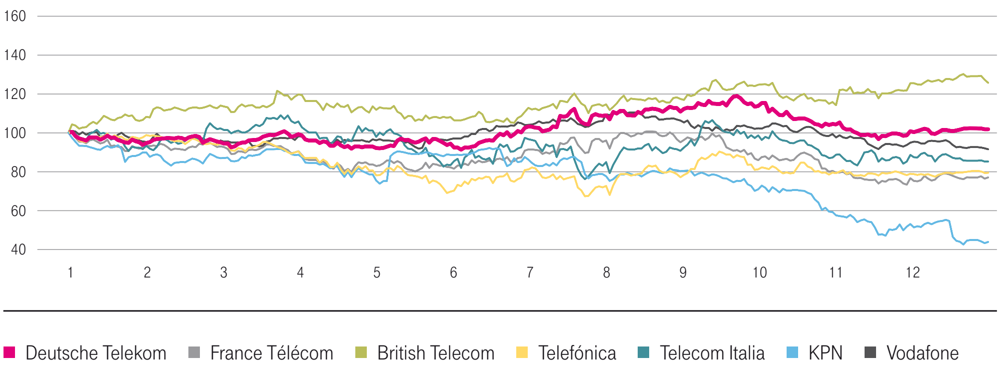
G 01

T-Share as compared to DAX, Dow Jones Euro STOXX 50®, and Dow Jones STOXX® Telecommunications.
January 1 to December 31, 2012 (based on total shareholder return[1])



G 02

T-Share as compared to other European telecommunications companies.
January 1 to December 31, 2012 (based on total shareholder return[1])



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

Members of the Deutsche Telekom AG Board of Management and Supervisory Board bought a total of 167,802 Deutsche Telekom shares in 2012. Total direct or indirect holdings in the Company or associated financial instruments by members of the Board of Management and the Supervisory Board do not exceed 1 percent of the shares issued by the Company.

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

DIVIDEND.

The Board of Management and Supervisory Board of Deutsche Telekom AG propose to this year's shareholders' meeting, to be held on May 16, 2013, the distribution of a dividend of EUR 0.70 per share.

SHAREHOLDER STRUCTURE.

The Federal Republic's shareholding including that of KfW (Kreditanstalt für Wiederaufbau) remained at the prior-year level of approximately 32 percent. The proportion of institutional investors decreased to 50 percent of share capital, while the share of retail investors increased to around 18 percent. As a result, the percentage of shares in free float remains at 68 percent.

INVESTOR RELATIONS.

In the 2012 financial year, Deutsche Telekom continued its intensive dialog with institutional investors, retail investors and financial analysts. In individual and group discussions during its roadshows in Europe, Asia and North America, top management presented the Group strategy and the Company's financial position along with annual and quarterly results.

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

At a Capital Markets Day held on December 6/7, 2012, the Company's Board of Management explained the future strategy of the Company to investors. @ The presentations and video recordings from the Capital Markets Day can be found on our website at WWW.TELEKOM.COM/IR.

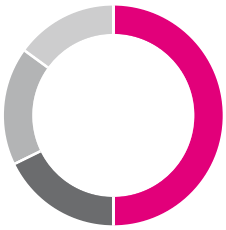
The IR team provides retail investors with a direct point of contact on + 49 (0) 228 181 88880 (fax + 49 (0) 228 181 88899) or via e-mail (investor.relations@telekom.de) for questions relating to Deutsche Telekom or the T-Share.

Deutsche Telekom received positive recognition for its investor relations work in the 2012 Thomson Reuters Extel Survey, in which more than 10,000 investors and analysts are asked each year about various aspects of IR work and describe what they consider to be best practice. The Company took first place in the telecommunications sector in Europe and third place behind Sanofi and BASF in the Pan-European category across all sectors. In the overall rating for Europe, this was a huge leap forward for the team, after eighth place in the prior year.

Deutsche Telekom's Head of IR, Stephan Eger, also topped the table in the Thomson Reuters survey, winning first place in in the European telecommunications sector. Across all sectors in Europe, Eger was positioned sixth. It is also encouraging that, in Greece, OTE won three first places in the national rating (for the company, for Kevin Copp as CFO, and for Dimitrios Tzelepis as Head of IR).

G 03

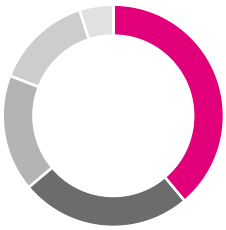
Shareholder structure.
As of December 31, 2012



- **50 %** Institutional investors
- **18 %** Retail investors
- **17 %** Federal Republic
- **15 %** KfW

G 04

Geographical distribution of free float.
As of December 31, 2012



- **39 %** Germany
- **25 %** Rest of Europe
- **17 %** United Kingdom
- **14 %** United States/Canada
- **5 %** Other countries

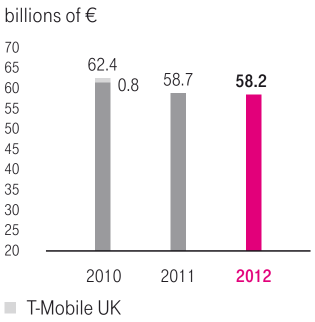
MANAGE-MENT REPORT

TELEKOM LABORATORIES PROVIDE CRUCIAL IMPETUS FOR THE FUTURE OF OUR COMPANY. THIS IS WHERE WE CREATE INNOVATIVE PRODUCTS, SERVICES, AND INFRASTRUCTURE FOR DEUTSCHE TELEKOM’S GROWTH AREAS.

57 COMBINED MANAGEMENT REPORT

OVERVIEW OF THE 2012 FINANCIAL YEAR.

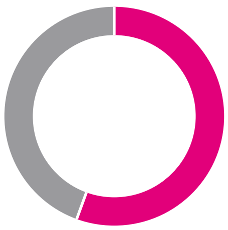
G 05



Net revenue.

- Net revenue decreased slightly by 0.8 percent. This includes positive net exchange rate effects of around EUR 1.1 billion, primarily from the translation of U.S. dollars into euros.
- Operations were positively impacted by the development of television services and mobile data revenues, particularly in connection with the marketing of smartphones.
- Negative impacts on operations included declining revenues from voice telephony, price changes imposed by regulatory authorities, and intense competitive pressure.

G 06

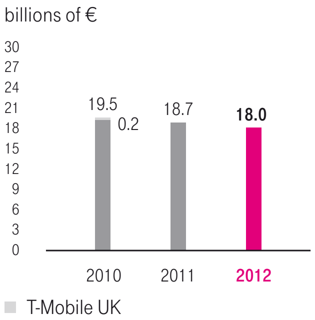


- **55.7 %** International
- **44.3 %** Domestic

Proportion of net revenue generated internationally.

- The proportion of net revenue generated internationally increased to 55.7 percent (compared with 55.1 percent in 2011). This was partly attributable to increases in revenue due to exchange rate effects in our United States operating segment.

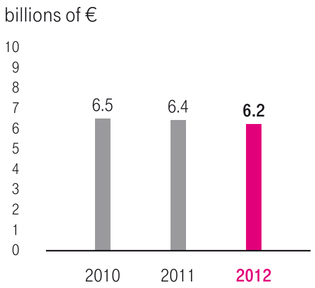
G 07



Adjusted EBITDA.

- We generated adjusted EBITDA of EUR 18.0 billion, achieving the corporate target we originally communicated for the year.
- Positive effects included the focus on high-value revenue in connection with TV services and mobile data revenues (see Net revenue) and net exchange rate effects of EUR 0.3 billion.
- Negative effects included fixed-network lines lost to competitors, price changes imposed by regulatory authorities, and special levies imposed in the wake of national austerity programs. The negative effects were partially offset by our comprehensive cost management.

G 08



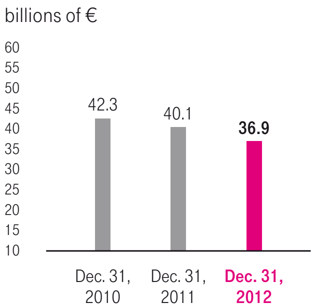
Free cash flow (before dividend payments, spectrum investment). [a]

- Free cash flow amounted to EUR 6.2 billion, exceeding the Company's announced corporate target of around EUR 6.0 billion.

[a] And before PTC and AT&T transactions.

For a more detailed explanation, please refer to the section "Development of business in the Group," **PAGE 90 et seq.**

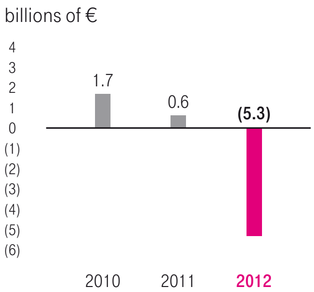
G 09



Net debt.

- Net debt decreased by EUR 3.3 billion or 8.1 percent compared with the end of 2011 to EUR 36.9 billion.
- Net debt was reduced by more than EUR 3 billion despite dividend payments including to non-controlling interests (EUR 3.4 billion), effects in connection with the AT&T transaction (EUR 0.5 billion), payments to external pension funds (EUR 0.8 billion), and the acquisition of spectrum (EUR 0.4 billion).
- A positive impact came from free cash flow (EUR 6.2 billion), the sale of the shares in Telekom Srbija (EUR 0.4 billion), and the payment received in connection with the cell tower deal between T-Mobile USA and Crown Castle (EUR 1.9 billion).

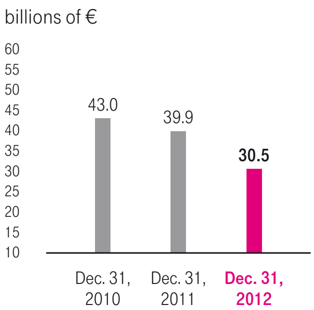
G 10



Net profit/loss.

- Net profit decreased by EUR 5.8 billion, resulting in a net loss of EUR 5.3 billion.
- The impairment loss recognized on goodwill and assets of T-Mobile USA in particular had a negative impact (approximately EUR 7.4 billion after taxes).
- Adjusted net profit decreased from EUR 2.9 billion to EUR 2.5 billion, a year-on year decline of EUR 0.3 billion.

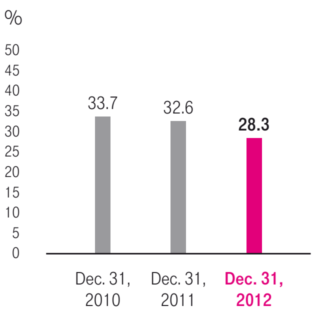
G 11



Shareholders' equity.

- Shareholders' equity decreased by EUR 9.4 billion compared with the end of 2011.
- The net loss of EUR 5.3 billion, the recognition of actuarial losses (EUR 1.3 billion after taxes) directly in equity, and dividend payments including to non-controlling interests (EUR 3.4 billion) reduced the level of shareholders' equity.

G 12



Equity ratio.

- Despite the decrease in shareholders' equity, the equity ratio remained within the announced target range of between 25 and 35 percent.
- Total assets decreased by 11.9 percent, mainly as a result of the asset impairments, including on goodwill, at T-Mobile USA (around EUR 10.6 billion) and dividend payments including to non-controlling interests (EUR 3.4 billion).

DEUTSCHE TELEKOM AT A GLANCE.

In 2012 we succeeded in meeting our key financial targets with adjusted EBITDA of EUR 18.0 billion, and with free cash flow of EUR 6.2 billion we even exceeded them. Net revenue was slightly down by 0.8 percent year-on-year. While we recorded a slight decline in Germany, our home market, positive exchange rate effects resulted in moderate growth in the United States. Developments at our subsidiaries in Eastern Europe continued to be dominated by the challenging economic environment, intense competition, and massive regulatory intervention. As expected, adjusted EBITDA declined by 3.8 percent, with cost-cutting measures not fully compensating for higher expenditure to improve our market position in Germany and the United States and a decline in revenue in the Europe operating segment.

On October 3, 2012, we concluded an agreement with MetroPCS on the combination of our business activities in the United States. The combined company's improved position in terms of mobile spectrum and an expanded customer base mean that we will be able to compete more aggressively with the other national mobile carriers in the United States. Although the agreed business combination triggered the recognition of an impairment loss on goodwill and other non-current assets totaling EUR 7.4 billion (after taxes) that reduced our net profit significantly, we believe that this transaction generates value and makes entrepreneurial sense.

In 2012 we reduced net debt by EUR 3.3 billion to EUR 36.9 billion. Positive effects included, in particular, free cash flow, the cash inflows in connection with the cell tower deal between T-Mobile USA and Crown Castle, and the sale of the shares in Telekom Srbija.

We presented our growth plans at our Capital Markets Day in early December 2012 in Bonn. We plan to invest in the Company's future, notably in modern broadband networks in Germany, the United States, and Europe. This will give us a clear edge over many of our competitors. At the event we also presented our finance strategy for 2013 through 2015. In light of the considerable investments we are planning, we have decided to adjust our dividend to a sustainable level. We also announced a new sales partnership between T-Mobile USA and Apple that will help us, over the coming year, to eliminate the competitive disadvantages currently faced by T-Mobile USA.

We are scaling up investments in our networks and continuing to expand our broadband infrastructure. These investments in the Company's future will pay off. We plan to grow again as early as in 2014, with revenue stabilizing in Germany and renewed growth in Europe and the United States. In 2014 we also expect to see an increase in total revenue as well as higher earnings compared to the prior year. Our Systems Solutions operating segment has been restructured, preparing the ground for reducing our expenditure on intragroup IT services. Finally, we plan to generate profitable growth in our business with corporate customers.

COMPARISON OF THE GROUP'S EXPECTATIONS WITH ACTUAL FIGURES.

G 13

Comparison of the Group's expectations with actual figures.

Adjusted EBITDA [a]		Free cash flow [a, b]	
2012 guidance	2012 delivery	2012 guidance	2012 delivery
■ Around **€ 18 billion**	■ **€ 18.0 billion**	■ Around **€ 6 billion**	■ **€ 6.2 billion**

[a] Expectations for 2012 were based on stable exchange rates and a comparable structure of the consolidated group. Adjusted EBITDA in 2012 includes positive exchange rate effects of EUR 0.3 billion. For the exchange rates of certain significant currencies, please refer to **TABLE T 058, PAGE 221,** in the notes to the consolidated financial statements.
[b] Before dividend payments, spectrum investment, and before AT&T transaction.

Capital expenditure (before spectrum) totaled EUR 8.0 billion in 2012 and mainly related to further rolling out broadband and expanding capacities in existing networks. In mobile communications, we invested in LTE, increased 3G network coverage, and upgraded capacity to meet increasing demand for data transfer volumes. In the fixed-network area, priority was given to expanding the fiber-optic infrastructure, to IPTV, and to the continued transition of the existing telephone network to a next-generation IP-based network. Investments in our core market in Germany remained at a consistently high level. A difficult market situation and additional financial burdens, such as the special tax in Hungary, caused most countries in the Europe operating segment to exercise restraint when it came to capital expenditure. Investments in the United States largely went towards modernizing the mobile network. Capital expenditure at T-Systems was focused on Deutsche Telekom's internal IT systems as well as on investments in connection with customer orders and the continued roll-out of new multi-purpose platforms (e.g., for cloud services, De-Mail, and intelligent networks).

For further explanations and information on the current finance strategy for 2013 through 2015, please refer to the section “Management of the Group,” **PAGE 80 et seq.**

COMPARISON OF OUR STAKEHOLDERS’ EXPECTATIONS WITH ACTUAL FIGURES.

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

G 14

Results and comparison of our stakeholders’ expectations with actual figures.

Shareholders

	2012 guidance	2012 delivery
Shareholder remuneration policy[a]	▪ Total annual remuneration volume of around **€ 3.4 billion** ▪ Of which minimum annual dividend of **€ 0.70 per share**	▪ Proposed dividend for 2012 of **€ 0.70 per share** (€ 3.0 billion) ▪ No share buy-backs for 2011 and 2012[b]

Ambition level for 2012
Improvement of around 150 basis points

Providers of debt capital

	2012 guidance	2012 delivery
Rating	A–/BBB+	BBB+
Relative debt	2 to 2.5 x	2.1 x
Equity ratio	25 to 35 %	28.3 %
Gearing	0.8 to 1.2	1.2
Liquidity reserve	covers maturities of the next 24 months	covers maturities > 24 months

ROCE
Return on capital employed

ROCE level
2012: –2.3 %, excluding one-time effects[c]: 4.0 %
(2011: 3.8 %, 2010: 3.5 %, 2009: 3.9 %)

Employees

Staff restructuring and staff reduction	Expenses arising from staff restructuring in 2012: € 1.1 billion ROCE impact: ≈ 0.7 percentage points

“Entrepreneurs within the enterprise”

Investment before spectrum	€ 8.0 billion
Investment in spectrum	€ 0.4 billion

[a] Subject to approval by the relevant bodies and the fulfillment of other legal requirements.
[b] No share buy-backs were carried out under the shareholder remuneration strategy in favor of forward-looking investments.
[c] One-time effects resulting from the cell tower deal with Crown Castle (+1 percentage point), impairment losses (–7.3 percentage points, of which –7.0 percentage points due to impairment losses recognized at T-Mobile USA).

THREE-YEAR COMPARISON OF EXPECTATIONS WITH ACTUAL FIGURES.

2010 to 2012: Key targets achieved. We expect a lot of ourselves and measure our success by our results. In 2010 we formulated clear ambitions for the next three years. **TABLE T 006** provides an overview of these ambitions and their status quo.

T 006

Ambition level of the Group for 2012 (communicated in 2010).

TV customers (Group-wide)	5.5 to 6.0 million	◍
Mobile customers (Group-wide)	> 140 million	◍
Broadband retail customers in the fixed network (Group-wide)	> 18 million	●
Revenue	> € 6 billion revenue from mobile Internet	●
	Revenue stabilized in Germany	○
Save for Service 2010 – 2012	Savings of € 4.2 billion, of which net savings of € 1.8 billion in Germany and South-Eastern Europe	●
Free cash flow	Increasing compared with 2010 level of € 6.2 billion	◍
ROCE	+ > 150 basis points	○
Shareholder remuneration 2010 – 2012	€ 3.4 billion per annum; € 0.70 minimum dividend per share	●
	+ share buy-back for up to € 1.2 billion	○

● Achieved ◍ Partially achieved ○ Not achieved

2010 to 2012: Selected successes. In 2010 we formulated our Fix – Transform – Innovate strategy with the following action areas:

- Improve the performance of mobile-centric assets
- Leverage One Company in integrated assets
- Build networks and processes for the gigabit society
- Connected life across all screens
- Connected work with unique ICT solutions

We have successfully implemented this strategy in the last three years. Our most important successes are listed in **GRAPHIC G 15**.

For more information on our strategy, please refer to the section "Group strategy," **PAGE 75 et seq.**

The direction set in 2010 still applies today. Nevertheless, in June 2012, we decided to further develop, simplify, and focus our strategy and center it even more firmly on the customer.

G 15

2010 to 2012: Successes.

Fix	Transform	Innovate
■ Everything Everywhere joint venture: good operating performance and significant value accretion due to synergies leveraged ■ United States: improved position following the termination of the agreement with AT&T ■ Germany: broadband share largely stable	■ One Company in Germany, Slovakia, Hungary and Croatia ■ Save for Service target to save EUR 4.5 billion by 2011 achieved one year ahead of schedule ■ Telekom IT established – IT expenditure to be reduced by EUR 1 billion by 2015	■ Revenue from growth areas largely on track for 2015 ambition level ■ Innovation priorities defined across the Group ■ Partnerships intensified

HIGHLIGHTS IN THE 2012 FINANCIAL YEAR.

Developments at senior management level.

On December 20, 2012, **René Obermann** asked the Supervisory Board to release him from his duties as the Company's Chairman of the Board of Management effective midnight on December 31, 2013. The Supervisory Board complied with this request and revoked his appointment with effect from this date by mutual agreement. The Supervisory Board also resolved to appoint **Timotheus Höttges** as Deputy Chairman of the Board of Management effective January 1, 2013, in addition to his existing duties. He is to be appointed Chairman of the Board of Management in the course of 2013, effective January 1, 2014.

Effective midnight on May 31, 2012, Dr. Manfred Balz's appointment as member for the Board of Management responsible for Data Privacy, Legal Affairs and Compliance was revoked by mutual agreement. **Dr. Thomas Kremer** was appointed as his successor in this role effective June 1, 2012.

Effective midnight on May 2, 2012, Thomas Sattelberger's appointment as member of the Board of Management responsible for Human Resources and as Labor Director came to an end. Effective May 3, 2012, the Supervisory Board appointed **Prof. Marion Schick** as member of the Board of Management responsible for Human Resources and as Labor Director.

Employees.

2012 collective bargaining concluded in Germany. In the negotiations for the 2012 round of collective bargaining for Deutsche Telekom AG, Telekom Deutschland GmbH and its service companies, and T-Systems, the parties reached agreement. As a result of this collective bargaining, the salaries of employees covered by collective agreements will gradually increase by 6.5 percent overall by 2013. The collective agreements run until the end of January and March 2014, respectively.

The German Federal Government and the Bundestag, the lower house of the German Parliament, adopted the draft 2012/2013 Federal Civil Servant Remuneration and Pension Adjustment Act (Bundesbesoldungs- und Versorgungsanpassungsgesetz). The bill provides for the transfer of the collective agreement for the federal public sector to civil servants. Pay for civil servants at Deutsche Telekom will gradually increase by 5.7 percent overall by August 2013.

Early retirement program for civil servants extended. We extended our early retirement program for civil servants in Germany and offered our civil servants a limited early retirement program until the end of 2012. Payments will be spread over the next six to seven years.

Shape Headquarters. We already launched extensive structural and personnel measures in 2012 to realign the central management and service functions of our Group. On January 1, 2013, the green light was given for our new Group Headquarters & Shared Services. The plan is to make Headquarters much more efficient, to reduce complexity, and to increase effectiveness. Compulsory redundancies have been ruled out until 2015 for employees for whom no position becomes available during the course of the reorganization.

OTE exit scheme. On November 7, 2012, OTE's Board of Directors approved a voluntary and socially responsible exit scheme which was implemented in the fourth quarter of 2012. The successful implementation of the voluntary exit scheme allows OTE to significantly reduce its operating expenses, enhance its competitiveness, and proceed with the company's transformation. The scheme's initial target was significantly exceeded, as 1,516 employees accepted the incentives offered by the company. OTE estimates the net annual cost savings from downsizing to reach about EUR 80 million. It should be noted that the voluntary exit scheme entails no burden for Greek state pension funds, as OTE bears the entire cost.

Magyar Telekom reaches agreement with trade unions. According to the terms of the agreement, the company plans to make 500 employees redundant in 2013. In addition, to achieve further efficiency improvements, organizational restructuring will take place as of January 1, 2013 and one element of social benefits will also be reduced by 25 percent. The agreement also states there will be a four-percent general increase in the base salary for the parent company employees from April 2013 to maintain the real value of wages for those who stay with the company. Based on these measures, Magyar Telekom's goal is to reduce Total Workforce Management-related costs excluding severance and capitalized employee expenses by HUF 5.8 billion (around EUR 19 million) in 2013.

Business combination of T-Mobile USA and MetroPCS agreed.

On October 3, 2012, Deutsche Telekom AG and MetroPCS Communications, Inc., Dallas/United States, (MetroPCS) concluded an agreement to combine their business activities in the United States.

As part of this transaction, Deutsche Telekom AG will contribute T-Mobile USA into the listed company MetroPCS and in return receive a 74-percent stake in the capital stock of the combined company through a capital increase. The remaining share of 26 percent will be held by the previous shareholders of MetroPCS, who will also receive a one-time cash payment of USD 1.5 billion from MetroPCS.

The transaction triggered an impairment test, which as of September 30, 2012 resulted in an impairment loss on goodwill, other intangible assets and property, plant and equipment of T-Mobile USA of around EUR 7.4 billion in total (after taxes).

For further information on this impairment loss, please refer to **NOTE 30** "Depreciation, amortization and impairment losses" in the notes to the consolidated financial statements, **PAGES 253 – 254.**

Since the transaction is, in accounting terms, structured as a reverse acquisition, the existing carrying amounts of the assets and liabilities of T-Mobile USA will be carried forward upon its closing (expected in the first half of 2013). The carrying amounts of the assets and liabilities of MetroPCS, by contrast, will be remeasured at fair value within the scope of the business combination. Upon closing, the combined company will be shown as a fully consolidated entity in the consolidated financial statements of Deutsche Telekom and its shares are expected to be traded on the New York Stock Exchange (NYSE). The company's head office will continue to be in Bellevue, Washington, and it will retain a presence in Dallas, Texas.

The transaction is subject to approval by the U.S. Department of Justice (DOJ), the Federal Communications Commission (FCC) and the Committee on Foreign Investment in the United States (CFIUS). The approval of the MetroPCS shareholders is also required. Deutsche Telekom and MetroPCS expect to obtain all the necessary approvals in the first half of 2013.

The agreed business combination offers an excellent basis for the future of the U.S. operations thanks to an improved mobile spectrum position and additional financial resources. Deutsche Telekom expects to leverage synergies with a net present value of USD 6 to 7 billion. Advantages arise from a wider selection of affordable products and services, improved network coverage, and a clear-cut technology path to one common LTE network. The combined company will be able to provide mobile services for approximately 42.5 million customers in the United States.

Corporate transactions.

T-Mobile USA receives around USD 2.5 billion for cell towers. On September 28, 2012, T-Mobile USA concluded a framework agreement with Crown Castle International Corp., Houston/United States, (Crown Castle) concerning on the one hand the leasing and use of around 6,300 cell towers and, on the other, the sale of around 800 cell towers by T-Mobile USA. In exchange for a one-time payment of around USD 2.5 billion, Crown Castle received the sole right to use and lease out the cell sites for an average of 28 years. Payment took place once the agreement was concluded in the fourth quarter of 2012. T-Mobile USA will continue to operate its mobile equipment on these cell towers and, to this end, lease back the required capacity from Crown Castle. Previously unused infrastructure is thus available for lease by third parties.

For more details on this transaction, please refer to the combined management report for the 2011 financial year **(2011 ANNUAL REPORT, PAGE 147).**

The **sale of the stake in Telekom Srbija** was completed on January 25, 2012.

Partnerships.

We have signed a partnership agreement with **Telefónica Germany** for the shared use of parts of our network infrastructure. We have increased our stake in the IT service provider **HMM Deutschland** in order to further expand our healthcare business area. One of the aims is to drive forward the digital data flow between health insurance funds, pharmacies, and medical supply stores.

Thanks to our partnership with the credit card provider **MasterCard,** we are giving a new boost to paying by smartphone. We want it to be convenient, secure and easy for customers to pay wherever they are.

In the second quarter, we entered into a partnership with the network technology provider **ANTEC Servicepool GmbH,** contractually agreeing to supply around 33,000 apartments in the Hanover region with TV and radio coverage. In the future, we plan to cover additional homes through this partnership. The partnership concluded in 2011 with the real estate company Deutsche Annington is the basis for our re-entry into the German cable market.

PAYBACK – the largest German customer loyalty program – has made us their exclusive partner for the entire telecommunications segment. More than 20 million PAYBACK customers will gain PAYBACK points when they sign a fixed-network or mobile contract.

Investments in networks and new spectrum.

LTE network roll-out in Germany. Together with the other two 800 MHz network operators, we have met the **LTE roll-out obligations in Germany** in all of the 16 federal states. The gaps have been closed – even rural regions now have access to broadband Internet. Having satisfied the roll-out obligations, we can now use the assigned frequencies in the 800 MHz range across Germany without restrictions. This enables transmission speeds of up to 50 Mbit/s.

As previously announced, by the end of 2012 we had rolled out **high-speed LTE** in Germany's 100 largest towns and cities. The high-speed version of LTE, which currently only we offer, uses the 1.8 GHz frequency range, enabling bandwidths of up to 100 Mbit/s. This exclusivity gives us an edge over our competitors in the marketing of Apple products, like the iPhone 5 and the new iPad.

LTE network roll-out in Europe. In **Hungary** we are the first company to provide mobile Internet services based on 4G/LTE mobile technology. 4G/LTE services are not only available in the capital city Budapest, but also in the entire Budapest metropolitan area and a number of other cities. In **Croatia**, too, we were the first provider to launch 4G/LTE mobile technology in March 2012 and we further increased its availability over the course of the reporting year. Cosmote **Greece** has launched the country's first commercial 4G/LTE mobile broadband network in Athens and Thessaloniki for USB modem and tablet computer users. In **Austria** we have successfully modernized our network, i.e., upgraded our GSM infrastructure and installed new transmitter technology. More than 5,500 base stations were converted to the latest multi-standard technology. We are now ready for LTE roll-out in Austria.

Successful participation in license auctions in Europe. In **Romania** our subsidiary purchased new spectrum in the frequency ranges of 0.8 GHz, 1.8 GHz, and 2.6 GHz and extended the existing licenses in the frequency ranges of 0.9 GHz and 1.8 GHz. The new licenses will be valid from April 2014 and have a term of 15 years. In **Croatia,** our subsidiary successfully participated in the allocation of the 0.8 GHz spectrum, purchasing two times 10 MHz for the roll-out of an LTE network. The license for the spectrum runs for twelve years. In the **Netherlands,** our subsidiary purchased licenses at auction for the frequency ranges from 0.9 to 1.8 GHz and in the 2.6 GHz range. All of these licenses will run until the year 2030.

Transfer of AWS spectrum licenses in the United States. In April 2012, the U.S. regulatory authority for the telecommunications market, FCC, announced its approval for the transfer of Advanced Wireless Service (AWS) spectrum licenses in the United States; this transfer was completed on May 4, 2012. These licenses were part of the compensation that AT&T had to provide to Deutsche Telekom following the termination of the agreement for the sale of T-Mobile USA.

TeraStream – the new, cloud-based IP network architecture. In the fourth quarter, we gave the green light for the pilot testing of the new TeraStream architecture in Croatia. This is a considerably simplified IP network concept that provides all services, including conventional telecommunications services (voice, IPTV, Internet access), from the cloud rather than via a network as is the case today.

DEUTSCHE TELEKOM
INNOVATION.

For more information on our new products and innovative services, please refer to the section “Innovation and product development,” **PAGE 137 et seq.**

New products.

On August 31, 2012, we launched our **De-Mail** service, which allows users to send and receive documents over the Internet securely, confidentially and verifiably. Since the start of September 2012, our mobile customers in Germany have been able to surf the Internet on a smartphone at up to 100 Mbit/s using our new add-on **Speed Option LTE.** We are currently the only provider to offer such speed, and the only one to do so on the iPhone 5, among other handsets. Since October 2012, as exclusive partner for the music streaming service **Spotify,** we have been the first German telecommunications company to offer a flat-rate calling plan with the Spotify premium service as an add-on option.

More and more companies are relying on the cloud – T-Systems wins new deals.

A mega trend: the cloud. Companies in Germany and abroad are increasingly using applications and computing and storage capacities on demand via the Internet. We are pioneers in this growth market and have been offering cloud services for corporate customers since 2005. We were again successful in the reporting year. The mineral oil and gas company **Shell** extended its agreement for the purchase of global data center services, which has been in place since 2008, by five years. T-Systems will continue to provide all SAP services for Shell’s global locations from within the cloud. The energy group **BP** has chosen cloud services provided by T-Systems for its employee communications; this will allow more than 83,000 BP employees around the world to access their usual communication services from anywhere at any time. T-Systems signed a deal with the Swiss industrial group **Georg Fischer** to provide global ICT services. Under the contract, which has a term of six years and three months, T-Systems will bundle Georg Fischer’s IT infrastructure and manage it from the cloud. T-Systems also closed one of the largest cloud deals in its history with the tobacco group British American Tobacco **(BAT).** The deal has a seven-year term. Over the next two years, T-Systems will transfer BAT’s business software into the cloud.

Glossary, **PAGE 301 et seq.**

The cloud was not the only business driver. In 2012 we successfully concluded a series of international deals and extensions to deals in other areas, too. Telekom Deutschland won automotive manufacturer **BMW** as a mobile customer with a contract that runs to the end of 2019. In addition to providing mobile cards for more than 50,000 BMW employees, the contract also includes a direct link between the mobile cards and BMW’s business processes. Text messages and mobile data connections, for example, will be used as part of logistics and manufacturing processes, thereby optimizing production workflow. **Fraport** operates Frankfurt Airport, one of the world’s leading air traffic hubs. We have assumed responsibility for 15,000 fixed and around 6,000 mobile lines at this airport. In addition to mobile and fixed-network technology, Fraport procures Internet access as well as data center, network and service desk services. The energy provider **RWE** Deutschland is relying on our infrastructure and services for communication with 15,000 of the digital electricity meters in Mülheim/Ruhr. To this end, we installed smart meters and the communication boxes necessary for remote reading. The “Mülheim zählt” (Metering in Mülheim) project is to date the largest smart metering project in Germany.

Awards.

In Germany, we were voted Mobile Network Operator of the Year for the thirteenth time running by readers of the trade magazine **“connect.”** We were also named best mobile network operator by readers in Austria. The “connect” 2012 network test in Germany produced a clear result. Customers found us to be the best and most reliable provider of both phone calls and mobile Internet. In Austria, we were given the overall rating of “very good” in the “connect” network test and were top of the line in the category of voice quality. Our German mobile network also took first place – for the third time in a row – in another network test by the **CHIP Online** portal.

We also received recognition for our social commitment. This year, we once again made it into the two most renowned **sustainability indexes,** the Dow Jones Sustainability Index World and Dow Jones Sustainability Index Europe. Only the top ten percent of an industry are included in these indexes and hence recommended to sustainability-focused investors and fund managers as top investments.

Our national company in the Czech Republic was named best mobile communications provider in Eastern Europe by the **World Finance** magazine.

Regulatory decisions.

Integrated network strategy. On December 19, 2012, Deutsche Telekom AG submitted an application to the Federal Network Agency for an amendment to the regulatory order on the regulation of unbundled local loop lines. Our aim is to work toward a change in the regulatory framework so as to give us the greatest possible flexibility for the vectoring roll-out. Vectoring is a technology enhancement based on VDSL. The existing copper lines between households and cable distributors can remain in place. Vectoring ensures that the signal frequencies that reduced data transmission rates on the copper wire are equalized and enables transmission speeds of up to 100 Mbit/s.

For details on **regulatory decisions in 2012,** please refer to the section “The economic environment,” **PAGE 84 et seq.** Further developments in the area of regulation which we are not yet able to assess are discussed in the section “Risk and opportunity management,” **PAGE 149 et seq.**

Litigation.

The following proceedings developed positively in the reporting year: “Claim for compensation against the Federal Republic of Germany and KfW,” “Year-end bonuses for civil servants,” and the “Proceedings initiated by the Croatian competition authority against Hrvatski Telekom.”

For more information, please refer to the section “Risk and opportunity management,” **PAGE 149 et seq.**

GROUP ORGANIZATION.

■ Business activities and organization ■ Management and supervision ■

BUSINESS ACTIVITIES AND ORGANIZATION.

Business activities: Leading service provider in telecommunications and information technology. We are one of the world's leading service providers in the telecommunications and information technology industry and offer our millions of customers a wide variety of products and services for connected life and work. We have an international focus and are represented in around 50 countries. In the 2012 financial year, we generated over half of our revenue of EUR 32.4 billion outside of our home market in Germany and employed 229,686 people overall (December 31, 2012).

Our activities are guided by key trends in technology and society, which we play a pivotal role in shaping. One such trend is digital technology, which is increasingly prevalent in many areas of life. Products and services are becoming more personalized, people are more mobile than ever before, and globalization is advancing, too. There is growing convergence among the various technologies. This is the reason why we are focusing on an integrated portfolio of products with which customers can access personalized data such as music, videos, or addresses from any terminal device. Through fixed-network and mobile communications, we offer network access as well as communication and value-added services with ever-expanding bandwidths. Our innovative products and services enable people to stay in touch.

Not only do our customers in Germany receive tailor-made products and services, they also get the best network quality – and all from a single source. The T is our Group brand and will also be an integral part of the brand identity of our foreign shareholdings in the future.

In addition to our core business (traditional fixed-network and mobile access), we are tapping new growth areas with investments in intelligent networks and our portfolio of IT, Internet, and network services.

For more information, please refer to the section "Group strategy," PAGE 75 et seq.

We are systematically implementing our strategy, which was developed further in 2012, in four strategic areas of operation, focusing on three principles: compete, transform and innovate.

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

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

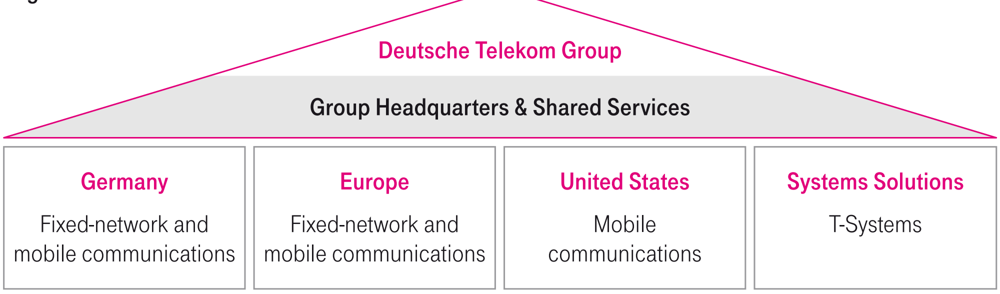
Glossary, PAGE 301 et seq.

T-Systems, our corporate customer arm, is active in the field of network-centric ICT solutions where it offers combined IT and telecommunications services. T-Systems supplies complete solutions for companies with global operations. In addition, it focuses on services such as cloud computing and IT solutions for sectors that are undergoing major changes like energy, healthcare, and the connected car.

Organization: Four operating segments. Our financial reporting conforms with our Group strategy and is based on the following organizational structure. The 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.

G 16

Organizational structure.



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

The **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, Bulgaria, Albania, the F.Y.R.O. Macedonia, and Montenegro, as well as the UK joint venture. In addition, various national companies also offer ICT solutions to business customers. The Europe operating segment also includes the International Carrier Sales & Solutions unit, which mainly provides wholesale telecommunications services for the Group's other operating segments.

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

The **Systems Solutions** operating segment bundles business with ICT products and solutions for large multinational corporations under the T-Systems brand. It offers its customers information and communication technology from a single source and develops and operates infrastructure and industry solutions for multinational corporations and public institutions. Its products and services offered range from standard products and IP-based high-performance networks through to complete ICT solutions.

Group Headquarters & Shared Services comprises all Group units that cannot be allocated directly to one of the operating segments. Group Headquarters is responsible for strategic and cross-segment management functions. The Shared Services unit, which provides services primarily in Germany, is responsible for all other operating functions not directly related to the operating segments' core business activities. In addition to typical services such as financial accounting, human resources services, and operational procurement, Shared Services also includes Vivento, which is responsible for providing employees with new employment opportunities as part of the workforce restructuring program, Real Estate Services, and the Mobility Solutions unit, a full-service provider of fleet management and mobility services.

New developments in 2012. Since January 1, 2012, Deutsche Telekom has pooled the tasks and functions of the Digital Services growth business as well as the Internet service provider STRATO, which as of December 31, 2011 were still largely part of the Germany operating segment, in the Digital Business Unit (DBU) under Group Headquarters & Shared Services.

Effective July 1, 2012, Deutsche Telekom reorganized the Group's IT infrastructure and transferred all internal IT units from the Germany and Systems Solutions operating segments as well as Group Headquarters & Shared Services into the new Telekom IT unit within the Systems Solutions operating segment.

For more information, please refer to **NOTE 32** "Segment reporting" in the notes to the consolidated financial statements, **PAGE 256 et seq.**

The prior-year figures have been adjusted for better comparability.

New developments in 2013. On January 1, 2013, the green light was given for our new Group Headquarters & Shared Services organization. In addition to focusing on the strategic management of the Group, the reorganization aims to improve service culture and strengthen entrepreneurship within the service functions. Furthermore, we plan to make Headquarters more efficient, reduce complexity, and enhance efficiency while bearing in mind the needs of internal customers at all times. Our new Group Headquarters is responsible for aligning and steering the Group as a whole, issuing rules and regulations, carrying out Group-wide strategic projects, and measuring their implementation and success. The newly formed Shared Services units provide services to the entire Group.

MANAGEMENT AND SUPERVISION.

The management and supervisory structures, as well as the compensation system for the Board of Management and the Supervisory Board, are oriented toward the long-term performance of the Group and follow the recommendations of the German Corporate Governance Code.

As of December 31, 2012, Board of Management responsibilities were distributed across seven Board departments. Four of these cover cross-functional management areas:

- Chairman of the Board of Management

and the Board departments

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

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

- Germany
- Europe & Technology
- T-Systems

Changes in the composition of the Board of Management. Effective midnight on May 2, 2012, Thomas Sattelberger's appointment as member of the Board of Management responsible for Human Resources and as Labor Director came to an end. Effective May 3, 2012, the Supervisory Board appointed Prof. Marion Schick as member of the Board of Management responsible for Human Resources and as Labor Director.

Effective midnight on May 31, 2012, Dr. Manfred Balz's appointment as member for the Board of Management responsible for Data Privacy, Legal Affairs and Compliance was revoked by mutual agreement. Effective June 1, 2012, Dr. Thomas Kremer was appointed as his successor in this role.

On December 20, 2012, René Obermann asked the Supervisory Board to release him from his duties as the Company's Chairman of the Board of Management effective midnight on December 31, 2013. The Supervisory Board complied with this request and revoked his appointment with effect from this date by mutual agreement. The Supervisory Board also resolved to appoint Timotheus Höttges as Deputy Chairman of the Board of Management effective January 1, 2013, in addition to his existing duties. He is to be appointed Chairman of the Board of Management in the course of 2013, effective January 1, 2014.

Changes in the composition of the Supervisory Board. Ulrich Hocker resigned his seat on the Supervisory Board on May 24, 2012 with effect from the end of the shareholders' meeting. The shareholders' meeting elected Dagmar P. Kollmann as a member of the Supervisory Board. Also at the shareholders' meeting on May 24, 2012, the Supervisory Board members Dr. Hans Bernhard Beus, who had previously been court-appointed as a member of the Supervisory Board, and Lawrence H. Guffey, who stood for a second term of office, were elected to the Supervisory Board for the period up to the end of the shareholders' meeting that will approve the actions of the Supervisory Board for the 2016 financial year.

Michael Löffler stepped down from the Supervisory Board effective midnight on May 31, 2012. Klaus-Dieter Hanas was court-appointed as his successor with effect from June 1, 2012.

Hans Martin Bury stepped down from the Supervisory Board effective midnight on October 31, 2012. Sari Baldauf was court-appointed as his successor with effect from November 1, 2012 until the end of the 2013 shareholders' meeting. Sari Baldauf will be proposed for election at the 2013 shareholders' meeting.

Hermann Josef Becker stepped down from the Supervisory Board effective midnight on December 31, 2012. His successor, Petra Steffi Kreusel, was court-appointed to the Supervisory Board with effect from January 1, 2013 until the end of the 2013 shareholders' meeting.

The Supervisory Board of Deutsche Telekom AG advises the Board of Management and oversees its management of business. The Supervisory Board is composed of 20 members, of whom ten 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 AktG and § 31 of the German Codetermination Act (Mitbestimmungsgesetz – MitbestG).

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

T 007

Composition of the Board of Management as of December 31, 2012.

Members of the Board of Management	Department
René Obermann	Chairman of the Board of Management (CEO)/ United States
Reinhard Clemens	T-Systems
Niek Jan van Damme	Germany
Timotheus Höttges	Finance (CFO)
Dr. Thomas Kremer	Data Privacy, Legal Affairs and Compliance
Claudia Nemat	Europe & Technology
Prof. Marion Schick	Human Resources

For more information on the compensation of the Board of Management and the disclosures required by § 314 HGB, German Accounting Standard No. 17 (GAS 17), and the disclosures required by the German Corporate Governance Code, please refer to **NOTE 40** "Compensation of the Board of Management and the Supervisory Board" in the notes to the consolidated financial statements, **PAGE 281 et seq.**

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. Pursuant to the VorstAG explanatory memorandum (document 16/13433), the contracts of the Board of Management members that were in existence before the Act entered into force enjoy vested rights protection. These Board of Management members nevertheless have the option of voluntarily changing over to the new compensation system. As at December 31, 2012 all current members of the Board of Management were covered by the new Board of Management compensation system.

The compensation of Board of Management members comprises various components. Under the terms of their service contracts, members of the Board of Management are entitled to annual fixed remuneration and annual variable performance-based remuneration, a long-term variable remuneration component, as well as fringe benefits and deferred benefits based on a company pension entitlement. The Supervisory Board defines the structure of the compensation system for the Board of Management and reviews this structure and the appropriateness of compensation at regular intervals.

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

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

In accordance with market-oriented and corporate standards, 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.

GROUP STRATEGY.

Our strategy today is the foundation for our success tomorrow

Deutsche Telekom is one of the world's leading providers of telecommunications and information technology, a position that we want to reinforce. This is no simple task; after all, the traditional access business markets are subject to intense competition. But we also see growth opportunities, for instance, in markets for mobile data usage and cloud and Internet services.

We are still on course, but the challenges are greater than ever. Our strategy defines the framework for the long-term success of our Group. We formulated the Fix – Transform – Innovate strategy in 2010 which we have been implementing successfully ever since. This focus still applies today. We will keep following the charted course. We have also decided to further develop, simplify, and focus our strategy and center it even more firmly on the customer. This can also be seen in our new strategic vision:

Deutsche Telekom – My first choice for connected life and work.

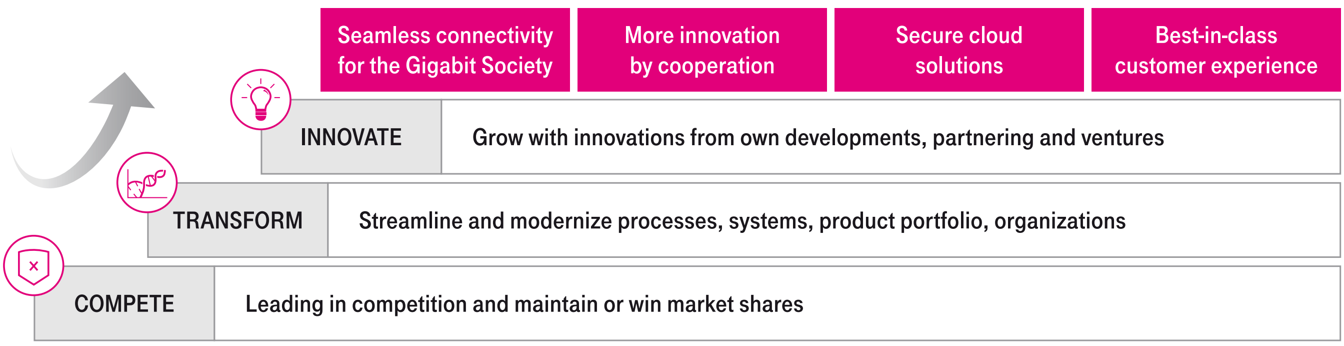
With this approach we are focusing even more firmly on the customer. Whether consumers, business customers or corporate customers – we want to be everyone's first choice. We intend to achieve this by concentrating on four strategic areas of operation as shown in GRAPHIC G 17.

In implementing these four areas of operation, we focus on three principles: Compete, Transform and Innovate. Specifically, this means:

- We **compete** for our customers to maintain or improve our market position.
- We **transform** our processes and systems to remain competitive.
- We **innovate** in all areas of our Company to achieve further growth and drive forward innovation.

G 17

Corporate strategy.



Seamless connectivity for the Gigabit Society.

We rely on our excellent network quality. Our goal is to always offer our customers the best and fastest possible connection. We will build a nationwide, high-performance network with gigabit speed through a mix of intelligent technologies. We are driving forward network roll-out both on the basis of both mobile solutions such as LTE and UMTS, and the fixed network. We are investing in networks and technologies. In the previous year alone, expenditure for fixed- and mobile-network technologies totaled more than EUR 5 billion. This is paying off. In 2012, for example, we once again won the mobile network tests conducted in Germany by the magazines CHIP Online and "connect."

Glossary, **PAGE 301 et seq.**

In the fixed network, we are focusing on the roll-out of optical fiber and the **vectoring technology.** We have thus connected 382,000 households in 20 German cities to the optical fiber network since 2010. In future, we want to push ahead with the network build-out in an even more efficient way by laying optical fiber up to the nearest street cabinet, and from there, by using the vectoring technology on existing copper lines, to the home to realize bandwidths of up to 100 Mbit/s. We furthermore plan to share the opportunities and risks inherent in this build-out through new forms of partnership with competitors such as NetCologne, 1&1 Internet AG, and Telefónica Deutschland. The Federal Network Agency approved a corresponding pricing model in 2012 which has become known as the VDSL contingent model. In addition, we are increasingly presenting ourselves as a partner for the housing sector, thereby intensifying competition with the cable companies. In cooperation with ANTEC Servicepool GmbH and Deutsche Annington, we will supply more than 200,000 apartments with TV and radio services and offer the tenants suitable broadband packages in the coming years.

Please also refer to "Regulatory influence on Deutsche Telekom's business," **PAGES 88 – 89.**

Even better network coverage and higher transmission rates are the most important targets we set ourselves in mobile communications. With LTE now available in more than 100 German cities, we are already offering transmission rates of up to 100 Mbit/s. LTE transmission rates are scheduled to be available to around 85 percent of the population by 2016. The Federal Network Agency now considers the coverage obligation for rural areas throughout Germany to be met by LTE; more than 4,731 cell towers have already been put into operation for this purpose. In Europe, our customers in Austria, Hungary, Croatia, and Greece also profit from the new technology. LTE is scheduled to be launched in Poland, the Czech Republic, Montenegro, and the Netherlands in 2013.

With LTE-enabled handsets like the iPhone 5 or the Samsung Galaxy SIII LTE, we offer the optimum combination of top devices and the best network. At the same time, we are continuing to modernize our UMTS network. HSPA plus already allows us to offer speeds of up to 42 Mbit/s. Our customers also stay well connected on the move. Passengers use our services to get online while traveling on some 1,700 kilometers of Deutsche Bahn's Intercity Express (ICE) route network and on board of six airlines.

T-Mobile USA continues to push ahead with initiatives as part of its challenger strategy, which include in particular the nationwide upgrading of its network with an investment volume of USD 4 billion. The agreed business combination with competitor MetroPCS will create a new company on the U.S. mobile market with a clear technology focus on a shared, modern LTE network and the aim of offering customers best value for money. This will enable T-Mobile USA to offer customers a wide selection of affordable products and services in conjunction with even greater network coverage. In 2013, we will also delight our customers with Apple products.

More innovation by cooperation.

DEUTSCHE TELEKOM INNOVATION.

Our Group not only makes use of its own innovations, but it also successfully integrates innovations from outside the Group. For us, innovation should be based on a three-way approach: in-house developments, partnerships, and equity investments. T-Labs, for example, is our central research and innovation unit. In our Digital Business Unit (DBU), we are focusing on product development in six business areas: communication services, media/entertainment, cloud services, advertising, the portal and display business, and payment services. The importance of platforms is increasing, especially in the Internet business. Deutsche Telekom's strength lies in setting up and managing such complex ecosystems, for example for home networking, machine-to-machine (M2M), or cloud services. We are also making use of small-scale partnerships with start-ups as well as global strategic partnerships in order to profit from external innovative power. We secure access to new business concepts and technologies through equity investments made by our venture capital company T-Venture. In addition, we have set up an incubator for start-ups called hub:raum.

In order to ensure that innovation continues to flourish in our Company, we have established a new system of innovation governance. As part of this initiative, we have set up a Product & Innovation Board which, under the lead of our CEO, makes key decisions in the area of innovations. In addition, we have set Group-wide **innovation priorities (corporate priorities),** which we are now implementing step by step in many countries. Currently, they comprise the following topics: the business marketplace with cloud applications for small- and medium-sized enterprises, the Joyn communication service, data machine-to-machine (M2M) transmission, and an ecosystem for mobile payments.

For further information on our innovation strategy and culture as well as examples of successful implementation, please refer to the section "Innovation and product development," **PAGE 137 et seq.**

Secure cloud solutions.

Cloud services are growing increasingly important and as such are a promising market for us. We have set ourselves the goal of enabling constant access to data and services for all of our customers – at all times, from anywhere and on any device, with the full range of services and maximum security.

Our corporate customer arm, T-Systems, has been offering dynamic SAP services since 2005. Since then, its portfolio has been growing, via application migrations and data integration through to complex cloud services, meeting the strictest possible security standards. T-Systems runs a wide range of services and customer-specific cloud solutions within the hosting environment of 90 data centers around the world with more than 60,000 servers. 2.6 million SAP customers use our cloud services. Last year, we won a number of major deals, including BP and Georg Fischer AG. In order to offer our customers even easier and faster access to cloud services, T-Systems also entered into a strategic partnership with VMware, the world's leading provider of virtualization and cloud solutions.

Glossary, **PAGE 301 et seq.**

We also offer cloud services that are primarily tailored to the needs of our 2.2 million small and medium-sized business customers in Germany, e.g., virtual servers and security and application programs. In the reporting year, the online Business Marketplace was launched, where companies can flexibly book favorably priced business applications.

Our consumers have long since moved into the cloud. Smartphone Sync allows them to log in via any mobile device to the e-mail center in the TelekomCloud, giving them instant access to their up-dated e-mail, contact data, and schedules. The Media Center allows the customers to store their own documents, photos, videos, and music in the cloud and to access them from wherever they are. And it all works with any Internet-enabled device, whether smartphone, tablet PC, computer, or TV. The TÜV technical inspection agency agrees: Our online storage is secure, as is the customer data, since the servers are located in Germany, for example.

Since September, our consumers and business customers have been able to use our electronic letter service, **De-Mail.** De-Mail combines the advantages of the Internet with those of written communication. It is as fast and convenient as the conventional e-mail service and as secure and binding as a letter. De-Mail enables companies to transfer a large proportion of their written communication to the digital world, and enables private users to avoid having to meet in person to sign documents. Before the De-Mail service was launched, well over one million people had already reserved themselves a De-Mail address. Many well-known companies from the insurance and financial services industries have now signed up too.

Best-in-class customer experience.

We at Deutsche Telekom aim to delight our customers by offering best-in-class customer experience wherever or whenever customers come into contact with our Group – through advertising, in our Telekom shops, or through our products.

In 2012, the German Institute for Service Quality (DISQ) singled our shops out as the best mobile communication shops. We are also adopting new approaches to online support. Our “Telekom hilft” (Telekom helps) support channel on Facebook and Twitter is already very successful. To even further improve our customer service, we launched the “K1 – Kunde zuerst” (Customer first) program in Germany this year. It includes simplified order confirmation, faster software updates for Internet routers, and a special hotline to deal with escalation cases. Help on how to help yourself can be found in the free DSL Help app, which enables customers to troubleshoot faults in their broadband lines themselves, and in the “Wechselbegleiter” brochure which provides information for customers who want to switch from another provider to Deutsche Telekom, for example when they move house. The program will be continued over the coming year with additional topics.

Our Europe operating segment also launched an initiative to further enhance the customer experience. In these initiatives, it is important to take into account the differences between our subsidiaries, notably the varying levels of customer service. We have set up the program with a small group of our subsidiaries that develops concepts, implements appropriate measures, and shares its findings. T-Mobile Czech Republic will be the pilot, and a cross-functional program is under development. Hungary and Greece have already established programs to enhance customer satisfaction and are therefore also part of the core group. All other subsidiaries will benefit from the experience gained, since insights and best practices are shared in a forum.

Growth areas.

Advances in the strategic areas of operation are having a positive and direct effect on our key growth areas: mobile Internet, connected home, Internet services, T-Systems, and intelligent network solutions. Our overall objective is to increase revenue in these growth areas from EUR 15 billion in 2009 to around EUR 27 billion in 2015. We have lowered our original target by a total of EUR 2 billion, as changes in market expectations had a negative impact on the ambition level of our growth areas of Internet services and T-Systems (external revenue).

- **Mobile Internet** is our largest growth area; it includes all revenue that we generate with mobile data services. Our aim is to generate revenue of around EUR 10 billion by 2015.

- **Connected home** is another very important growth area for us. Here, we bundle all revenues that we generate with our existing double- and triple-play packages, i.e., our fixed-network-based voice, data, and TV services. This area also includes innovative products for the connected home, such as the Joyn communication service and the Qivicon home management platform. Our aim here is to generate around EUR 7 billion in revenue by 2015.

- We are also bundling all our **Internet services** in a single growth area that essentially consists of three pillars: 1. online advertising (e.g., on the web pages of the Scout group, on cell phones, and on our TV offerings); 2. the digital content of our Load family (e.g., Musicload and Videoload); and 3. what are known as near-access services, which include the roll-out of websites and the sale of security software. Our goal is to increase revenue from Internet services organically to around EUR 2 billion by 2015.

- In a further growth area, we measure all of **T-Systems' external revenues** which are bundled in the company's Market Unit, including, in particular, the business with innovative cloud services. Our aim is to generate around EUR 7 billion in total revenue in this growth area by 2015.

- The **intelligent network solutions** growth area comprises the business in socially relevant sectors that are undergoing major changes. **Energy:** With flexible, modular end-to-end solutions, we address the market needs of the energy industry. Our strength is efficiency in recording and processing mass data. **Healthcare:** Whether at the doctor's office, in hospital, in administration, or at home – we offer innovative information and communication technology to open up new pathways in prevention, care, and administration that reduce costs and improve quality. **Connected car:** With our products and services related to the connected car, we support new business models and meet economic requirements such as increased efficiency, compliance with regulations, rising numbers of electric cars, and the desire for integrated mobility concepts. Our aim is to generate around EUR 1 billion in revenue by 2015.

TABLE T 008 provides an overview of our growth areas, including target revenues.

T 008

Growth areas of Deutsche Telekom.

Revenue in billions of €	2012	Ambition level for 2015
Mobile Internet	6.4	≈ 10
Connected home	6.3	≈ 7
Internet services	1.0	≈ 2
T-Systems (external revenue)[a]	6.5	≈ 7
Intelligent network solutions (energy, healthcare, connected car)	0.1	≈ 1

[a] Excluding revenue from intelligent network solutions.

MANAGEMENT OF THE GROUP.

■ Finance strategy for 2010 through 2012 implemented ■ Finance strategy for 2013 through 2015 adopted ■ 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 four stakeholders 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 and prospects for the future, and that any necessary staff restructuring will be done in a socially 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.

Please also refer to "Comparison of our stakeholders' expectations with actual figures," PAGE 62.

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, socially responsible staff restructuring, and new investment. Our three-year finance strategy for the years 2010 through 2012 has been implemented.

We presented our finance strategy for 2013 through 2015 at our Capital Markets Day in Bonn at the start of December 2012. With a clear statement on our old and new financial ratios – relative debt (ratio of net debt to adjusted EBITDA) and equity ratio – and on a liquidity reserve of 24 months, we want to maintain an A–/BBB rating. We also aim to ensure unrestricted access to the capital market. For shareholders, a dividend statement for the 2013 and 2014 financial years has been issued. We intend to decide again on the dividend policy for the 2015 financial year after the planned phase of increased investments for broadband networks and products. We plan to give shareholders the choice of a cash dividend or a dividend in the form of shares in Deutsche Telekom AG. This offers the opportunity for investors to leave funds in our company, improve financial ratios further, and to benefit even more from the success of their investment in the long term. We want to offer our shareholders this option for the 2012 financial year already.

Glossary, PAGE 301 et seq.

Our plans provide for much higher overall investment in the next three years. The higher investment volume is to be used to roll out our broadband infrastructure in Germany and the United States in particular. In mobile communications, it will focus on the latest LTE standard, and in the fixed network, on optical fiber and vectoring. The dividend for financial years 2013 and 2014 was adjusted in favor of our planned investments in future growth; we plan to pay a dividend of EUR 0.50 per share in 2013 and 2014. Our dividend plans offer our shareholders both an attractive return and planning reliability.

G 18

Our three-year finance strategy for 2013 through 2015.

Equity

New **shareholder remuneration** policy

Dividend [a]
Financial year 2012: **€ 0.70/share**
Financial year 2013: **€ 0.50/share**
Financial year 2014: **€ 0.50/share**
Financial year 2015: to be determined

Attractive option: dividend in kind

4 STAKEHOLDER MANAGEMENT

Telco Plus

COMPETE TRANSFORM INNOVATE

Value creation

1 EFFICIENCY MANAGEMENT
Reduce indirect costs by € 2 billion [b] and increase ROCE to 5.5 % (+150 base points)

2 PORTFOLIO MANAGEMENT
No major mergers & acquisitions; strategic review of Scout group and Everything Everywhere joint venture

3 RISK MANAGEMENT
Low risk country portfolio (85 % of SOTP [c])

Debt

Undisputed **access to debt capital markets**

Rating: A–/BBB
Net debt/adjusted EBITDA: 2 to 2.5 x
Equity ratio: 25 to 35 %
Liquidity reserve:
covering maturities of the coming 24 months

4 STAKEHOLDER MANAGEMENT

[a] Subject to necessary approval by the shareholders' meeting and board resolution.
[b] Cumulative delta by 2015 vs. 2012 base line.
[c] Sum of the parts.

The finance strategy supports our corporate strategy as we transform the Group from a pure telecommunications provider into a "telco plus."

To generate a sustainable increase in value, we are also verifying all opportunities for change within our portfolio, for instance in regard to our joint venture Everything Everywhere (EE) and the Scout group. We are continuing to implement our efficiency programs in a move to cut our indirect costs by EUR 2 billion. Our professional risk management assists us in preparing the ground for a strong future of our Company in a manner that responds to the expectations of all of our stakeholders.

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. **TABLE T 009** provides an overview of our key performance indicators (KPIs):

T 009

Key performance indicators.

		2012	2011	2010	2009	2008
ROCE	%	(2.3)	3.8	3.5	3.9	–
Net revenue	billions of €	58.2	58.7	62.4	64.6	61.7
Adjusted EBITDA	billions of €	18.0	18.7	19.5	20.7	19.5
EBITDA	billions of €	18.1	20.0	17.3	19.9	18.0
EBIT	billions of €	(3.8)	5.6	5.5	6.0	7.0
Free cash flow [a]	billions of €	6.2	6.4	6.5	7.0	7.0
Gearing		1.2	1.0	1.0	1.0	0.9
Relative debt		2.1	2.1	2.2	2.0	2.0

[a] Free cash flow before dividend payments, spectrum investment, and PTC and AT&T transactions.

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

ROCE 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). In the 2012 financial year, we generated ROCE of minus 2.3 percent.

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.

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

The development of these KPIs is illustrated in **TABLE T 009** “Key performance indicators,” **PAGE 82.** For further details, please also refer to the section “Development of business in the Group,” **PAGE 90 et seq.**

Earnings performance.

The development of our **revenue** is an essential indicator for measuring the Company’s success.

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.

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 2012, the focus was on introducing the Group-wide payment policy adopted in 2010 for improved liabilities management in Europe and the United States, and further improving it in Germany. We continue to work on optimizing receivables management throughout the Group, especially in our Europe, United States, and Systems Solutions operating segments. In the next few years, we intend to continue on this path we have taken, focusing on further improvements on the basis of the payment policy, receivables and inventories management at T-Mobile USA and in Europe, and working capital management at the OTE group.

THE ECONOMIC ENVIRONMENT.

- Global economic slowdown in 2012 ▪ ICT market grows in the emerging economies and stagnates in Europe ▪

GLOBAL ECONOMIC DEVELOPMENT.

The global economy slowed more and more over the course of 2012. Around the globe, growth was impeded by the sovereign debt crisis resulting from the global economic crisis and the necessary consolidation of public budgets. In addition, the emerging economies also lost some momentum in the second half of 2012. At the same time, growth in many European economies was stagnating or in recession. National central banks around the world responded to this trend in fall 2012 by extending their expansionary monetary and fiscal policies. As a result of these measures, by the end of 2012 the outlook for the global economy was once again more robust than it had looked in the previous months. The main leading business and consumer confidence indexes recovered slightly by the end of 2012.

Almost all large industrial nations and emerging economies suffered a slowdown in the second half of 2012, albeit to varying degrees. In Germany, economic growth slumped in the second half of the year; however, the labor market has so far remained robust. The U.S. economy recorded moderate growth in 2012. Unemployment declined slightly over the course of the year. The economies of our Europe operating segment recorded uneven development again in 2012. In Greece, the economic situation deteriorated further. The economies of the Netherlands and the Czech Republic were recessive in 2012. In Hungary and Croatia, the recession was somewhat stronger at up to 1.7 percent. In Poland, Austria, and Slovakia, the economy developed in part moderately positively and in part relatively robustly, given the fact that GDP in these countries continued to grow. In the United Kingdom, stringent austerity measures in particular put the brakes on a more positive development.

The GDP growth rate trends in 2012 in our most important markets are listed in TABLE T 010.

T 010

GNP growth rates.

	Q1 2012 compared with Q1 2011 %	Q2 2012 compared with Q2 2011 %	Q3 2012 compared with Q3 2011 %	Q4 2012 compared with Q4 2011 %		Estimate for full year 2012 %
Germany	1.2	1.0	0.9	0.5		0.8
United States	2.4	2.1	2.6	1.9		2.3
Greece	(6.7)	(6.3)	(6.9)	(3.3)		(5.8)
Poland	3.5	2.3	1.9	1.1		2.2
Hungary	(1.3)	(1.4)	(1.6)	(1.9)		(1.6)
Czech Republic	(0.5)	(1.0)	(1.3)	(1.7)		(1.1)
Croatia	(1.4)	2.0	(1.9)	(1.5)		(1.7)
Netherlands	(0.8)	(0.6)	(1.3)	(0.8)		(0.9)
Slovakia	2.9	2.6	2.5	1.5		2.4
Austria	0.7	0.5	0.7	0.7		0.5
United Kingdom	0.2	(0.3)	0.0	0.4		0.1

Source: Oxford Economics, January 2013.

TELECOMMUNICATIONS MARKET.

The European initiative for information and communications technologies and entertainment electronics in Europe, EITO (European Information Technology Observatory), believes the global ICT market is on a stable growth course and expects a revenue increase of around 5.1 percent for 2012. Both the largest segment, information technology, and the telecommunications segment were growing, although with strong regional variations. The ICT industry is especially growing in the emerging economies, while it is stagnating or in recession in Europe. The weak development in Europe in the financial year was due to the increasingly tough competition and regulatory interventions, which brought with them a further drop in prices. The severe pressure to consolidate state finances has additionally led some countries to maintain special taxes for telecommunications companies in 2012 or to introduce new ones, as in Hungary for example.

In most of our core markets, the weak economic performance and the slightly falling consumer trend had only a limited impact on the ICT market. In countries where purchasing power dropped more substantially, a negative or decelerating impact was noticeable in the ICT sector.

The major market developments in our operating segments are described below.

Germany.

In Germany, there has been tough competition on the telecommunications market for years, in both the mobile communications and the fixed-network segments. The telecommunications industry is strongly affected by regulatory and political decisions.

The industry association BITKOM set telecommunications revenue for 2012 at EUR 66.4 billion, up 3.4 percent, primarily thanks to booming sales in smartphones and tablet PCs. Seven out of ten cell phones sold in Germany are smartphones. The strong growth in the smartphone and tablet PC segment creates tough competition, which is intensified by innovative data rates in mobile communications.

As in the past, there is wide variation in the development of telecommunications services. While business with mobile data services grew by 13 percent to EUR 8.5 billion, revenue from mobile calls decreased by 4 percent to EUR 12.8 billion. Business with voice services in the fixed network decreased by as much as 7.5 percent to EUR 11.3 billion. This was attributable not only to competition, but also to severe interventions by national and European regulatory authorities. Termination rates in Germany and roaming charges abroad have been falling for years. The proportion of total revenue from data services attributable to text and multimedia messages (SMS and MMS) has also been in decline for years. In 2009, it was still above 50 percent, this year it is expected to be 37 percent. In 2012, revenue from SMS and MMS in Germany is expected to remain almost stable at EUR 3.1 billion.

Demand for applications, services, and social networks is rising steadily and with it, the demand for ever faster speeds on the information highway – both at home and on the move. According to BITKOM, data traffic in German mobile communications doubled in the course of one year. By 2018, it is expected to be twelve times higher than the current level. This poses the challenge for the entire telecommunications market of providing the appropriate network infrastructure. In its broadband strategy, the German government has stipulated that bandwidths of at least 50 Mbit/s should be available to 75 percent of households by 2014 – regardless of the transmission technology. For local network and fiber-optic network operators, there is more and more competition from cable network operators, who continue to win market shares in the broadband market and already cover some 60 percent of German households with speeds of more than 50 Mbit/s.

New mobile rates with data and SMS flat rates mean that data and voice are converging. Thanks to the rapid roll-out of LTE, large mobile communications companies have good chances for increasing their market shares. Network quality is becoming substantially more relevant with the growing importance of data rates. In terms of broadband, LTE is no competition for the fiber-optic network. But in regions with low speeds, faster mobile solutions will grow more attractive as alternatives.

Europe.

The telecommunications markets in the countries of our Europe operating segment were again subject to tough competition in 2012. The very intense competitive environment includes traditional segments such as fixed-network and mobile communications business as well as ICT and Internet services. The already high number of existing and new market players (e.g., mobile virtual network operators, or MVNOs) increased the price pressure on our national companies, which was reflected in reduced retail prices. In addition, telecommunications revenues in European countries were impacted by the influence of public authorities, for instance, severe regulatory interventions that substantially reduced the national termination charges for mobile communications and the fixed network as well as roaming charges abroad. Under state austerity programs such as those in Greece, Hungary, and Croatia, changes in legislation had a negative impact on the telecommunications industry, e.g., infrastructure and special taxes. The telecommunications markets also suffered under the weak or restrained purchasing power in the countries of our Europe operating segment. In all countries except for Poland and Slovakia, GDP decreased or remained stable at a low level.

As a result, in all countries of our Europe operating segment, the telecommunications markets shrank or stagnated. Greece, Slovakia, and Croatia, for example, were strongly affected. In addition to the regulation-induced downward trends, consumers spent less on telecommunications owing to the current macroeconomic situation.

As in the prior year, there were two main trends in fixed-network business: broadband expansion and a diverse range of television content. High broadband coverage is a crucial competitive advantage. After all, consumers are increasingly using bundled products, e.g., broadband integrated with television. The forward-looking fiber-optic technology plays an important role in the expansion of broadband. For this reason, we are investing in the roll-out of the fiber-optic network in the countries of our Europe operating segment. In addition, ICT business on the telecommunications markets is developing into a growth driver, especially in the business customer segment. The demand for ever-faster data transmission rates is growing in mobile, too, so we are modernizing and upgrading our mobile networks in these countries by equipping them with the LTE mobile communications standard, amongst other things. For instance, in the reporting year we introduced LTE commercially in Hungary, Croatia, and Greece.

Compared with the prior year, integrated telecommunications companies offered more and more bundled mobile, broadband/television and fixed-network services in the year under review.

United States.

The slow growth of the U.S. mobile telecommunications market continued. Once again, increasing data revenue more than compensated for declining voice revenue. The market in the United States is divided between four national mobile providers – AT&T, Verizon Wireless, Sprint-Nextel, and T-Mobile USA – and various regional network operators. There are also a number of mobile virtual network operators, which use the networks of one or more of the four national operators to transport their mobile and data traffic. The two largest national network operators are AT&T and Verizon Wireless. They recorded strong growth and solid margins again in 2012. This was driven by strong growth in smartphone adoption and rising postpaid average revenue per user.

Until 2011, the exclusive sale of the Apple iPhone was an important competitive advantage for AT&T. Verizon Wireless and Sprint-Nextel have also sold the iPhone in their mobile networks since February and October 2011, respectively. At our Capital Markets Day, held in Bonn in December 2012, we announced a sales partnership between T-Mobile USA and Apple. We expect this to even out the previous competitive disadvantage for T-Mobile USA in the course of 2013.

In October 2012, Deutsche Telekom announced the agreed merger with MetroPCS. In the fourth quarter, the Japanese conglomerate Softbank also announced a takeover offer for Sprint-Nextel. Sprint-Nextel in turn announced an offer to acquire the shares in Clearwire not already held by Sprint-Nextel. The regulatory authorities and the shareholders of Clearwire and Sprint-Nextel still have to approve these transactions. In January 2013, DISH, a U.S. satellite television operator, announced it would be submitting a takeover offer for Clearwire. The future development of the competitive situation in the United States will depend first and foremost on how the announced transactions will be implemented.

Systems Solutions.

The downturn of the global economy in 2012 impacted on the ICT market. The negative macroeconomic trend brought with it continued cost pressure, delayed investments, and increasing competition.

There was substantial variation in the development of the individual segments of the ICT market.

- The telecommunications market segment was relatively unaffected by the economic development. As in prior years, the market was dominated by ongoing intense competition and continued price erosion. The economic downturn is expected to have hardly any additional impact on the general downward trend, as was the case in the 2008/2009 economic crisis.

- The market for IT services grew again in 2012 following the crisis years. Recovery has been especially tangible in the area of Computing & Desktop Services. This is due not only to the development of traditional outsourcing business, but in particular to the growing success of cloud services. The IT project business largely depends on the economy. Following a sharp decline in 2009 and an equally strong recovery in 2010 and 2011, growth slackened again in the reporting year. Standard project business in the ERP (Enterprise Resource Planning), CRM (Customer Relationship Management), and SCM (Supply Chain Management) environments still recorded growth in 2012, whereas the industry-specific systems integration business declined.

Glossary, PAGE 301 et seq.

In terms of overall demand, a process of ongoing change can be observed. The growth and innovation topics of cloud services, big data (storage, preparation, processing and analysis of large volumes of data), ICT security, embedded systems and intelligent networks in particular are increasingly gaining in importance.

Glossary, PAGE 301 et seq.

REGULATORY INFLUENCE ON DEUTSCHE TELEKOM'S BUSINESS.

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 2012.

Regulation mainly came to bear in the following areas:

- Directives or other binding provisions at EU level; changes in legislation at national level, such as the amendment of the German Telecommunications Act (Telekommunikationsgesetz – TKG) and other regulations
- Regulation of charges
- Regulation of wholesale broadband services and investments in new networks and infrastructure (Next-Generation Network & Next-Generation Access; NGN & NGA)

Directives or other binding provisions at EU level; changes in legislation at national level, such as the amendment of the German Telecommunications Act (Telekommunikationsgesetz – TKG) and other regulations.

The European Commission announced refocusing of fixed-network regulation to encourage investments in broadband access networks. On July 12, 2012, the responsible Commissioner of the European Commission outlined key elements for the refocusing of EU telecommunications regulation. The main elements to improve the general conditions for investments in optical fiber networks are:

1. Stable prices for copper-based access products
2. Greater flexibility in setting prices for NGA wholesale products, which should no longer necessarily be based on cost-based rate regulation
3. In return, stricter requirements for the equal treatment of all customers for regulated wholesale products (non-discrimination)

This is in light of a new EU recommendation scheduled to be adopted in the second quarter of 2013 entitled "Consistent non-discrimination obligations and cost methodologies to promote competition and enhance the broadband investment environment." An initial draft was published on December 7, 2012 on the Commission's website and is currently being discussed with the Body of European Regulators for Electronic Communications (BEREC). It is not possible at present to estimate with sufficient certainty the potential impact of the recommendation on our results of operations, financial position, and cash flows.

EU roaming regulation from July 2012. As of July 1, 2012, a new EU roaming regulation entered into force, which lowered the price caps for wholesale and retail services and expanded transparency measures to cover roaming outside the European Union, too. In addition, the regulation sets down a wholesale access obligation – for example, for MVNOs – to stimulate competition through a greater variety of providers. To this end, the unbundling of roaming services and national services will enter into force from July 2014. Retail customers will then be able to conclude a second contract exclusively for roaming services with another provider, without the need for a second SIM card or new telephone number.

Amended Telecommunications Act. Due to amended EU directives, the German Telecommunications Act (TKG) was revised. The amended TKG , which entered into force on May 10, 2012, is intended to provide better incentives for investments in new infrastructure. Furthermore, it includes additional customer protection requirements. National telecommunications laws were also adjusted to reflect the EU directives in other EU member states where our subsidiaries are active.

Regulation of charges.

Regulation of mobile and fixed-network termination rates in Germany. On August 22 and August 24, 2012, the Federal Network Agency published the preliminary regulatory orders for mobile termination (MTR) and fixed-network termination (IC). Although the Federal Network Agency does not plan to further tighten regulation through a "pure LRIC" approach for rate regulation, the scope of regulation for fixed-network termination will be extended to include termination in next-generation networks. Based on these preliminary regulatory orders, the Federal Network Agency made preliminary rate decisions on November 16, 2012 and on November 30, 2012:

Glossary, PAGE 301 et seq.

- The mobile termination rate was lowered by 45 percent as of December 1, 2012 from 3.38 eurocents/min to 1.85 eurocents/min and as of December 1, 2013, to 1.79 eurocents/min.
- The fixed-network termination rate was reduced by 21 percent as of December 1, 2012 from an average 0.38 eurocents/min to 0.30 eurocents/min.

The decisions must still undergo EU-wide consultation.

For details, please refer to the section "Risk and opportunity management," PAGE 149 et seq.

Rate reduction at subsidiaries. In anticipation of the new reduced cost base resulting from the EU recommendation on termination rates becoming effective, most of our subsidiaries already cut mobile termination rates further in 2012. In the fixed network, the highest cuts in termination rates were those imposed at our subsidiaries in Greece, Romania, and the F.Y.R.O. Macedonia. At OTE in Greece and at MakTel in the F.Y.R.O. Macedonia, rates for wholesale services including unbundled local loop lines (ULLs) were reduced. Monthly charges for retail telephone lines were also reduced at MakTel. In Romania and the F.Y.R.O. Macedonia, fixed-network termination rates were reduced.

Regulation of wholesale broadband services and investments in new networks and infrastructure (NGN & NGA).

The Federal Network Agency has acknowledged Telekom Deutschland GmbH's **VDSL contingent model.** This new price model enables competitors of Telekom Deutschland GmbH to procure VDSL lines at lower prices if they enter into a purchase obligation by paying upfront for three percent of the households covered in one or more regions. After Telekom Deutschland GmbH had amended its VDSL contingent model, in particular by including a special right of termination regarding the use of other, new infrastructures (NGA), the Federal Network Agency confirmed the permissibility of this price model following consultation with the European Commission.

In **Greece,** the national regulator approved OTE's VDSL offerings for wholesale and retail customers after more than 18 months of intensive regulatory discussion. These VDSL offerings have been available since November 26, 2012.

In October 2012, the national regulator extended **Slovak Telekom's** obligation to provide infrastructure access to include not only copper wires but also optical-fiber alternatives and cable ducts. On December 17, 2012, Slovak Telekom published a corresponding standard offer as a template for the relevant wholesale agreements.

DEVELOPMENT OF BUSINESS IN THE GROUP.

■ Corporate targets achieved or exceeded ■ Adjusted EBITDA of EUR 18.0 billion ■ Free cash flow of EUR 6.2 billion ■

STATEMENT OF THE BOARD OF MANAGEMENT ON BUSINESS DEVELOPMENT IN 2012.

Bonn, February 12, 2013

We had another successful financial year in 2012. We succeeded in meeting our corporate targets with adjusted EBITDA of EUR 18.0 billion, and with free cash flow of EUR 6.2 billion (before dividend payments, spectrum investment, and before AT&T transaction) we even exceeded them. In addition, we continue to adhere to our shareholder remuneration strategy and propose to the shareholders' meeting a dividend of EUR 0.70 per share.

On October 3, 2012, we concluded an agreement with MetroPCS on the combination of our business activities in the United States. From our perspective, this transaction generates value and makes entrepreneurial sense. The combined company's improved position in terms of mobile spectrum and an expanded customer base mean that we will be able to compete more aggressively with the other national mobile carriers in the United States. Although the agreed business combination triggered the recognition of an impairment loss on goodwill, other intangible assets and property, plant and equipment totaling EUR 7.4 billion (after taxes), our equity ratio of 28.3 percent remained within the target corridor of 25 to 35 percent. We recorded a net loss of EUR 5.3 billion in the reporting year – a decline of EUR 5.8 billion from the net profit recorded in the prior year – primarily due to the recognition of the aforementioned impairment loss. Adjusted net profit decreased by EUR 0.3 billion to EUR 2.5 billion. Our net debt was reduced to EUR 36.9 billion. This reduction by more than EUR 3 billion was achieved despite dividend payments, effects in connection with the AT&T transaction, payments to external pension funds, and the acquisition of spectrum. Positive impact came from free cash flow and a payment received in connection with the cell tower deal between T-Mobile USA and Crown Castle.

Negative trends in the telecommunications industry such as saturated markets, rising competition, continued severe regulatory intervention, and the resulting continued price erosion impacted negatively on earnings, resulting in a profit decline. Our efforts to respond to these challenges and ensure the continued viability of our Company included investments (before spectrum) of EUR 8.0 billion, most of which went towards the continued broadband build-out and increasing capacities in existing networks. In addition, we invested EUR 0.4 billion in spectrum. In mobile communications, we invested in LTE, increased 3G network coverage, and upgraded capacity to meet increasing demand for data transfer volumes.

We have also decided in 2012 to further develop, simplify, and focus our strategy and center it even more firmly on the customer. This is reflected in our new strategic vision: "Deutsche Telekom – My first choice for connected life and work." We are focusing on our three principles Compete – Transform – Innovate and we continue to be on track. Our strategy defines the framework for our long-term success.

RESULTS OF OPERATIONS OF THE GROUP.

Net revenue.

Net revenue in the 2012 financial year was EUR 58.2 billion, slightly down by 0.8 percent compared with the prior year. Intense competition, price changes imposed by regulatory authorities, and the strained economic situation in most countries in our Europe operating segment had a negative effect. Net exchange rate effects of around EUR 1.1 billion on the proportion of net revenue generated internationally, especially from the translation of U.S. dollars into euros, had a positive impact on net revenue.

On a euro basis, our United States operating segment recorded an increase in revenue, as did our Systems Solutions operating segment. Our Europe and Germany operating segments, by contrast, recorded decreases in revenue.

T 011

Contribution of the segments to revenue.

	2012 millions of €	2011 millions of €	Change millions of €	Change %	2010 millions of €
NET REVENUE	58,169	58,653	(484)	(0.8)	62,421
Germany	22,736	23,206	(470)	(2.0)	24,208
Europe	14,408	15,124	(716)	(4.7)	16,840
United States	15,371	14,811	560	3.8	16,087
Systems Solutions	10,016	9,953	63	0.6	9,937
Group Headquarters & Shared Services	2,978	2,977	1	0.0	3,119
Intersegment revenue	(7,340)	(7,418)	78	1.1	(7,770)

At 36.8 percent, just 0.3 percentage points down against the prior year, our Germany operating segment again provided the largest contribution to the net revenue of the Group. The increase in revenue in the United States and Systems Solutions operating segments in conjunction with the downward or stagnating trend in revenue in the other segments resulted in an increase of 1.2 percentage points in the proportion of net revenue contributed by the United States operating segment. This is also reflected in the proportion of net revenue generated internationally, which increased year-on-year from 55.1 to 55.7 percent.

EBITDA, adjusted EBITDA.

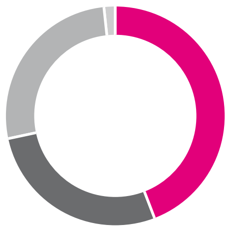
Our **EBITDA** decreased year-on-year by EUR 1.9 billion to EUR 18.1 billion. The decrease in special factors, which were down by EUR 1.2 billion, in particular had a negative effect on the development of EBITDA. Positive special factors totaling EUR 0.2 billion were included in EBITDA in 2012.

These factors consisted mainly of income amounting to EUR 1.4 billion in connection with the agreement concluded between T-Mobile USA and Crown Castle concerning the sale, lease, and use of cell sites in the United States. Income attributable to a transaction carried out in September 2012 to swap AWS spectrum licenses between T-Mobile USA and Verizon also had a positive effect of around EUR 0.1 billion. A further positive effect of around EUR 0.1 billion resulted from the conclusion of litigation with Kreditanstalt für Wiederaufbau in the first quarter of 2012. Expenses in connection with staff-related measures and non-staff-related restructuring expenses had a negative impact of EUR 1.3 billion on our EBITDA in the reporting year.

For details on the revenue trends in our operating segments as well as at Group Headquarters & Shared Services, please refer to the section “Development of business in the operating segments,” PAGE 104 et seq.

G 19

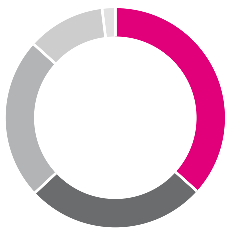
Breakdown of revenue by region.



- 44.3 % Germany
- 27.5 % Europe (excluding Germany)
- 26.8 % North America
- 1.4 % Other countries

G 20

Contribution of the segments to net revenue.



- 36.8 % Germany
- 26.4 % United States
- 23.6 % Europe
- 11.4 % Systems Solutions
- 1.8 % Group Headquarters & Shared Services

For further details on the transaction, please refer to the section “Highlights in the 2012 financial year,” PAGE 64 et seq.

T 012

Contribution of the segments to adjusted Group EBITDA.

	2012 millions of €	Proportion of adjusted Group EBITDA %	2011 millions of €	Proportion of adjusted Group EBITDA %	Change millions of €	Change %	2010 millions of €
EBITDA (ADJUSTED FOR SPECIAL FACTORS) IN THE GROUP	**17,978**	**100.0**	**18,685**	**100.0**	**(707)**	**(3.8)**	**19,473**
Germany	9,165	51.0	9,553	51.1	(388)	(4.1)	9,698
Europe	4,921	27.4	5,241	28.0	(320)	(6.1)	5,748
United States	3,840	21.4	3,831	20.5	9	0.2	4,156
Systems Solutions	747	4.1	672	3.6	75	11.2	752
Group Headquarters & Shared Services	(695)	(3.9)	(617)	(3.3)	(78)	(12.6)	(872)
Reconciliation	0	0	5	0.1	(5)	n.a.	(9)

For an overview of the development of special factors, please refer to TABLE T 013, PAGE 93.

Special factors totaling EUR 1.3 billion had a positive effect on EBITDA in the prior year. The compensation payment from AT&T of EUR 3.0 billion had a significant impact. Expenses incurred in connection with staff-related measures and non-staff-related restructuring expenses also reduced our EBITDA in the previous year by EUR 1.3 billion.

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 104 et seq.

Excluding special factors, **adjusted EBITDA** decreased year-on-year by EUR 0.7 billion to EUR 18.0 billion in the 2012 reporting year. Net exchange rate effects of EUR 0.3 billion, especially from the translation of U.S. dollars into euros, had a positive effect on the development of adjusted EBITDA.

Marketing expenses.

In the 2012 financial year, marketing expenses amounted to EUR 2.4 billion, an increase as against the prior-year level of EUR 2.1 billion. They comprise costs from market research, market analysis, target market studies, determining marketing strategies, designing the marketing mix, and carrying out and managing marketing initiatives. They also include costs from customer retention programs, market planning and segmentation, and product forecasts.

At Deutsche Telekom, marketing communication mainly takes the form of product and brand campaigns, such as Entertain, TelekomCloud, Mobile Internet – LTE, Innovationsoffensive – Digitale Welt (Digital World innovation initiative), Move On, and LIGA total!.

EBIT.

For further details, please refer to NOTE 30 “Depreciation, amortization and impairment losses” in the notes to the consolidated financial statements, PAGES 253 – 254.

Group EBIT decreased by EUR 9.4 billion to minus EUR 3.8 billion compared with the prior year, primarily as a consequence of an impairment test which resulted in a one-time non-cash impairment loss of around EUR 10.6 billion (before taxes) recognized on goodwill, other intangible assets and property, plant and equipment of T-Mobile USA in the third quarter of 2012. The impairment test was carried out following the announcement of the agreed business combination of T-Mobile USA and MetroPCS. In addition, impairment losses were also recorded on goodwill in the Europe operating segment (around EUR 0.4 billion) and on property, plant and equipment (around EUR 0.1 billion) in the reporting year. In the prior year, impairment losses recognized on goodwill totaled EUR 3.1 billion and on property, plant and equipment totaled EUR 0.3 billion. Depreciation and amortization amounted to EUR 10.8 billion in the reporting year and were therefore almost at the prior-year level.

T 013

Consolidated income statement and effects of special factors.

	EBITDA 2012 millions of €	EBIT 2012 millions of €	EBITDA 2011 millions of €	EBIT 2011 millions of €	EBITDA 2010 millions of €	EBIT 2010 millions of €
EBITDA/EBIT	**18,147**	**(3,810)**	**20,022**	**5,586**	**17,313**	**5,505**
GERMANY	**(427)**	**(427)**	**(689)**	**(689)**	**(501)**	**(501)**
Staff-related measures	(367)	(367)	(586)	(586)	(393)	(393)
Non-staff-related restructuring	0	0	(4)	(4)	(11)	(11)
Effects of deconsolidations, disposals and acquisitions	(8)	(8)	0	0	0	0
Other	(52)	(52)	(99)	(99)	(97)	(97)
EUROPE	**(204)**	**(567)**	**(246)**	**(1,286)**	**(606)**	**(1,297)**
Staff-related measures	(179)	(179)	(132)	(132)	(209)	(209)
Non-staff-related restructuring	(16)	(19)	0	0	(5)	(5)
Effects of deconsolidations, disposals and acquisitions	0	0	0	0	(355)	(355)
Impairment losses	0	(360)	–	(1,040)	–	(680)
Other	(9)	(9)	(114)	(114)	(37)	(48)
UNITED STATES	**1,479**	**(9,110)**	**(134)**	**(2,431)**	**0**	**0**
Staff-related measures	(69)	(69)	(116)	(116)	0	0
Non-staff-related restructuring	(28)	(28)	0	0	0	0
Effects of deconsolidations, disposals and acquisitions	1,558	1,558	0	0	0	0
Impairment losses	0	(10,589)	–	(2,297)	–	0
Other	18	18	(18)	(18)	0	0
SYSTEMS SOLUTIONS	**(397)**	**(409)**	**(293)**	**(313)**	**(289)**	**(297)**
Staff-related measures	(230)	(230)	(99)	(99)	(121)	(121)
Non-staff-related restructuring	(166)	(178)	(163)	(175)	(170)	(178)
Other	(1)	(1)	(31)	(39)	2	2
GROUP HEADQUARTERS & SHARED SERVICES	**(280)**	**(280)**	**2,698**	**2,698**	**(769)**	**(769)**
Staff-related measures	(241)	(241)	(224)	(224)	(281)	(281)
Non-staff-related restructuring	(13)	(13)	(22)	(22)	(100)	(100)
Effects of deconsolidations, disposals and acquisitions	(46)	(46)	(56)	(56)	(385)	(385)
Compensation from AT&T	0	0	3,000	3,000	–	–
Other	20	20	0	0	(3)	(3)
GROUP RECONCILIATION	**(2)**	**(1)**	**1**	**1**	**5**	**5**
Non-staff-related restructuring	0	0	0	0	1	1
Effects of deconsolidations, disposals and acquisitions	0	0	0	0	4	4
Other	(2)	(1)	1	1	0	0
TOTAL SPECIAL FACTORS	**169**	**(10,794)**	**1,337**	**(2,020)**	**(2,160)**	**(2,859)**
EBITDA/EBIT (ADJUSTED FOR SPECIAL FACTORS)	**17,978**	**6,984**	**18,685**	**7,606**	**19,473**	**8,364**
Profit (loss) from financial activities (adjusted for special factors)		(2,554)		(2,613)		(2,724)
PROFIT (LOSS) BEFORE INCOME TAXES (ADJUSTED FOR SPECIAL FACTORS)		**4,430**		**4,993**		**5,640**
Income taxes (adjusted for special factors)		(1,453)		(1,708)		(1,898)
PROFIT (LOSS) (ADJUSTED FOR SPECIAL FACTORS)		**2,977**		**3,285**		**3,742**
PROFIT (LOSS) (ADJUSTED FOR SPECIAL FACTORS) ATTRIBUTABLE TO						
Owners of the parent (net profit (loss)) (adjusted for special factors)		2,529		2,851		3,364
Non-controlling interests (adjusted for special factors)		448		434		378

Profit/loss before income taxes.

Profit before income taxes decreased by EUR 9.2 billion to a loss of EUR 6.2 billion year-on-year as a result of the aforementioned effects. Loss from financial activities decreased by EUR 0.1 billion year-on-year to EUR 2.4 billion, due in part to the sale of the shares in Telekom Srbija. Moreover, finance costs decreased by EUR 0.3 billion, primarily as a result of lower interest expense from bonds and other securitized liabilities.

Net profit/loss.

For tax benefit, please refer to **NOTE 25** "Income taxes" in the notes to the consolidated financial statements, **PAGE 247 et seq.**

For further information on the development of earnings, please refer to the "Notes to the consolidated income statement" in the notes to the consolidated financial statements, **PAGE 244 et seq.**

For a reconciliation of EBITDA, EBIT, and net profit/loss to the respective figures adjusted for special factors, please refer to **TABLE T 013**, **PAGE 93.**

We recorded a net loss of around EUR 5.3 billion, primarily due to the recognition of an impairment loss in connection with the agreed business combination of T-Mobile USA and MetroPCS. Tax benefit in the 2012 financial year amounted to EUR 1.5 billion.

Profit attributable to non-controlling interests increased to EUR 0.5 billion, primarily as a result of the sale of shares in Telekom Srbija. Impairment losses on goodwill and property, plant and equipment in our Europe operating segment had a negative effect on profit attributable to non-controlling interests in the prior year.

Special factors.

Special factors have an impact on the presentation of operations, making it more difficult to compare performance indicators with corresponding figures for prior periods. We adjust our figures for the purpose of transparency. In addition, statements about the future development of earnings are only possible to a limited extent unless special factors are eliminated. The adjusted values are calculated on the basis of the unadjusted performance indicators.

Average number of employees.

Average headcount decreased by 3.3 percent compared with the prior-year reporting period. Average headcount in our Germany operating segment decreased by 2.7 percent due to our socially responsible staff restructuring and reduction programs. In our Europe operating segment, downsizing programs carried out as a result of initiatives to enhance efficiency contributed to the average headcount decreasing by 3.6 percent. Most of this decrease was accounted for by Slovakia, Romania, Greece, and Croatia. In the United States operating segment, we consolidated our call center sites in 2012, among other measures. Fewer staff were employed in customer support, sales, and administration compared with the prior year. Headcount declined 12.6 percent year-on-year. The number of employees in our Systems Solutions operating segment rose 1.0 percent year-on-year, attributable in part to an increase in the in-house provision of services previously rendered by third parties and the development of production capacities abroad. Headcount at Group Headquarters & Shared Services declined 0.7 percent, mainly due to a reduction in headcount at Vivento. The Shape Headquarters initiative involved a staff restructuring and downsizing program that in 2012 was implemented largely by means of internal and external fluctuation as well as the customary socially considerate exit models. In the reporting year, the customer accounting unit with its approximately 600 employees was moved from the Germany operating segment to Group Headquarters & Shared Services.

T 014

Average number of employees.

	2012	2011	2010
Germany	68,653	70,525	76,912
Europe	57,955	60,105	65,435
United States	30,184	34,518	37,795
Systems Solutions	52,742	52,241	47,924
Group Headquarters & Shared Services	22,808	22,980	24,428
NUMBER OF EMPLOYEES IN THE GROUP	**232,342**	**240,369**	**252,494**
Of which: civil servants (in Germany, with an active service relationship)	22,920	24,810	28,066

FINANCIAL POSITION OF THE GROUP.

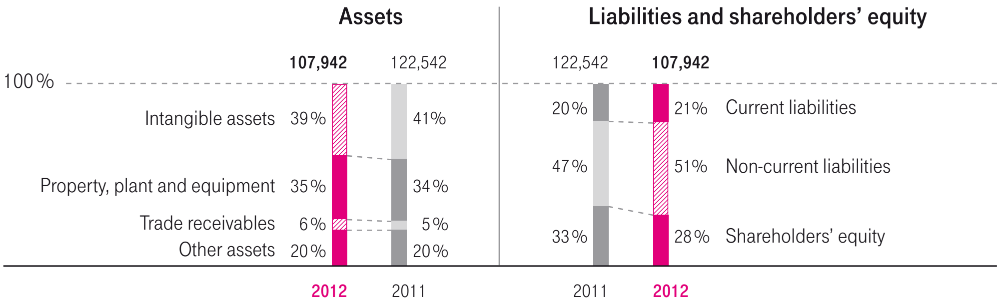
T 015

Condensed consolidated statement of financial position.

	Dec. 31, 2012 millions of €	Change millions of €	Dec. 31, 2011 millions of €	Dec. 31, 2010 millions of €	Dec. 31, 2009 millions of €	Dec. 31, 2008 millions of €
ASSETS						
CURRENT ASSETS	**15,019**	**(846)**	**15,865**	**15,243**	**23,012**	**15,431**
Cash and cash equivalents	4,026	277	3,749	2,808	5,022	3,026
Trade and other receivables	6,417	(140)	6,557	6,889	6,757	7,393
Non-current assets and disposal groups held for sale	90	(346)	436	51	6,527	434
Other current assets	4,486	(637)	5,123	5,495	4,706	4,578
NON-CURRENT ASSETS	**92,923**	**(13,754)**	**106,677**	**112,569**	**104,762**	**107,709**
Intangible assets	41,732	(8,365)	50,097	53,807	51,705	53,927
Property, plant and equipment	37,522	(4,405)	41,927	44,298	45,468	41,559
Investments accounted for using the equity method	6,726	(147)	6,873	7,242	147	3,557
Other non-current assets	6,943	(837)	7,780	7,222	7,442	8,666
TOTAL ASSETS	**107,942**	**(14,600)**	**122,542**	**127,812**	**127,774**	**123,140**
LIABILITIES AND SHAREHOLDERS' EQUITY						
CURRENT LIABILITIES	**23,008**	**(1,330)**	**24,338**	**26,452**	**24,794**	**24,242**
Financial liabilities	9,260	(959)	10,219	11,689	9,391	9,584
Trade and other payables	6,445	9	6,436	6,750	6,304	7,073
Current provisions	2,899	(318)	3,217	3,193	3,369	3,437
Liabilities directly associated with non-current assets and disposal groups held for sale	9	9	–	–	1,423	95
Other current liabilities	4,395	(71)	4,466	4,820	4,307	4,053
NON-CURRENT LIABILITIES	**54,391**	**(3,872)**	**58,263**	**58,332**	**61,043**	**55,786**
Financial liabilities	35,354	(2,745)	38,099	38,857	41,800	37,010
Non-current provisions	9,142	1,358	7,784	8,001	8,340	8,461
Other non-current liabilities	9,895	(2,485)	12,380	11,474	10,903	10,315
SHAREHOLDERS' EQUITY	**30,543**	**(9,398)**	**39,941**	**43,028**	**41,937**	**43,112**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**107,942**	**(14,600)**	**122,542**	**127,812**	**127,774**	**123,140**

G 21

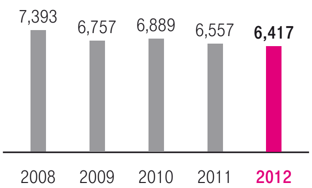
Structure of the consolidated statement of financial position. (millions of €)



For detailed information on cash and cash equivalents, please refer to **TABLE T 051** "Consolidated statement of cash flows," **PAGE 200,** and **NOTE 31** "Notes to the consolidated statement of cash flows" in the notes to the consolidated financial statements, **PAGES 255 – 256.**

G 22

Trade and other receivables.
(millions of €)



The level of **total assets** decreased by EUR 14.6 billion compared with December 31, 2011. Current assets decreased by EUR 0.8 billion and non-current assets by EUR 13.8 billion. Current liabilities declined by EUR 1.3 billion and non-current liabilities by EUR 3.9 billion.

The most important changes in the statement of financial position as of December 31, 2012 compared with December 31, 2011 are explained in more detail in the following:

Cash and cash equivalents increased by EUR 0.3 billion year-on-year.

Trade and other receivables decreased by 2.1 percent year-on-year in line with the revenue trend. Receivables sold in our Systems Solutions operating segment as part of factoring arrangements as well as ongoing process improvement measures regarding credit checking and the recovery of receivables further reduced the level of receivables.

The net carrying amounts of **non-current assets and disposal groups held for sale** decreased by EUR 0.3 billion primarily due to the sale of the shares in Telekom Srbija.

Other current assets decreased primarily as a result of reimbursement of investments in securities amounting to EUR 0.3 billion. In addition, a bond issued by our Everything Everywhere joint venture in the amount of EUR 0.2 billion was repaid.

The decrease of EUR 12.8 billion in **intangible assets and property, plant and equipment** as of December 31, 2012 was attributable to impairment losses recognized in the United States and Europe operating segments totaling EUR 11.1 billion, depreciation and amortization totaling EUR 10.8 billion, and disposals totaling EUR 1.2 billion. Of this amount, EUR 0.6 billion related to the derecognition of cell towers in connection with the agreement concluded with Crown Castle concerning the sale, lease, and use of cell sites in the United States. These effects were contrasted by additions to assets of EUR 10.5 billion. Of the additions, 60 percent related to investments intended to increase operating capacities. Apart from investments in new products and technologies, these were primarily measures to increase capacities and improve quality in existing products and technologies.

Investments accounted for using the equity method decreased slightly by EUR 0.1 billion. A significant factor was a dividend of EUR 0.5 billion received from our Everything Everywhere joint venture. This was partially offset by exchange rate effects attributable to the pound sterling amounting to EUR 0.2 billion and the recognition of two new companies (T-Mobile USA Tower and T-Mobile West Tower) amounting to a total of EUR 0.2 billion. The two companies are associated with the agreement concluded with Crown Castle.

The decrease of EUR 0.8 billion in **other non-current assets** was attributable in particular to the reclassification of AWS spectrum licenses valued at EUR 0.9 billion to intangible assets. The license package was part of the compensation from AT&T in connection with the termination of the purchase agreement for shares in T-Mobile USA.

Our **financial liabilities** decreased by EUR 3.7 billion compared with the prior year. Current financial liabilities decreased by EUR 1.0 billion and non-current financial liabilities by EUR 2.7 billion. For more information, please refer to TABLES T 016 and T 017, PAGE 98, and the accompanying explanations.

Trade and other payables remained stable at EUR 6.4 billion.

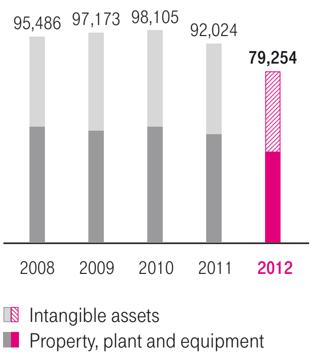
Provisions (current and non-current) increased by EUR 1.0 billion, mainly due to higher provisions for pensions. The increase is also attributable to actuarial losses, especially due to lower interest rates, in the amount of EUR 1.8 billion. This was contrasted by an increase in plan assets of EUR 750 million (allocated to Deutsche Telekom Trust e.V.).

The decrease of EUR 2.6 billion in **other liabilities** (current and non-current) is mainly attributable to the decrease in deferred tax liabilities in connection with the impairment loss on intangible assets and property, plant and equipment recognized in the United States operating segment in the third quarter.

Shareholders' equity decreased by EUR 9.4 billion to EUR 30.5 billion, due primarily to the net loss of EUR 5.3 billion, dividend payments including to non-controlling interests of EUR 3.4 billion, and actuarial losses recognized directly in equity of EUR 1.3 billion (after taxes). Currency translation effects of EUR 0.3 billion recognized directly in equity, on the other hand, had a positive effect on shareholders' equity.

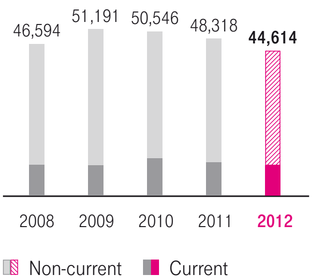
G 23

Intangible assets and property, plant and equipment. (millions of €)



G 24

Financial liabilities.
(millions of €)



T 016

Financial liabilities.

	Dec. 31, 2012			
	Total millions of €	Due ≤ 1 year millions of €	Due >1 year ≤ 5 years millions of €	Due > 5 years millions of €
Bonds and other securitized liabilities				
Non-convertible bonds	19,950	3,377	8,497	8,076
Commercial paper, medium-term notes and similar liabilities	13,724	1,743	6,154	5,827
Liabilities to banks	3,912	499	3,284	129
	37,586	**5,619**	**17,935**	**14,032**
Lease liabilities	1,780	652	475	653
Liabilities to non-banks from promissory notes	1,167	40	606	521
Other interest-bearing liabilities	1,551	1,296	175	80
Other non-interest-bearing liabilities	1,611	1,534	76	1
Derivative financial liabilities	919	119	721	79
	7,028	**3,641**	**2,053**	**1,334**
FINANCIAL LIABILITIES	**44,614**	**9,260**	**19,988**	**15,366**

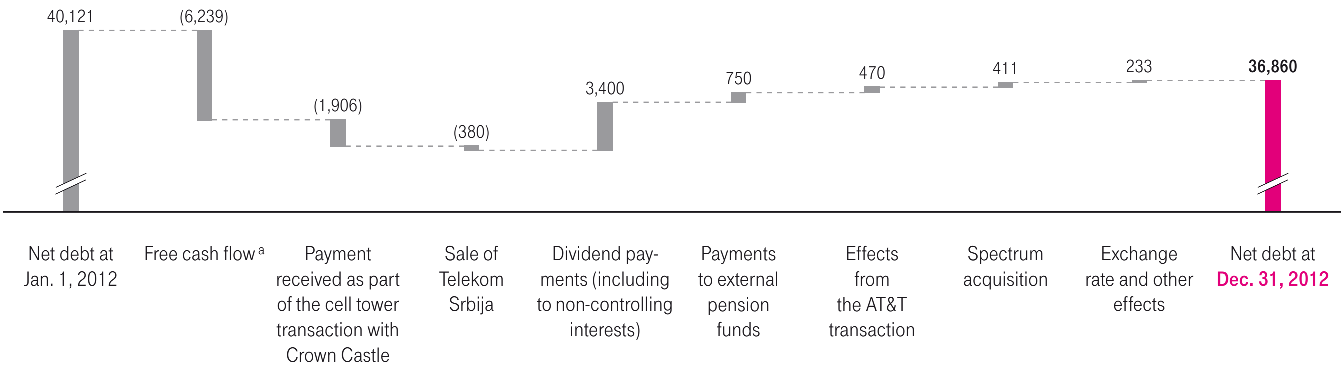
T 017

Net debt.

	Dec. 31, 2012 millions of €	Change millions of €	Dec. 31, 2011 millions of €	Dec. 31, 2010 millions of €	Dec. 31, 2009 millions of €	Dec. 31, 2008 millions of €
Financial liabilities (current)	9,260	(959)	10,219	11,689	9,391	9,584
Financial liabilities (non-current)	35,354	(2,745)	38,099	38,857	41,800	37,010
FINANCIAL LIABILITIES	**44,614**	**(3,704)**	**48,318**	**50,546**	**51,191**	**46,594**
Accrued interest	(903)	63	(966)	(1,195)	(1,175)	(988)
Liabilities from corporate transactions	–	–	–	(1,566)	(1,455)	(1,641)
Other	(754)	(139)	(615)	(467)	(444)	(518)
GROSS DEBT	**42,957**	**(3,780)**	**46,737**	**47,318**	**48,117**	**43,447**
Cash and cash equivalents	4,026	277	3,749	2,808	5,022	3,026
Available-for-sale/held-for-trading financial assets	27	(375)	402	75	162	101
Derivative financial assets	1,287	(246)	1,533	835	1,048	1,598
Other financial assets	757	(175)	932	1,331	974	564
NET DEBT	**36,860**	**(3,261)**	**40,121**	**42,269**	**40,911**	**38,158**

G 25

Changes in net debt. (millions of €)



[a] Before dividend payments, spectrum investment, and before effects from the AT&T transaction.

At the end of the financial year, the average interest rate for financial liabilities was 5.2 percent (2011: 5.5 percent).

Net debt decreased by EUR 3.3 billion year-on-year to EUR 36.9 billion. The factors responsible for this are shown in TABLE T 017, PAGE 98.

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

For further information, please refer to NOTE 34 "Disclosures on leases" in the notes to the consolidated financial statements, PAGES 264 - 265.

Off-balance-sheet financial instruments mainly relate to the sale of receivables by means of factoring. Total receivables sold as of December 31, 2012 amounted to EUR 1.3 billion (December 31, 2011: EUR 1.1 billion).

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

T 018

The rating of Deutsche Telekom AG.

	Standard & Poor's	Moody's	Fitch
LONG-TERM RATING			
Dec. 31, 2008	BBB+	Baa1	A–
Dec. 31, 2009	BBB+	Baa1	BBB+
Dec. 31, 2010	BBB+	Baa1	BBB+
Dec. 31, 2011	BBB+	Baa1	BBB+
Dec. 31, 2012	**BBB+**	**Baa1**	**BBB+**
SHORT-TERM RATING	**A-2**	**P-2**	**F2**
OUTLOOK	**Stable**	**Stable**	**Stable**

T 019

Financial flexibility.

		Dec. 31, 2012	Dec. 31, 2011	Dec. 31, 2010	Dec. 31, 2009	Dec. 31, 2008
RELATIVE DEBT $\frac{\text{Net debt}}{\text{EBITDA (adjusted for special factors)}}$		2.1	2.1	2.2	2.0	2.0
EQUITY RATIO	%	28.3	32.6	33.7	32.8	35.0
GEARING $\frac{\text{Net debt}}{\text{Shareholders' equity}}$		1.2	1.0	1.0	1.0	0.9

To ensure our financial flexibility, we essentially used two KPIs in 2012: gearing and relative debt. One component of these KPIs is net debt, which the Group uses as an important indicator for investors, analysts, and rating agencies.

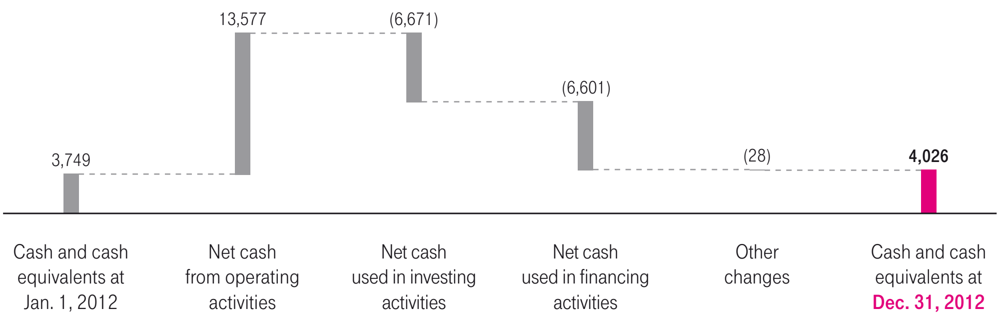
T 020

Condensed consolidated statement of cash flows.

	2012 millions of €	2011 millions of €	2010 millions of €
NET CASH FROM OPERATING ACTIVITIES	**13,577**	**16,214**	**14,731**
Effects from the AT&T transaction	470	(2,289)	–
Cash outflow as part of the PTC transaction	–	400	–
NET CASH FROM OPERATING ACTIVITIES (BEFORE PTC AND AT&T TRANSACTIONS)	**14,047**	**14,325**	**14,731**
Cash outflow for investments in intangible assets (excluding goodwill and before spectrum investment) and property, plant and equipment **(CASH CAPEX)**	(8,021)	(8,260)	(8,532)
Proceeds from disposal of intangible assets (excluding goodwill) and property, plant and equipment	213	356	344
FREE CASH FLOW (BEFORE DIVIDEND PAYMENTS, SPECTRUM INVESTMENT, AND BEFORE PTC AND AT&T TRANSACTIONS)	**6,239**	**6,421**	**6,543**
NET CASH USED IN INVESTING ACTIVITIES	**(6,671)**	**(9,275)**	**(10,711)**
NET CASH USED IN FINANCING ACTIVITIES	**(6,601)**	**(5,958)**	**(6,369)**
Effect of exchange rate changes on cash and cash equivalents	(28)	(40)	50
Changes in cash and cash equivalents associated with non-current assets and disposal groups held for sale	–	–	85
Net increase (decrease) in cash and cash equivalents	277	941	(2,214)
CASH AND CASH EQUIVALENTS	**4,026**	**3,749**	**2,808**

G 26

Changes in cash and cash equivalents. (millions of €)



Free cash flow. Free cash flow of the Group amounted to EUR 6.2 billion, EUR 0.2 billion less than in the prior year.

Net cash from operating activities in the 2012 financial year decreased by EUR 2.6 billion year-on-year to EUR 13.6 billion.

The development was primarily impacted by cash in- and outflows in connection with the termination of the agreement concluded with AT&T on the sale of T-Mobile USA. In this context, we received a compensation payment (EUR 2.3 billion) in 2011and in 2012 we recorded cash outflows (EUR 0.5 billion), EUR 0.2 billion of which were income taxes on income received in 2011. Cash outflows relating to the investigations by the U.S. authorities into contracts signed in the F.Y.R.O. Macedonia and Montenegro (EUR 0.1 billion) and effects from the development of operations had a negative impact on net cash from operating activities in 2012. Net cash from operating activities in the prior year was impacted by cash outflows for the PTC transaction (EUR 0.4 billion).

Lower net interest payments (EUR 0.4 billion), cash inflows from the agreement on the leasing and use of cell sites in the United States (EUR 0.1 billion), cash inflows from the canceling of interest rate swaps (EUR 0.1 billion), and lower income tax paid (EUR 0.3 billion) had a positive impact on net cash from operating activities in the 2012 financial year.

For information on net cash used in investing activities and net cash used in financing activities, please refer to **NOTE 31** “Notes to the consolidated statement of cash flows” in the notes to the consolidated financial statements, **PAGES 255 – 256.**

T 021

Reconciliation for the change in disclosure of key performance indicators in 2012.

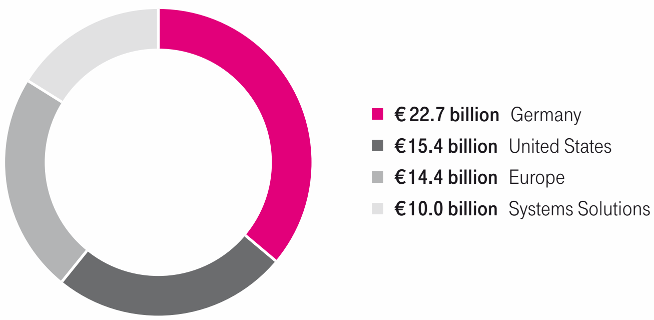
	Total revenue		Profit (loss) from operations (EBIT)	
	2011 millions of €	2010 millions of €	2011 millions of €	2010 millions of €
PRESENTATION AS REPORTED (BEFORE ADJUSTMENTS)				
Germany	24,031	25,145	4,445	4,916
Europe	15,124	16,840	780	985
United States	14,811	16,087	(710)	2,092
Systems Solutions	9,249	9,057	(43)	44
Group Headquarters & Shared Services	2,144	2,166	1,160	(2,479)
TOTAL	**65,359**	**69,295**	**5,632**	**5,558**
Reconciliation	(6,706)	(6,874)	(46)	(53)
GROUP	**58,653**	**62,421**	**5,586**	**5,505**
+/– CHANGE IN DISCLOSURE OF THE DIGITAL BUSINESS UNIT (DBU) AS OF JANUARY 1, 2012				
Germany	(830)	(946)	(86)	38
Europe	–	–	–	–
United States	–	–	–	–
Systems Solutions	–	–	–	–
Group Headquarters & Shared Services	833	953	82	(36)
TOTAL	**3**	**7**	**(4)**	**2**
Reconciliation	(3)	(7)	4	(2)
GROUP	**–**	**–**	**–**	**–**
+/– CHANGE IN DISCLOSURE OF TELEKOM IT AS OF JULY 1, 2012				
Germany	5	9	161	146
Europe	–	–	–	–
United States	–	–	–	–
Systems Solutions	704	880	(247)	(237)
Group Headquarters & Shared Services	–	–	32	39
TOTAL	**709**	**889**	**(54)**	**(52)**
Reconciliation	(709)	(889)	54	52
GROUP	**–**	**–**	**–**	**–**
= PRESENTATION AS OF DECEMBER 31, 2012				
Germany	23,206	24,208	4,520	5,100
Europe	15,124	16,840	780	985
United States	14,811	16,087	(710)	2,092
Systems Solutions	9,953	9,937	(290)	(193)
Group Headquarters & Shared Services	2,977	3,119	1,274	(2,476)
TOTAL	**66,071**	**70,191**	**5,574**	**5,508**
Reconciliation	(7,418)	(7,770)	12	(3)
GROUP	**58,653**	**62,421**	**5,586**	**5,505**

EBITDA		Adjusted EBITDA		Depreciation and amortization		Impairment losses		Segment assets	
2011 millions of €	2010 millions of €	2011 millions of €	2010 millions of €	2011 millions of €	2010 millions of €	2011 millions of €	2010 millions of €	2011 millions of €	2010 millions of €
8,892	9,109	9,599	9,618	(4,438)	(4,178)	(9)	(15)	33,522	35,334
4,995	5,142	5,241	5,748	(3,159)	(3,453)	(1,056)	(704)	37,815	46,040
3,697	4,156	3,831	4,156	(2,110)	(2,063)	(2,297)	(1)	38,075	38,316
597	667	872	948	(626)	(619)	(14)	(4)	8,751	8,855
1,956	(1,639)	(742)	(870)	(721)	(714)	(75)	(126)	101,152	107,357
20,137	**17,435**	**18,801**	**19,600**	**(11,054)**	**(11,027)**	**(3,451)**	**(850)**	**219,315**	**235,902**
(115)	(122)	(116)	(127)	69	68	–	1	(96,773)	(108,090)
20,022	**17,313**	**18,685**	**19,473**	**(10,985)**	**(10,959)**	**(3,451)**	**(849)**	**122,542**	**127,812**
(125)	5	(125)	5	33	33	6	–	(962)	(852)
–	–	–	–	–	–	–	–	–	–
–	–	–	–	–	–	–	–	–	–
–	–	–	–	–	–	–	–	–	–
125	(3)	125	(3)	(33)	(33)	(10)	–	(438)	(398)
–	**2**	**–**	**2**	**–**	**–**	**(4)**	**–**	**(1,400)**	**(1,250)**
–	(2)	–	(2)	–	–	4	–	1,400	1,250
–	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
97	83	79	75	65	63	(1)	–	18	(11)
–	–	–	–	–	–	–	–	–	–
–	–	–	–	–	–	–	–	–	–
(218)	(204)	(200)	(196)	(28)	(33)	(1)	–	557	353
–	1	–	1	32	37	–	1	(546)	(248)
(121)	**(120)**	**(121)**	**(120)**	**69**	**67**	**(2)**	**1**	**29**	**94**
121	120	121	120	(69)	(67)	2	(1)	(29)	(94)
–	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
8,864	9,197	9,553	9,698	(4,340)	(4,082)	(4)	(15)	32,578	34,471
4,995	5,142	5,241	5,748	(3,159)	(3,453)	(1,056)	(704)	37,815	46,040
3,697	4,156	3,831	4,156	(2,110)	(2,063)	(2,297)	(1)	38,075	38,316
379	463	672	752	(654)	(652)	(15)	(4)	9,308	9,208
2,081	(1,641)	(617)	(872)	(722)	(710)	(85)	(125)	100,168	106,711
20,016	**17,317**	**18,680**	**19,482**	**(10,985)**	**(10,960)**	**(3,457)**	**(849)**	**217,944**	**234,746**
6	(4)	5	(9)	–	1	6	–	(95,402)	(106,934)
20,022	**17,313**	**18,685**	**19,473**	**(10,985)**	**(10,959)**	**(3,451)**	**(849)**	**122,542**	**127,812**

DEVELOPMENT OF BUSINESS IN THE OPERATING SEGMENTS.

G 27

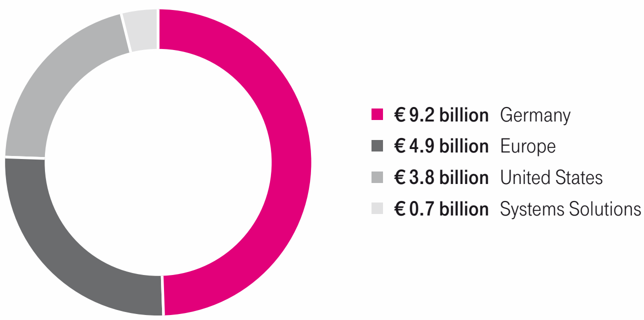
Share of operating segments in net revenue of the Group.



Share of Group Headquarters & Shared Services of € 3.0 billion and reconciliation of € –7.3 billion.

G 28

Share of operating segments in adjusted EBITDA.



Share of Group Headquarters & Shared Services of € –0.7 billion and reconciliation of € 0.0 billion.

GERMANY.

Since January 1, 2012, we have pooled the tasks and functions of our Digital Services growth business as well as the Internet service provider STRATO, which as of December 31, 2011 were still largely part of the Germany operating segment, in the Digital Business Unit (DBU) under Group Headquarters & Shared Services.

Effective July 1, 2012, we reorganized our Group's IT infrastructure and transferred all internal IT units from the Germany and Systems Solutions operating segments as well as Group Headquarters & Shared Services into the new Telekom IT unit within the Systems Solutions operating segment.

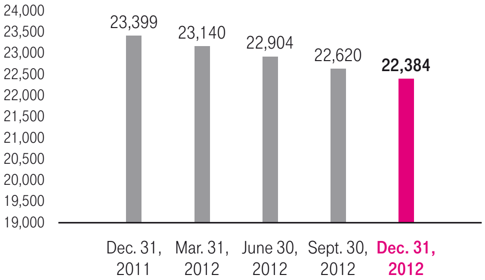
The prior-year figures have been adjusted accordingly for better comparability.

For more information, please refer to **NOTE 32** "Segment reporting" in the notes to the consolidated financial statements, **PAGE 256 et seq.**

CUSTOMER DEVELOPMENT.

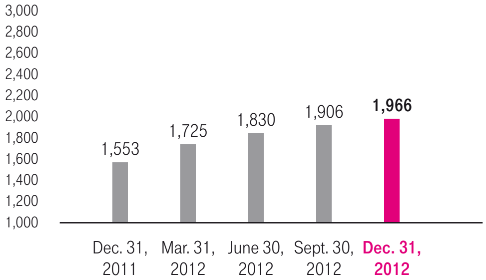
G 29

Fixed-network lines. ('000)



G 30

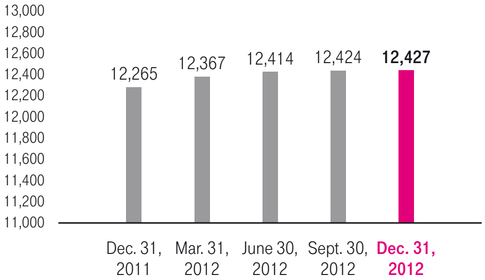
TV customers (including satellite).[a] ('000)



[a] Customers connected.

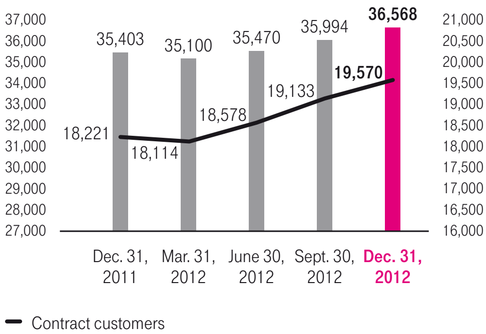
G 31

Retail broadband lines. ('000)



G 32

Mobile customers. ('000)



T 022

	Dec. 31, 2012 ’000	Dec. 31, 2011 ’000	Change ’000	Change %	Dec. 31, 2010 ’000
TOTAL					
Fixed-network lines	22,384	23,399	(1,015)	(4.3)	24,650
Retail broadband lines [a]	12,427	12,265	162	1.3	11,954
TV (including satellite)	1,966	1,553	413	26.6	1,156
Mobile customers	36,568	35,403	1,165	3.3	34,694
Contract customers [a]	19,570	18,221	1,349	7.4	17,173
Prepay customers	16,998	17,182	(184)	(1.1)	17,521
Unbundled local loop lines (ULLs)	9,436	9,598	(162)	(1.7)	9,498
Wholesale unbundled lines	1,303	1,222	81	6.6	1,037
Wholesale bundled lines	518	704	(186)	(26.4)	984
OF WHICH: CONSUMERS					
Fixed-network lines	17,789	18,763	(974)	(5.2)	19,889
Retail broadband lines [a]	10,039	9,959	80	0.8	9,705
TV (including satellite)	1,804	1,434	370	25.8	1,070
Mobile customers	29,915	29,333	582	2.0	29,153
Contract customers [a]	13,990	12,874	1,116	8.7	12,111
Prepay customers	15,926	16,459	(533)	(3.2)	17,042
OF WHICH: BUSINESS CUSTOMERS					
Fixed-network lines	3,510	3,505	5	0.1	3,624
Retail broadband lines [a]	2,062	1,973	89	4.5	1,920
TV (including satellite)	161	117	44	37.6	86
Mobile customers	6,653	6,070	583	9.6	5,541
Contract customers [a]	5,581	5,347	234	4.4	5,062
Prepay customers (M2M) [b]	1,072	723	349	48.3	479

[a] We have been reporting stationary wireless solutions under mobile contract customers since October 1, 2011.
[b] M2M: machine-to-machine.

Total.

In our Germany operating segment, we held our own in the fixed-network market in the face of regulatory interventions and intense competition by focusing on high-value business. Our mobile customer base developed positively despite intense competition.

In our German business, a number of positive trends continued in 2012. For example, we recorded increases in the number of users of our Internet-based television service Entertain, the number of mobile contract customers, and the number of VDSL lines. In the second quarter of 2011, we launched our Call & Surf Comfort via Funk product, which enables fast Internet surfing even in areas without DSL coverage. By the end of the reporting year, 124 thousand customers had already purchased this product.

Fixed network.

Telephony, Internet and TV. The number of Entertain customers had increased by 26.6 percent year-on-year to 2.0 million as of the end of 2012. As many as 299 thousand of them opted for Entertain via Sat, which has been available since September 2011.

The number of fast VDSL lines increased by as much as 48.1 percent year-on-year to 0.9 million. In the fourth quarter of 2012, we connected some four thousand customers to the fiber-optic network. At the same time, line losses in our traditional fixed network decreased by 18.9 percent compared with the prior year. Customers switched primarily to cable operators, but increasingly also to mobile products.

Mobile communications.

Mobile telephony and data services. In mobile communications, we stepped up our efforts to attract and win back customers, in particular by improving existing rate plans and introducing new ones for both contract and prepay customers. As of the end of the reporting year, the number of mobile customers increased to 36.6 million, up 3.3 percent compared with December 31, 2011.

The mobile contract customer base grew by 1.3 million in the year just ended. 569 thousand of these new customers were added in branded business under the Deutsche Telekom and “congstar” brands, while the remainder were added in the fast-growing, but much lower-revenue reseller segment (service providers). We attracted a rising number of customers in our growth area of machine-to-machine (M2M) business. The number of M2M cards increased year-on-year by 502 thousand to 2.2 million.

During the reporting year, the number of cell phones sold increased to 5.6 million. The proportion of smartphones, especially Android devices and iPhones, increased by 11 percentage points year-on-year to 73 percent.

Consumers.

Connected life across all screens. Line losses in traditional fixed-network telephony declined year-on-year in 2012. In the intensely contested broadband market, we continued to grow in line with the market. The number of pay TV packages, e.g., LIGA total!, Big TV and HD, sold as part of our television service Entertain, continued to rise.

The number of contract customers in the mobile communications portfolio increased by 8.7 percent in the reporting year compared with December 31, 2011. In particular, rate packages with integrated data flat rates for the mobile Internet (Call & Surf Mobil, Complete Mobil, and Mobile Data), especially the promotional rates included, sold well. Through these packages we migrated a large number of customers from pure voice rates to higher-value data rate plans. In the area of text messaging, we marketed our “SMS Flat all net” rate option with increasing success in 2012.

The year-on-year decrease in the number of prepay customers is largely attributable to the deactivation of inactive cards. This decline was partially compensated for, for example, through the repositioning of “congstar” in our Telekom shops.

Business customers.

Connected work with innovative solutions. The number of fixed-network lines in the Business Customer area remained stable compared with 2011 at 3.5 million. In Internet usage, customers are increasingly opting for plans with higher bandwidths such as Business Complete.

Products in the area of connected work developed positively. Accordingly, we recorded a higher number of CompanyConnect dedicated Internet connections. In data communications, we significantly increased the number of networks and connections, especially with Internet-based data networks (IP VPNs) and high-bandwidth location networking.

Total subscriber numbers rose by 9.6 percent compared with year-end 2011 in both M2M mobile communications and among contract customers, due not least to the market launch of new, attractive mobile rate plans with integrated flat rates for data in the business customer segment.

In 2012, we won or won back a number of business customers for our mobile services, such as BMW, Henkel, and RWE.

Wholesale.

The number of unbundled wholesale lines increased by 81 thousand, whereas the number of bundled wholesale lines declined by 186 thousand. We expect this trend to continue for the next few years, due in particular to the fact that our competitors are switching from bundled to unbundled wholesale products or to their own infrastructure. The number of unbundled local loop lines (ULLs) decreased by 162 thousand year-on-year, partly due to the market, since more and more competitors are switching to their own or other infrastructures or their customers are migrating to mobile communications.

With the “VDSL contingent model,” we will continue to work with Telefónica Deutschland, 1&1, and NetCologne to market fast VDSL lines in Germany. The model allows the partner companies to resell Telekom Deutschland VDSL lines at a preferential monthly rate. Under a series of reciprocal deals, the first of which was closed with NetCologne, the partner companies pledge to offer Telekom Deutschland a certain number of lines within their own fiber-optic infrastructures at comparable terms and conditions. The advantage of this arrangement for us is that we can improve the capacity utilization of our VDSL infrastructure. The partner companies take on part of the investment risk through their advance payments for the agreed number of lines they intend to market. Finally, the reciprocal model offers Deutsche Telekom the possibility to purchase upstream services in regions where we do not maintain our own competitive infrastructure.

DEVELOPMENT OF OPERATIONS.

T 023

		2012 millions of €	2011 millions of €	Change millions of €	Change %	2010 millions of €
TOTAL REVENUE		22,736	23,206	(470)	(2.0)	24,208
Consumers		12,217	12,497	(280)	(2.2)	13,018
Business Customers		5,661	5,615	46	0.8	5,662
Wholesale		4,035	4,209	(174)	(4.1)	4,556
Value-Added Services		367	425	(58)	(13.6)	512
Other		456	460	(4)	(0.9)	460
Profit from operations **(EBIT)**		4,345	4,520	(175)	(3.9)	5,100
EBIT margin	%	19.1	19.5			21.1
Depreciation, amortization and impairment losses		(4,393)	(4,344)	(49)	(1.1)	(4,097)
EBITDA		8,738	8,864	(126)	(1.4)	9,197
Special factors affecting EBITDA		(427)	(689)	262	38.0	(501)
EBITDA (ADJUSTED FOR SPECIAL FACTORS)		9,165	9,553	(388)	(4.1)	9,698
EBITDA margin (adjusted for special factors)	%	40.3	41.1			40.1
CASH CAPEX		(3,418)	(3,506)	88	2.5	(4,781)

Total revenue.

Revenue in 2012 was down 2.0 percent year-on-year, halving the decline in our revenue compared with 2011. This was primarily due to the downward trend in voice telephony both in the mobile and fixed-network business. The decline was partially offset by growing demand for complete packages with mobile data and TV rate plans and attractive handsets, in particular smartphones.

The successful marketing of Entertain and add-on options had a positive impact on our fixed-network business. Revenue contributed by our Germany operating segment to the connected home growth area increased by EUR 42 million to EUR 5.3 billion. However, this positive trend was not sufficient to offset the revenue decrease in voice telephony owing to line losses.

Mobile revenue rose 1.1 percent compared with 2011. Mobile service revenues declined 1.5 percent in the year under review, largely due to a decrease in voice and messaging services and visitor revenues. On top of roaming price reductions imposed by the regulatory authorities as of July 1, 2012, mobile termination charges were reduced in December 2012. Another factor that impacted negatively on revenue was the termination of an agreement with a reseller. By contrast, data revenue rose 19.6 percent to EUR 2.0 billion. A compensating effect also came from successful smartphone sales, which was reflected in increased revenue from mobile terminal equipment.

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The main reason for the decline in the **Consumers** area was the downward trend in voice telephony business in both the fixed network and mobile communications. In the fixed network, the revenue decrease was partially offset by growth in TV revenue (up 29.3 percent) and revenue from terminal equipment (up 29.4 percent). Mobile service revenues declined 2.3 percent year-on-year, mainly due to the lower level of voice telephony and text messaging and to fewer visitors. The decline was partly offset by strong data growth and bundling in flat-rate components. However, due to growth in mobile terminal devices – the result of strong smartphone sales – overall mobile revenues in the Consumers area remained at the prior-year level.

In the **Business Customers** area, total revenue remained stable. Growth in revenue from mobile data, broadband, IT products, and cell phones fully offset the decline in revenue from traditional fixed-network voice telephony and mobile communications.

The decline in **Wholesale** revenue – down 4.1 percent to EUR 4.0 billion – was primarily attributable to the following factors: regulatory price cuts for interconnection calls in particular (from July 1, 2011 and December 1, 2012), the declining use of interconnection calls, and a volume- and price-related decrease in revenue due to migration to state-of-the-art infrastructure platforms.

Declining revenues from **Value-Added Services** resulted from weaker use of premium rate numbers such as directory assistance services and of public telephones. In addition, the amended regulation concerning free-of-charge queuing came into effect as of September 1, 2012.

EBITDA, adjusted EBITDA.

EBITDA adjusted for special factors decreased by 4.1 percent year-on-year in 2012 to EUR 9.2 billion. It was not possible to fully offset the decline in revenue by cost decreases. The increase in direct costs was mainly attributable to higher market investments and higher interconnection costs due to the continuous offering of more valuable calling plans, e.g., through packages with minute buckets and text messages. Indirect costs were cut to an extent comparable to that in 2011. Despite the market investments we have made, the adjusted EBITDA margin remained virtually unchanged at over 40 percent.

EBIT.

Profit from operations in our Germany operating segment declined by 3.9 percent year-on-year. This was primarily attributable to the decrease in adjusted EBITDA and increased depreciation, amortization, and impairment losses, mainly resulting from the capitalization of the LTE license in the previous year.

Cash capex.

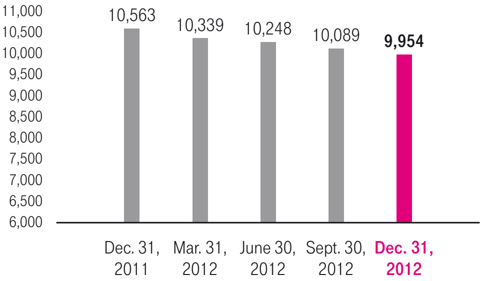
We have the best mobile network and invest in the networks of the future. We reported a year-on-year decrease in cash capex for traditional transmission paths, for example as a result of the completion of migration to modern infrastructure platforms. At the same time, we stepped up investments in our strategic focus areas such as the LTE and fiber optic roll-out as well as in all IP migration. Nevertheless, cash capex declined by 2.5 percent year-on-year.

EUROPE.

CUSTOMER DEVELOPMENT.

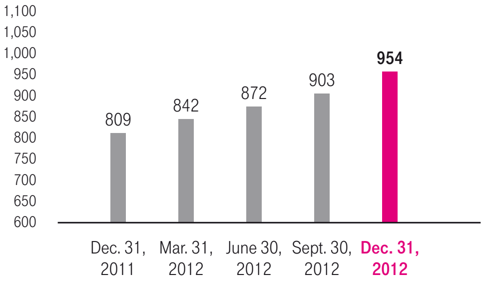
G 33

Fixed-network lines. ('000)



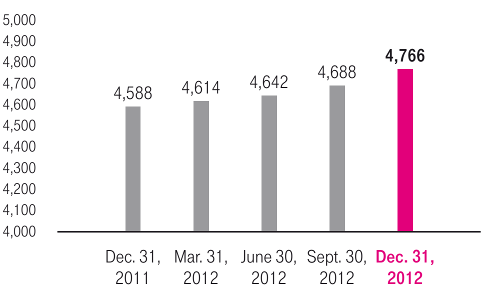
G 34

IPTV customers. ('000)



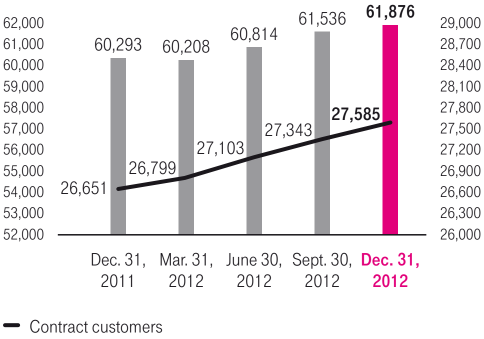
G 35

Retail broadband lines. ('000)



G 36

Mobile customers. ('000)



T 024

		Dec. 31, 2012 '000	Dec. 31, 2011 '000	Change '000	Change %	Dec. 31, 2010 '000
EUROPE, TOTAL	Fixed-network lines	9,954	10,563	(609)	(5.8)	11,337
	Retail broadband lines	4,766	4,588	178	3.9	4,353
	Wholesale bundled lines	153	153	–	–	180
	Wholesale unbundled lines	74	50	24	48.0	44
	Unbundled local loop lines (ULLs)	1,963	1,844	119	6.5	1,504
	Mobile customers	61,876	60,293	1,583	2.6	60,100
GREECE	Fixed-network lines	3,016	3,317	(301)	(9.1)	3,739
	Broadband lines	1,203	1,126	77	6.8	1,147
	Mobile customers	7,697	7,885	(188)	(2.4)	7,990
ROMANIA	Fixed-network lines	2,418	2,487	(69)	(2.8)	2,597
	Broadband lines	1,134	1,078	56	5.2	961
	Mobile customers	6,368	6,499	(131)	(2.0)	6,849
HUNGARY	Fixed-network lines	1,401	1,486	(85)	(5.7)	1,652
	Broadband lines	875	848	27	3.2	824
	Mobile customers	4,837	4,817	20	0.4	5,208
POLAND	Mobile customers	16,040	14,161	1,879	13.3	13,259
CZECH REPUBLIC	Fixed-network lines	111	100	11	11.0	69
	Broadband lines	111	100	11	11.0	69
	Mobile customers	5,498	5,381	117	2.2	5,475
CROATIA	Fixed-network lines	1,312	1,387	(75)	(5.4)	1,431
	Broadband lines	658	651	7	1.1	629
	Mobile customers	2,326	2,418	(92)	(3.8)	2,901
NETHERLANDS	Fixed-network lines	283	294	(11)	(3.7)	289
	Broadband lines	275	284	(9)	(3.2)	289
	Mobile customers	4,720	4,909	(189)	(3.9)	4,526
SLOVAKIA	Fixed-network lines	960	1,021	(61)	(6.0)	1,061
	Broadband lines	480	464	16	3.4	436
	Mobile customers	2,311	2,326	(15)	(0.6)	2,411
AUSTRIA	Mobile customers	4,104	4,060	44	1.1	3,778
OTHER [a]	Fixed-network lines	453	471	(18)	(3.8)	498
	Broadband lines	258	239	19	7.9	220
	Mobile customers	7,975	7,838	137	1.7	7,702

[a] Other includes the national companies of Bulgaria, Albania, the F.Y.R.O. Macedonia, and Montenegro.

Total.

In the 2012 financial year, our Europe operating segment showed robust development in terms of the customer base despite intense competition and the still strained economic situation in most of the countries in this segment.

In the fixed network, we increased the number of broadband lines compared with the end of 2011 thanks to the focus on rolling out broadband technology and thus partially offset the line losses in the analog fixed-network business. The mobile customer base increased year-on-year, mainly due to encouraging growth among contract customers. The number of prepay customers in the segment also increased on the back of a positive development in Poland due to a change in the deregistration procedure.

Fixed network.

Telephony, Internet and TV. As a consistent growth driver, the IPTV business recorded a substantial increase in customer figures of around 18 percent year-on-year. We further expanded the number of retail broadband customers in most countries of our operating segment by 3.9 percent to around 4.8 million lines compared with December 31, 2011 by offering innovative rate plans, such as TV plus Internet access packages. The largest absolute additions compared with the prior-year figure were achieved in Greece and Romania, due in particular to the higher number of DSL lines. We also generated marked growth in broadband lines in Hungary and the Czech Republic, primarily in broadband cable lines in Hungary and in DSL business in the Czech Republic. Around 10 million customers in our Europe operating segment used a fixed-network line as of December 31, 2012, a year-on-year decrease of 5.8 percent. This is largely the result of line losses in traditional telephony, especially in Greece, Croatia, Romania, and the F.Y.R.O. Macedonia. However, the economic situation and the resulting intense competitive pressure also caused a decline in the number of customers.

Mobile communications.

Mobile telephony and data services. We increased our total mobile customer base by 2.6 percent compared with the previous year to 62 million thanks to noticeable net contract additions. As of December 31, 2012, our contract customer base totaled around 28 million, an increase of 3.5 percent compared with 2011. This is attributable to the encouraging trend among consumers as well as the significant increase in business customers, who accounted for half of this growth. Their numbers increased in particular in the Czech Republic, Romania, and Poland. At over 8 million, business customers accounted for almost 30 percent of total contract customers in the Europe operating segment. Thanks to the continued attractiveness of smartphone use, particularly in Austria and the Netherlands, we increased the contract customer share of the total customer base in our operating segment to 45 percent.

As of December 31, 2012, the number of prepay customers increased slightly year-on-year. The number of prepay customers declined in most countries of our operating segment due to our strategy of focusing on high-value contract customers. The prepay customer base only grew appreciably in Poland by around 1.6 million, mainly due to a change in the deregistration procedure in September 2011.

DEVELOPMENT OF OPERATIONS.

T 025

		2012 millions of €	2011 millions of €	Change millions of €	Change %	2010 millions of €
TOTAL REVENUE		14,408	15,124	(716)	(4.7)	16,840
Greece		3,253	3,546	(293)	(8.3)	3,876
Romania		1,037	1,072	(35)	(3.3)	1,165
Hungary		1,429	1,438	(9)	(0.6)	1,517
Poland		1,678	1,740	(62)	(3.6)	1,839
Czech Republic		1,044	1,092	(48)	(4.4)	1,157
Croatia		992	1,084	(92)	(8.5)	1,148
Netherlands		1,664	1,747	(83)	(4.8)	1,767
Slovakia		837	886	(49)	(5.5)	934
Austria		878	924	(46)	(5.0)	983
United Kingdom		–	–	–	–	783
Other [a]		1,811	1,827	(16)	(0.9)	1,937
Profit from operations **(EBIT)**		1,484	780	704	90.3	985
EBIT margin	%	10.3	5.2			5.8
Depreciation, amortization and impairment losses		(3,233)	(4,215)	982	23.3	(4,157)
EBITDA		4,717	4,995	(278)	(5.6)	5,142
Special factors affecting EBITDA		(204)	(246)	42	17.1	(606)
EBITDA (ADJUSTED FOR SPECIAL FACTORS)		4,921	5,241	(320)	(6.1)	5,748
Greece		1,210	1,300	(90)	(6.9)	1,433
Romania		289	274	15	5.5	281
Hungary		474	542	(68)	(12.5)	567
Poland		586	629	(43)	(6.8)	691
Czech Republic		486	509	(23)	(4.5)	551
Croatia		469	508	(39)	(7.7)	507
Netherlands		525	505	20	4.0	461
Slovakia		352	388	(36)	(9.3)	403
Austria		234	253	(19)	(7.5)	283
United Kingdom		–	–	–	–	167
Other [a]		299	339	(40)	(11.8)	426
EBITDA margin (adjusted for special factors)	%	34.2	34.6			34.1
CASH CAPEX		(1,698)	(1,870)	172	9.2	(2,012)

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

[a] Other includes the national companies of Bulgaria, Albania, the F.Y.R.O. Macedonia, and Montenegro, as well as ICSS (International Carrier Sales & Solutions) and Europe Headquarters.

Total revenue.

In the reporting period, our Europe operating segment generated total revenue of EUR 14.4 billion, down 4.7 percent compared with the prior-year level. Around 16 percent of the decrease was attributable to negative aggregate exchange rate effects, especially from the translation of the Hungarian forint, the Polish zloty, the Czech koruna, and the Croatian kuna into euros. Adjusted for these effects, segment revenue decreased by just 4.0 percent. A significant proportion of this decrease in revenue was attributable to requirements imposed by the national regulatory authorities and the EU. Reduced mobile termination rates and roaming regulation caused substantial losses in revenue in most countries in our operating segment, with the consequence that these revenues declined faster at segment level than in the fixed network. This decrease was offset only in part by higher customer numbers and also by the slightly higher minute usage per customer in mobile operations. Price reductions due to intense competition put further pressure on our revenue from operations, as did the continued challenging economic situation, especially in Southern and Eastern European countries. Around half of the decline in revenue from operations was attributable to Greece; that said, most of the other countries also suffered revenue declines.

At segment level, there were slightly compensatory effects from growth in international wholesale business and revenue increases in the fields of broadband, television and energy. These growth areas partially compensated for the negative revenue effects from voice telephony. This shows the success of our strategy to drive forward the expansion of broadband technologies in the fixed network and in mobile communications, in combination with attractive rate plans and a broad portfolio of terminal equipment. In mobile communications, we recorded noticeable further growth in data revenue with an increase of 15 percent to around EUR 1.3 billion. Adjusted for exchange rate effects, data revenue increased by approximately 16 percent compared with the prior-year figure. Almost all countries in our Europe operating segment, but in particular the Netherlands, Austria, Poland, Romania, and the Czech Republic, contributed to this growth.

EBITDA, adjusted EBITDA.

Our Europe operating segment generated adjusted EBITDA of EUR 4.9 billion in the 2012 financial year, a year-on-year decrease of 6.1 percent. Without the overall negative exchange rate effects, especially from the translation of the Hungarian forint, the Czech koruna, the Polish zloty, and the Croatian kuna, adjusted EBITDA decreased by 5.3 percent. The decline in operations at segment level was mainly attributable to Greece, Hungary, Slovakia, Poland, and Croatia.

These decreases were partially offset by higher contributions of adjusted EBITDA in the Netherlands and in Romania.

Overall, the decrease in revenue year-on-year at segment level had a negative impact on the development of EBITDA. In addition, changes in legislation, for example as a part of national austerity programs, adversely affected our EBITDA. In Hungary, for instance, the special levy introduced as of July 1, 2012 on top of the existing special tax reduced our adjusted EBITDA.

We partially offset the negative effects from the decline in revenue by systematically reducing overheads through our efficiency enhancement measures, which are primarily reflected in lower personnel costs and costs for goods and services purchased. Also, EBITDA was positively impacted by personalizing our dialog with customers, which boosted customer retention, and by a regulation-induced reduction in interconnection costs. However, this was cancelled out by higher expenses for terminal equipment as well as in the energy business.

Development of operations in selected countries.

Greece. Revenue in Greece totaled EUR 3.3 billion in 2012, a year-on-year decrease of 8.3 percent, which was mainly attributable to the fixed-network business. Fixed-network voice revenue declined primarily as a result of line losses of around 9 percent in traditional telephony. Since regulation in the fixed-network business in Greece continues to be very strict and we did not receive the regulatory authority's approval to offer VDSL services before the end of November 2012, we were not able to proceed with customer acquisitions as planned and thus generate the associated revenue in full. Our revenue was positively impacted, however, by higher revenues in wholesale and television business. In mobile business, revenue was also down year-on-year due to lower pricing, both as a result of the regulation-induced reduction in termination rates – in August and again in mid-October 2012 – and due to competition. Overall, the continued difficult economic situation had an impact on revenue development, which is reflected in the decline in service revenues and lower terminal equipment sales.

Adjusted EBITDA decreased to EUR 1.2 billion in Greece during the reporting period, a year-on-year decline of 6.9 percent, mainly due to the decrease in revenue. We partly offset the negative effects through mobile customer acquisition and retention measures and through our programs to enhance efficiency in the mobile and fixed-network business. The success of these programs is primarily reflected in lower personnel costs, due in part to a reduced headcount and in part to the agreements concluded with trade unions.

Hungary. We generated revenue of EUR 1.4 billion in the reporting period, almost the same level as in the previous year. Adjusted for the negative exchange rate performance of the Hungarian forint against the euro, revenue from operations increased by 2.7 percent. This year-on-year increase is attributable to growth, in particular in the energy resale business. Higher overall fixed-network revenue from broadband, television, and terminal equipment sales almost offset the decline in voice telephony. In mobile communications, service revenues adjusted for exchange rate effects remained virtually constant. Price cuts due to competition as well as a regulation-induced reduction in termination rates resulted in lower revenues from voice telephony, which were partly offset by higher data revenues as a result of increased customer usage as well as a higher contract customer base overall. In addition, increased terminal equipment sales made a positive contribution to revenue, mainly since smartphones accounted for a large proportion of all terminal devices sold.

Adjusted EBITDA amounted to EUR 474 million in 2012, representing a year-on-year decrease of 12.5 percent. This decrease was due to the continued unfavorable exchange rate performance of the Hungarian forint against the euro. Excluding exchange rate effects, adjusted EBITDA declined by 9.0 percent, mainly as a result of a year-on-year decrease in revenue generated with traditional fixed-line voice services and the special levy introduced as of July 1, 2012. Our efficiency improvement programs had a positive effect on adjusted EBITDA.

Poland. Revenue in Poland totaled EUR 1.7 billion in the reporting period, a decrease of 3.6 percent compared with the 2011 figure. Adjusted for the significantly negative exchange rate performance of the Polish zloty against the euro, revenue decreased by just 1.8 percent compared with the previous year. Service revenues were down due to lower pricing as a consequence of intense competition on the Polish mobile market and the regulation-induced reduction in termination rates. We partially offset this decrease in voice telephony with a substantial increase in data revenues. In addition, increased terminal equipment sales made a positive contribution to revenue, mainly due to the successful marketing of smartphones.

Adjusted EBITDA amounted to EUR 586 million in 2012, down 6.8 percent year-on-year. Adjusted for negative exchange rate effects, the decrease was just 5.6 percent. The decline was attributable to increased customer acquisition costs as a result of marketing higher-value terminal equipment and a higher share of contract customers in the business with new customers. Furthermore, the previous year had been positively impacted by the reversal of a provision. Customer retention costs decreased due to improved measures to target our high-value contract customers, which made a positive contribution to EBITDA.

Netherlands. In the reporting period, revenue decreased by 4.8 percent year-on-year to EUR 1.7 billion. Regulation-induced decreases in revenue from voice telephony and decreases in text message revenue were partially offset by the highly successful data business. A larger contract customer base attributable to new rate plans also had a positive effect on voice telephony revenue. The terminal equipment business made a positive contribution to revenue thanks to the continued attractiveness of smartphones, in particular high-priced devices. A one-time effect in the fourth quarter of the prior year had a contrasting impact. The fixed-network business declined due to a smaller number of broadband lines compared with the previous year.

Adjusted EBITDA increased by 4.0 percent year-on-year to EUR 525 million in 2012. This positive result was achieved despite the negative effect resulting from regulation. In addition, interconnection costs decreased, also due to lower volumes. Reduced customer retention and acquisition costs as well as lower overheads, including personnel costs and costs of goods and services purchased, also contributed to the improvement in adjusted EBITDA.

EBIT.

EBIT in our Europe operating segment totaled EUR 1.5 billion in the reporting year, an increase of 90.3 percent compared with 2011 that was mainly attributable to significantly lower impairment losses recognized on goodwill. The segment also generated a positive contribution to EBIT which in most countries was due to lower depreciation and amortization as a result of investment restraints. This fully offset the negative effects from the decline in EBITDA.

Cash capex.

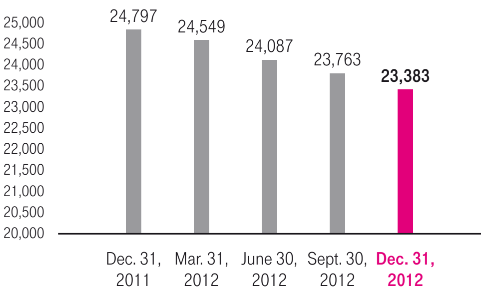
In 2012, our Europe operating segment reported cash capex of EUR 1.7 billion, a year-on-year reduction of 9.2 percent. A difficult market situation, decisions by regulatory authorities, and additional financial burdens, such as the special tax in Hungary and the real estate tax in Greece, caused most countries in our operating segment to exercise restraint in their capital spending. However, cash capex for extending existing and/or obtaining new mobile communications licenses increased in a number of countries in our operating segment.

UNITED STATES.

CUSTOMER DEVELOPMENT.

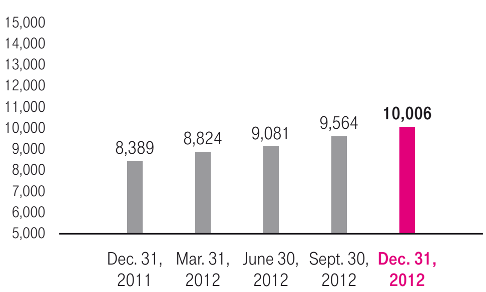
G 37

Contract customers. [a] ('000)



G 38

Prepay customers. [a] ('000)



[a] Prior-quarter amounts have been restated to conform to current-period customer reporting classifications.

T 026

	Dec. 31, 2012 '000	Dec. 31, 2011 '000	Change '000	Change %	Dec. 31, 2010 '000
UNITED STATES					
Mobile customers	33,389	33,186	203	0.6	33,734
Contract customers	23,383	24,797	(1,414)	(5.7)	26,447
Branded	20,293	22,367	(2,074)	(9.3)	24,574
Machine-to-machine (M2M)	3,090	2,430	660	27.2	1,873
Prepay customers	10,006	8,389	1,617	19.3	7,287
Branded	5,826	4,819	1,007	20.9	4,497
MVNOs	4,180	3,570	610	17.1	2,790

At December 31, 2012, the United States operating segment (T-Mobile USA) had 33.4 million customers, a net increase in customers of 203 thousand compared to 33.2 million customers at December 31, 2011. This net increase in customers in 2012 was a significant improvement compared to a net decrease of 548 thousand in 2011. In 2012, prepay customer growth more than offset contract customer losses. In 2012, T-Mobile USA lost 1.4 million contract customers compared to 1.7 million contract customers lost in 2011.

In 2012, branded contract customer losses improved due to lower branded contract customer churn, which continued to be a key strategic focus for 2012, partially offset by a decline in branded contract gross customer additions. Additionally, total machine-to-machine customers continued to grow in 2012 and totaled 3.1 million customers at December 31, 2012. In 2012, T-Mobile USA had 1.6 million net prepay customer additions compared to 1.1 million net prepay customer additions in 2011. Branded prepay customer additions improved considerably in 2012 driven by the continued success of unlimited Monthly 4G prepay plans and customer migration to prepay plans from the discontinuation of the company's FlexPay. Additionally, MVNO customers continued to grow in 2012, although at a slower rate than in 2011, and totaled 4.2 million at December 31, 2012.

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T-Mobile USA's blended churn decreased to an average of 3.4 percent per month in 2012, compared to an average of 3.6 percent per month in 2011. The year-on-year decrease in blended churn was due primarily to lower branded contract churn from a change in the mix of T-Mobile USA's contract product portfolio and the continued strategic focus on churn reduction. Compared to the prior period, branded contract churn decreased by 30 basis points to 2.4 percent. Additionally, branded prepay customer churn decreased by 30 basis points to 6.4 percent. In order to improve the branded product portfolio, the company discontinued certain products that had higher churn in 2011, such as FlexPay.

DEVELOPMENT OF OPERATIONS.

T 027

		2012 millions of €	2011 millions of €	Change millions of €	Change %	2010 millions of €
TOTAL REVENUE		15,371	14,811	560	3.8	16,087
Profit (loss) from operations **(EBIT)**		(7,547)	(710)	(6,837)	n.a.	2,092
EBIT margin	%	(49.1)	(4.8)			13.0
Depreciation, amortization and impairment losses		(12,866)	(4,407)	(8,459)	n.a.	(2,064)
EBITDA		5,319	3,697	1,622	43.9	4,156
Special factors affecting EBITDA		1,479	(134)	1,613	n.a.	–
EBITDA (ADJUSTED FOR SPECIAL FACTORS)		3,840	3,831	9	0.2	4,156
EBITDA margin (adjusted for special factors)	%	25.0	25.9			25.8
CASH CAPEX		(2,560)	(1,963)	(597)	(30.4)	(2,121)

Value and Monthly 4G plans. T-Mobile USA offers affordable 4G nationwide wireless communications services through a variety of pricing plans, including contract and no-contract service plans. In the third quarter of 2011, T-Mobile USA introduced Value plans which bring more choice and value to customers. Value plans provide wireless services without the purchase of, or upfront payment of, a bundled handset. Customers on T-Mobile USA's Value plans benefit from reduced monthly service charges by using an existing compatible device, or by purchasing a device either by paying full price at the point-of-sale or by deferring payments over a 20-month installment contract. Compared to traditional bundled price plans, T-Mobile USA's Value plans result in increased equipment revenue, benefiting net income during the period of activation, while service revenues are lower over the service contract period. In 2012, T-Mobile USA enhanced its offerings by introducing unlimited nationwide 4G data plans which can be added to any Value or traditional plan and include nationwide 4G coverage without data caps or overage fees.

In 2011, T-Mobile USA also introduced Monthly 4G plans, a branded prepaid service offering that provides customers with a variety of plan choices including unlimited talk, text, and web services on T-Mobile USA's nationwide 4G network at flat monthly rates without the requirement of an annual contract.

Total revenue.

Total revenue for the United States operating segment (T-Mobile USA) was EUR 15.4 billion in 2012, an increase of 3.8 percent compared to EUR 14.8 billion in 2011, which was due to fluctuations in the currency exchange rate. In U.S. dollars, total revenue declined by 4.1 percent year-on-year due primarily to a decrease in service revenues partially offset by an increase in equipment revenues associated with T-Mobile USA's Value plans. Service revenues declined due to a decrease in branded contract customers (contract customers excluding machine-to-machine) and changes in the customer mix towards lower priced Value rate plans. This was partially offset by strong prepay service revenue growth associated with the continued success of unlimited Monthly 4G prepay plans introduced in the second quarter of 2011. Data service revenues increased by 6.7 percent in 2012 compared to 2011, driven by increased smartphone plan adoption. Equipment sales increased by 20.4 percent, despite lower volumes, due to handset program pricing changes in connection with the T-Mobile USA's Value plans launched in the third quarter of 2011 and higher smartphone sales.

EBITDA, adjusted EBITDA.

EBITDA increased in 2012 by 43.9 percent to EUR 5.3 billion compared to EUR 3.7 billion in 2011. Adjusted EBITDA remained consistent year-on-year at EUR 3.8 billion in 2012 and 2011, due to fluctuations in the currency exchange rate offsetting the decline in local currency. Adjusted EBITDA in 2012 excludes special factors of EUR 1.5 billion, which primarily includes a EUR 1.4 billion gain recognized on the sale of wireless communication tower sites in November 2012. In U.S. dollars, adjusted EBITDA decreased by 7.5 percent, primarily due to a decline in service revenues as described above, partially offset by lower equipment subsidies in connection with handset program pricing changes from T-Mobile USA's Value plans, and lower equipment unit sales volumes. Additionally, lower roaming costs and employee-related expenses, as well as the effects of ongoing cost management programs, contributed to a decline in expenses in 2012. This combined reduction in costs was partially offset by higher marketing expenses related to new advertising and promotional campaigns launched in 2012.

For more information on the sale of cell sites, please refer to "Business combinations and other transactions" in the notes to the consolidated financial statements, **PAGES 219 – 220.**

EBIT.

EBIT declined EUR 6.8 billion in 2012 to an operating loss of EUR 7.5 billion compared to an operating loss of EUR 710 million in 2011, primarily due to impairment losses on goodwill, other intangible assets, and property, plant and equipment of EUR 10.6 billion in 2012. In 2011, T-Mobile USA recognized an impairment loss on goodwill of EUR 2.3 billion. In 2012, T-Mobile USA also recorded EUR 0.2 billion in accelerated depreciation related to network modernization initiatives.

For more information on the impairment assessment, please refer to **NOTE 30** "Depreciation, amortization and impairment losses" in the notes to the consolidated financial statements, **PAGES 253 – 254.**

Cash capex.

Cash capex increased 30.4 percent year-on-year to EUR 2.6 billion in 2012 compared to EUR 2.0 billion in 2011. In U.S. dollars, cash capex increased 20.0 percent year-on-year due to higher incurred capex in 2012 related to the network modernization transformation and the purchase of spectrum licenses, partially offset by payment timing of capital expenditures. In 2012, T-Mobile USA announced that it would invest USD 4 billion in total over 2012 and 2013 to strengthen its 4G network, as well as refarming of 1900 MHz spectrum previously used for GSM/HSPA plus beginning in 2012 and the planned launch of LTE technology in 2013. Additionally, T-Mobile USA recognized a USD 1.2 billion non-cash increase of AWS spectrum received as a result of the terminated AT&T transaction.

SYSTEMS SOLUTIONS.

For more information, please refer to **NOTE 32** “Segment reporting” in the notes to the consolidated financial statements, **PAGE 256 et seq.**

Effective July 1, 2012, we reorganized our Group’s IT infrastructure and transferred all internal IT units from the Germany and Systems Solutions operating segments as well as Group Headquarters & Shared Services into the new Telekom IT unit within the Systems Solutions operating segment.

Our Systems Solutions operating segment now combines two business models: first, the Market Unit, which handles our business with external customers, focused on revenue growth, and second, our internal service unit Telekom IT, which endeavors to continuously reduce its own revenue and thereby the IT costs of our Group.

The figures for 2011 have been adjusted for better comparability.

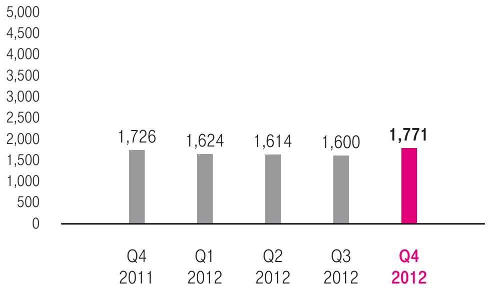
SELECTED KPIs.

G 39

Order entry. (millions of €)

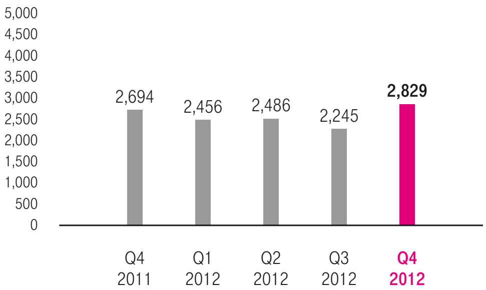
G 40

External revenue. (millions of €)



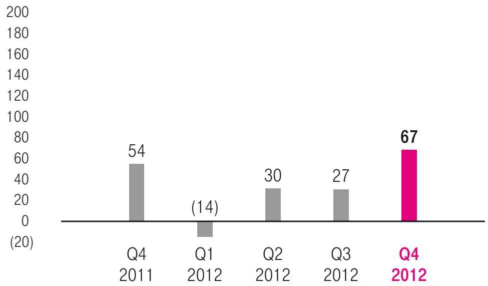
G 41

Revenue. (millions of €)



G 42

Adjusted EBIT. (millions of €)



T 028

		Dec. 31, 2012	Dec. 31, 2011	Change	Change %	Dec. 31, 2010
ORDER ENTRY	millions of €	8,737	7,396	1,341	18.1	9,281
COMPUTING & DESKTOP SERVICES						
Number of servers managed and serviced	units	57,121	58,053	(932)	(1.6)	58,073
Number of workstations managed and serviced	millions	1.93	2.00	(0.07)	(3.5)	1.95
SYSTEMS INTEGRATION						
Hours billed	millions	6.3	n.a.	n.a.	n.a.	n.a.
Utilization rate	%	85.1	n.a.	n.a.	n.a.	n.a.

Development of business.

In the 2012 financial year, order entry increased substantially year-on-year by 18.1 percent. This was due to the conclusion of major new deals, such as those with the Catalan government, Shell, Clariant, BP, Daimler, British American Tobacco, and the Swiss industrial group Georg Fischer. Our standard solutions in the growth area of cloud computing succeeded in the face of strong competition, winning us contracts with many of these corporate customers. T-Systems continued to expand its dynamic resources accordingly in the reporting period. For our customers, this means they receive bandwidth, computing capacity, and memory on demand, pay for what they use, and share the infrastructure. In another encouraging development, utilities company RWE has selected us as its partner for the largest smart metering project to date in Germany.

Glossary, **PAGE 301 et seq.**

Glossary, **PAGE 301 et seq.**

The number of servers managed and serviced declined year-on-year due to technological progress. New deals have increased demand for our ICT services. This demand is now being met by high-performance servers with improved capacity utilization. A similar trend can be seen in data centers, where consolidation is creating larger, higher-performance units.

DEVELOPMENT OF OPERATIONS.

T 029

		2012 millions of €	2011 millions of €	Change millions of €	Change %	2010 millions of €
TOTAL REVENUE		10,016	9,953	63	0.6	9,937
Loss from operations **(EBIT)**		(299)	(290)	(9)	(3.1)	(193)
Special factors affecting EBIT		(409)	(313)	(96)	(30.7)	(297)
EBIT (adjusted for special factors)		110	23	87	n.a.	104
EBIT margin (adjusted for special factors)	%	1.1	0.2			1.0
Depreciation, amortization and impairment losses		(649)	(669)	20	3.0	(656)
EBITDA		350	379	(29)	(7.7)	463
Special factors affecting EBITDA		(397)	(293)	(104)	(35.5)	(289)
EBITDA (ADJUSTED FOR SPECIAL FACTORS)		747	672	75	11.2	752
EBITDA margin (adjusted for special factors)	%	7.5	6.8			7.6
CASH CAPEX		(1,187)	(1,413)	226	16.0	(1,501)

Total revenue.

Total revenue in our Systems Solutions operating segment in the financial year amounted to EUR 10.0 billion, a year-on-year increase of 0.6 percent. This was primarily attributable to external international revenue resulting in part from deals from 2011 with Everything Everywhere, Magna, and TOTAL, and in part from the aforementioned deals concluded in the reporting year. These deals offset the general negative price trend in IT and communications as well as the slight decline in national business. External revenue was higher than in 2011, with international revenue increasing substantially by 6.3 percent while national revenue decreased by 1.8 percent.

Revenue for the Market Unit includes revenue generated with external customers plus intragroup revenue with international IT services and national services that do not fall within the remit of Telekom IT. At EUR 7.8 billion, this item was slightly above the prior-year level. In the newly established Telekom IT business unit, which pools all of the Group's internal national IT projects, revenue was slightly down against the prior year, mainly due to the Group's efforts to reduce IT costs as well as to seasonal effects in the project business.

EBITDA, adjusted EBITDA.

Adjusted EBITDA in our Systems Solutions operating segment increased by 11.2 percent in the reporting period as a result of the restructuring and efficiency enhancement program launched. The adjusted EBITDA margin improved from 6.8 to 7.5 percent. Unadjusted EBITDA declined by 7.7 percent, impacted primarily by the recognition of provisions, for example for the planned early retirement program for civil servants and other restructuring measures.

EBIT, adjusted EBIT.

Adjusted EBIT for 2012 was EUR 87 million higher than in the prior year. Among other factors, this increase is attributable to lower depreciation and amortization year-on-year in view of more efficient investing activities. The adjusted EBIT margin increased from 0.2 to 1.1 percent in the reporting period.

Cash capex.

At EUR 1.2 billion, cash capex in 2012 was well below the prior-year level. We were able to offset cash capex for new contracts and customer relationships by lower expenditure thanks to enhanced efficiencies, for example through the continued standardization of ICT platforms. Telekom IT management aims to reduce its own cash capex in the long term. Cash outflows include payments for the expansion of the Dynamic Computing platform and for technical upgrades in connection with new deals.

Glossary, PAGE 301 et seq.

GROUP HEADQUARTERS & SHARED SERVICES.

Group Headquarters & Shared Services performs strategic and cross-segment management functions for the Deutsche Telekom Group and is responsible for operating activities that are not directly related to the core business of the operating segments. Since January 1, 2012, Deutsche Telekom has pooled the tasks and functions of the Digital Services growth business as well as the Internet service provider STRATO, which as of December 31, 2011 were still largely part of the Germany operating segment, in the Digital Business Unit (DBU) under Group Headquarters & Shared Services.

For more information, please refer to **NOTE 32** “Segment reporting” in the notes to the consolidated financial statements, **PAGE 256 et seq.**

Effective July 1, 2012, Deutsche Telekom reorganized the Group’s IT structure and transferred all internal IT units from the Germany and Systems Solutions operating segments as well as Group Headquarters & Shared Services into the new Telekom IT unit within the Systems Solutions operating segment.

The prior-year figures have been adjusted for better comparability.

Vivento, our personnel service provider, supported us once again in 2012 in our efforts to restructure the Group’s workforce. Its focus was on securing external employment opportunities for civil servants and employees, predominantly in the public sector.

As of December 31, 2012, Vivento had a workforce of around 8,200 employees (December 31, 2011: around 8,500), of which around 3,600 were deployed externally, mainly in the public sector, for example at the Federal Employment Agency. Another 3,200 or so employees were employed within the Group, especially in service centers. About 1,500 employees were placed in Vivento’s operational and strategic units or continued to be managed by Vivento. While Vivento took on a total of around 1,100 new employees in the reporting year, around 1,400 employees left the personnel service provider to pursue new opportunities.

DEVELOPMENT OF OPERATIONS.

T 030

	2012 millions of €	2011 millions of €	Change millions of €	Change %	2010 millions of €
TOTAL REVENUE	2,978	2,977	1	0.0	3,119
Of which: Digital Business Unit	868	843	25	3.0	961
Profit (loss) from operations **(EBIT)**	(1,786)	1,274	(3,060)	n.a.	(2,476)
Depreciation, amortization and impairment losses	(811)	(807)	(4)	(0.5)	(835)
EBITDA	(975)	2,081	(3,056)	n.a.	(1,641)
Special factors affecting EBITDA	(280)	2,698	(2,978)	n.a.	(769)
EBITDA (ADJUSTED FOR SPECIAL FACTORS)	(695)	(617)	(78)	(12.6)	(872)
Of which: Digital Business Unit	137	168	(31)	(18.5)	40
CASH CAPEX	(404)	(352)	(52)	(14.8)	(258)

Total revenue.

The total revenue of Group Headquarters & Shared Services in financial year 2012 was nearly unchanged from the prior year. The DBU's revenue increased (especially in the Scout group) while the level of internal real-estate cost allocations declined as a result of measures to make the use of floor space more efficient in the operating segments, which had a positive overall effect on the Group.

EBITDA, adjusted EBITDA.

Adjusted EBITDA at Group Headquarters & Shared Services decreased by EUR 0.1 billion year-on-year in 2012. This trend was affected by the loss of income included in the prior year, which was not matched by comparable effects in 2012. This prior-year income related to our procurement joint venture BUYIN and the reversal of a provision at the DBU. Increased income from trademark licenses had a positive effect on adjusted EBITDA.

Overall, EBITDA was negatively impacted by special factors totaling EUR 280 million in the reporting year, primarily due to expenses in connection with planned and announced staff-related measures, mainly for early retirement. The refund received from Kreditanstalt für Wiederaufbau in connection with a settlement reached in the United States in 2005 was a positive special factor. Special factors of EUR 2.7 billion had a positive effect on EBITDA in the prior year. This was essentially attributable to the termination of the agreement for the sale of T-Mobile USA to AT&T (positive special factors) and to expenses for staff-related measures, primarily for early retirement (negative special factors).

EBIT.

EBIT decreased by EUR 3.1 billion year-on-year, due primarily to the aforementioned special factors and to a decrease in adjusted EBITDA.

DEVELOPMENT OF BUSINESS AT DEUTSCHE TELEKOM AG.

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

As 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. For Deutsche Telekom AG, the 2012 financial year was again marked by intense competitive and price pressure in the telecommunications industry, which was also reflected in the income and loss of its subsidiaries.

Deutsche Telekom AG reported a loss after taxes for the 2012 financial year of EUR 4.5 billion. The development of business in the reporting year was marked by a number of very different effects (e.g., the extension of early retirement arrangements until December 31, 2012, write-downs, particularly on the net carrying amount of T-Mobile USA, the transfer of the shares held in Polska Telefonia Cyfrowa S.A., Warsaw (PTC) from Telekom Deutschland GmbH to T-Mobile Poland Holding GmbH), arising both from the Company's own business and from income related to subsidiaries, associated and related companies.

RESULTS OF OPERATIONS OF DEUTSCHE TELEKOM AG.

T 031

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

	2012 millions of €	2011 millions of €	Change millions of €	Change %	2010 millions of €
NET REVENUE	**3,817**	**3,824**	**(7)**	**(0.2)**	**4,269**
Changes in inventories and other own capitalized costs	2	–	2	n.a.	7
TOTAL OPERATING PERFORMANCE	**3,819**	**3,824**	**(5)**	**(0.1)**	**4,276**
Other operating income	5,296	7,542	(2,246)	(29.8)	5,146
Goods and services purchased	(1,456)	(1,404)	(52)	(3.7)	(1,596)
Personnel costs	(3,327)	(3,398)	71	2.1	(3,394)
Depreciation, amortization and write-downs	(496)	(491)	(5)	(1.0)	(525)
Other operating expenses	(4,489)	(5,221)	732	14.0	(6,081)
OPERATING RESULTS	**(653)**	**852**	**(1,505)**	**n.a.**	**(2,174)**
Financial income (expense), net	(3,710)	1,214	(4,924)	n.a.	4,738
RESULTS FROM ORDINARY BUSINESS ACTIVITIES	**(4,363)**	**2,066**	**(6,429)**	**n.a.**	**2,564**
Extraordinary income (expense)	(17)	(19)	2	10.5	(24)
Taxes	(165)	(399)	234	58.6	443
INCOME (LOSS) AFTER TAXES	**(4,545)**	**1,648**	**(6,193)**	**n.a.**	**2,983**

Operating results declined by approximately EUR 1.5 billion year-on-year, while net revenue was virtually stable year-on-year at EUR 3.8 billion. The decline in operating results is due to a combination of lower year-on-year other operating income in the amount of EUR 2.2 billion and a decline of EUR 0.7 billion in other operating expenses. Other operating income in the previous year was primarily influenced by the amount of EUR 2.9 billion from the compensation paid/granted by AT&T to Deutsche Telekom in connection with the termination of the agreement on the sale of T-Mobile USA, and by the reallocation of a company within the Group in the amount of EUR 0.6 billion. The transfer of the shares in PTC from Telekom Deutschland GmbH to T-Mobile Poland Holding GmbH at fair value generated other operating income of EUR 1.5 billion in the reporting year. EUR 0.3 billion of the decline in other operating expenses is attributable to a year-on-year decrease in expenses arising from derivatives. Goods and services purchased, personnel costs, and depreciation, amortization and write-downs remained stable almost at the prior-year level in the reporting year.

The net financial income of EUR 1.2 billion recorded in the previous year declined by EUR 4.9 billion, resulting in a net financial expense of EUR 3.7 billion in the reporting year. This was largely attributable to the decrease of EUR 5.5 billion in income related to subsidiaries, associated and related companies. This decrease, in turn, was mainly the result of a loss transfer from T-Mobile Global Zwischenholding GmbH (TMGZH) amounting to EUR 7.1 billion (2011: EUR 3.3 billion). TMGZH's income/loss was largely impacted by a write-down on the net carrying amount of T-Mobile Global Holding GmbH (TMGH), whose most significant shareholding is T-Mobile USA. By contrast, net financial income/expense was positively affected by the profit transfer from Telekom Deutschland GmbH amounting to EUR 4.2 billion (2011: EUR 5.7 billion), which in the previous year had additionally been improved by a cumulative dividend payment of EUR 1.6 billion from PTC. Compared with the previous year, net interest income/expense was impacted positively by EUR 1.6 billion owing to a reduction in short-term borrowings due to a repayment of commercial paper in the financial year. Results from ordinary business activities were particularly impacted by the aforementioned effects and decreased by a total of EUR 6.4 billion year-on-year in 2012.

Extraordinary expenses amounting to EUR 17 million and a tax expense of EUR 165 million, which was particularly impacted in the prior year by the minimum tax charge on the compensation payment from AT&T, combined with the aforementioned factors resulted in a loss after taxes of EUR 4.5 billion in the 2012 financial year. Taking into account EUR 1.6 billion in unappropriated net income carried forward plus a EUR 6.0 billion withdrawal from retained earnings, unappropriated net income stood at EUR 3.1 billion.

FINANCIAL POSITION OF DEUTSCHE TELEKOM AG.

T 032

Balance sheet of Deutsche Telekom AG under German GAAP.

	Dec. 31, 2012 millions of €	Dec. 31, 2012 %	Dec. 31, 2011 millions of €	Change millions of €	Dec. 31, 2010 millions of €
ASSETS					
Intangible assets	197	0.2	326	(129)	206
Property, plant and equipment	4,266	4.4	4,698	(432)	5,034
Financial assets	81,632	84.3	81,146	486	80,876
NONCURRENT ASSETS	**86,095**	**88.9**	**86,170**	**(75)**	**86,116**
Inventories, materials and supplies	2	0.0	5	(3)	10
Receivables	8,302	8.6	8,439	(137)	11,571
Other assets	942	1.0	1,636	(694)	869
Marketable securities	–	–	–	–	14
Cash and cash equivalents	997	1.0	1,507	(510)	754
CURRENT ASSETS	**10,243**	**10.6**	**11,587**	**(1,344)**	**13,218**
Prepaid expenses and deferred charges	470	0.5	644	(174)	738
Difference between plan assets and partial retirement liabilities	9	0.0	29	(20)	12
TOTAL ASSETS	**96,817**	**100.0**	**98,430**	**(1,613)**	**100,084**
SHAREHOLDERS' EQUITY AND LIABILITIES					
Capital stock and reserves	47,357	48.9	53,307	(5,950)	53,310
Unappropriated net income	3,050	3.2	4,656	(1,606)	6,018
SHAREHOLDERS' EQUITY	**50,407**	**52.1**	**57,963**	**(7,556)**	**59,328**
Pensions and similar obligations	1,986	2.0	2,461	(475)	2,662
Tax accruals	352	0.4	515	(163)	124
Other accruals	3,127	3.2	3,578	(451)	2,903
ACCRUALS	**5,465**	**5.6**	**6,554**	**(1,089)**	**5,689**
Debt	5,540	5.7	7,153	(1,613)	6,711
Other liabilities	35,157	36.3	26,485	8,672	28,031
LIABILITIES	**40,697**	**42.0**	**33,638**	**7,059**	**34,742**
Deferred income	248	0.3	275	(27)	325
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES	**96,817**	**100.0**	**98,430**	**(1,613)**	**100,084**

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

The balance sheet total decreased by EUR 1.6 billion year-on-year to EUR 96.8 billion.

The decrease in total assets was mainly attributable to the decline of EUR 0.7 billion in other assets and EUR 0.5 billion in cash and cash equivalents. In the prior year, other assets were significantly influenced by the recognition of a receivable of EUR 0.8 billion from AT&T for spectrum licenses to be granted in connection with the termination of the agreement on the sale of T-Mobile USA. The decrease in cash and cash equivalents is partially offset by an increase of EUR 0.5 billion in financial assets, which is largely the result of the transfer of the shares in PTC from Telekom Deutschland GmbH to T-Mobile Poland Holding GmbH amounting to EUR 1.5 billion. Equity repayments in the amount of EUR 0.4 billion (mainly Deutsche Telekom BK-Holding GmbH totaling EUR 0.3 billion) and write-downs on subsidiaries, associates and joint-ventures of EUR 0.4 billion had an offsetting effect on the development of financial assets.

The decrease in shareholders' equity and liabilities is mainly due to a reduction in shareholders' equity and the lower level of debt and accruals. Shareholders' equity declined overall by EUR 7.5 billion compared with December 31, 2011 due to dividend payments of EUR 3.0 billion for the prior year and the loss after taxes of EUR 4.5 billion in the reporting year. This resulted in an equity ratio of 52.1 percent (2011: 58.9 percent). Debt decreased by a total of EUR 1.6 billion as a result of the repayment of commercial paper. This is offset by an increase in other liabilities which is mainly attributable to the loss transfer from TMGZH amounting to EUR 7.1 billion. The decline in accruals is largely due to lower personnel accruals owing to the allocation of EUR 0.4 billion to CTA assets and to the utilization of accruals for loss contingencies resulting from the maturity of USD-denominated derivatives in the amount of EUR 0.4 billion.

T 033

Statement of cash flows.

	2012 millions of €	2011 millions of €	Change millions of €
INCOME (LOSS) AFTER TAXES	**(4,545)**	**1,648**	**(6,193)**
Net cash provided by operating activities	1,918	3,997	(2,079)
Net cash used for investing activities	66	(571)	637
Net cash provided by (used for) financing activities	(2,494)	(2,673)	179
NET CHANGE IN CASH AND CASH EQUIVALENTS	**(510)**	**753**	**(1,263)**
Cash and cash equivalents, at beginning of period	1,507	754	753
CASH AND CASH EQUIVALENTS, AT END OF PERIOD	**997**	**1,507**	**(510)**

Net cash provided by operating activities declined year-on-year by EUR 2.1 billion to EUR 1.9 billion. Against the background of loss after taxes of EUR 4.5 billion, net cash provided by operating activities in the reporting year was largely the result of the increase of EUR 7.0 billion in liabilities from cash management, offset by a cash outflow for the allocation of around EUR 0.8 billion to CTA assets for all affected companies in the Deutsche Telekom Group.

Net cash used for investing activities in the current financial year is mainly affected by equity repayments from various subsidiaries amounting to EUR 0.4 billion, offset in particular by loans of EUR 0.3 billion granted to unconsolidated subsidiaries. Cash outflows for investments in the prior year related largely to an increase in the number of shares held in OTE.

Cash outflow for financing activities mainly relates to the payment of the dividend of EUR 3.0 billion for the 2011 financial year and to the repayment of commercial paper amounting to EUR 1.6 billion. Net short- and medium-term borrowings totaling EUR 2.2 billion from Deutsche Telekom International Finance B.V., Amsterdam, had an offsetting effect.

Combined, this resulted in a decrease in cash and cash equivalents of approximately EUR 0.5 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.

■ Challenges ■ Opportunities ■ Measurable progress ■

OUR COMMITMENT TO SOCIAL RESPONSIBILITY.

Digital home and work environments promise to deliver efficiency, self-determination, and growing affluence for many people. They represent an essential element of a more climate-friendly society. The volume of data that has to be transported and processed is growing at lightning speed and, with it, energy consumption and CO_2 emission figures. We therefore see it as our duty to pursue our efforts to make transmission technologies more efficient, improve utilization of computer capacities, and bundle our processes. At the same time, we aim to tap the vast potential offered by ICT to reduce society's CO_2 footprint, above all in energy-intensive sectors. As a pioneer on the way to a networked society, we also feel responsible for guiding those who cannot keep pace with developments on their own.

Through our corporate responsibility (CR) strategy, we have been committed to our responsibility for connected life and work, to actively connecting the unconnected, and to a low-carbon society for more than five years. CR is a strategic, overarching issue involving many of the Group's functions. Responsibility for CR lies at Board of Management level. The CR unit is managed by the Chief Human Resources Officer. Each year we publish a detailed CR report, which includes data on specific CR parameters. The CR KPIs play a role similar to that of financial KPIs and thus fulfill a crucial requirement for integrated financial and CR reporting. We have followed with great interest the discussion on the SD KPIs (Sustainable Development key performance indicators) proposed by Germany's Federal Ministry for the Environment, Nature Conservation and Nuclear Safety. Nonetheless, we will continue to use and further develop our own CR KPIs, since they allow us to present a more accurate picture of our CR performance.

@ For more information relating to our CR strategy, our CR targets, and the most important CR issues, please refer to our online CR report at: WWW.CR-REPORT.TELEKOM.COM

RESPONSIBLE CORPORATE GOVERNANCE.

Action areas of our CR strategy. We want our CR activities to differentiate us from our competitors in the toughly contested telecommunications market. We want to be more innovative and faster than our rivals and to exploit our opportunities for growth. To this end, we focus our social commitment on three strategic action areas: connected life and work, connecting the unconnected, and a low-carbon society. We have set ourselves long-term targets for each of these CR action areas. The progress we make on the way to reaching these targets is documented in our annual reports.

Social responsibility is teamwork. We feel strongly about maintaining long-term, mutually trustful relationships with our stakeholders, since we know that many challenges can only be addressed if we work together. With this in mind, we developed a new strategy in 2011. Our aim is to take the issues put forward by our stakeholders seriously and to ensure that top quality standards are applied in our stakeholder involvement approach. In this, we are guided first and foremost by the three AA1000 principles developed by the non-governmental organization AccountAbility: materiality, inclusivity, and responsiveness. In 2012 we also drew up a guideline for our staff, the "Guide to successful stakeholder engagement" (Wegbegleiter für erfolgreiche Stakeholder-Einbeziehung). An audit conducted by PricewaterhouseCoopers (PwC) in the prior year confirmed that the systems and processes we use to involve our stakeholders comply fully with AA1000 requirements.

THE SOCIAL DIMENSION.

The fast technological change taking place in society offers a range of opportunities. However, at the same time, it represents a risk for social cohesion. As a responsible enterprise, our aims must therefore include enabling as many people as possible to participate in the information and knowledge society. To allow us to reach people in different phases and situations of their lives, we have placed our social commitment on a broad basis and focused it in our engagement@telekom program.

"Yes, I can!" initiative. With our "Yes, I can!" initiative, we fund projects in Germany that help give children and young people from difficult social backgrounds greater confidence. In 2012, we again supported numerous projects for children and young people in social hotspots. 123 of the projects submitted to the initiative received up to EUR 10,000. Since the initiative's launch in 2009, we have provided financing for over 350 projects. Each year, we make a sum of around EUR 250,000 available. Our "Yes I can!" initiative was awarded the UN Decade on Education for Sustainable Development award for the second time on February 28, 2012.

Deutsche Telekom Stiftung's commitment to education. Deutsche Telekom Stiftung is a foundation established by Deutsche Telekom AG. It now has a foundation capital of EUR 150 million, making it one of the biggest business foundations in Germany. It is dedicated to improving education levels in the STEM subjects (science, technology, engineering, and mathematics) throughout Germany.

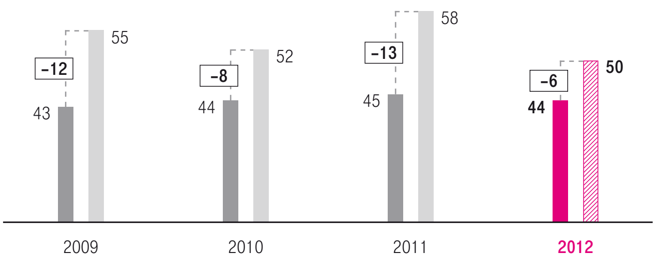
Broad-based volunteering activities. As part of the engagement@telekom initiative, we encourage our staff to do voluntary work. An Internet platform provides employees with information about current projects in which they can participate. Alternatively, they can suggest their own projects and look for project supporters. Another possibility is to apply for funding for their voluntary commitments. Numerous employees have taken advantage of this offer. By the end of 2012, more than 300 projects, project applications and requests for supporters had been received at engagement@telekom. Each year, we make a sum of EUR 250,000 available for the project.

Please also refer to GRAPHIC G 43, PAGE 133.

Social Commitment CR KPI. Awareness of Deutsche Telekom's CR commitment declined by one percentage point in 2012. At the same time, the public's view of the importance of social commitment fell appreciably from 58 to 50 percent. This reduced the difference between theory and practice to 6 percentage points.

G 43

Social Commitment CR KPI.

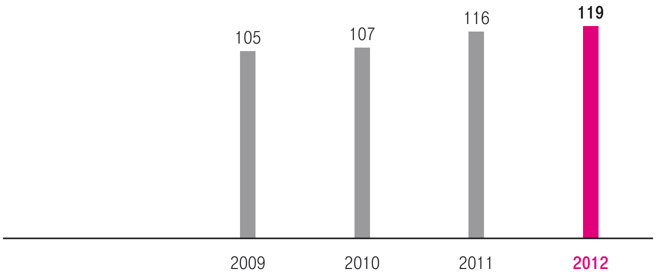


- Performance: Percentage of respondents who considered Deutsche Telekom to be committed to social issues (%).
- Importance: Percentage of respondents who considered corporate social commitment to be "important" or "very important" (%).
- Social Commitment CR KPI: Difference between the assessment of the importance of corporate social commitment and Deutsche Telekom's performance in this area (%age points).

Source: TNS Infratest, exclusive telephone survey of 1,000 persons resident in Germany, fall 2012.

G 44

Energy Consumption CR KPI.[a]



	2009	2010	2011	2012
Revenue (billions of €)	57.6	58.4	55.4	**55.7**
Energy consumption ('000 MWh)	6,049.2	6,262.6	6,409.4	**6,636.8**

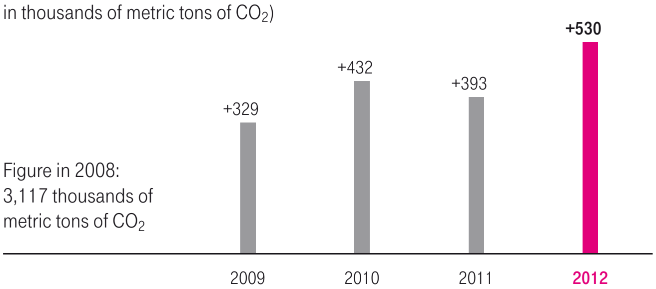
- Energy Consumption CR KPI: Ratio of energy consumption in thousands of MWh to relevant revenue in billions of €, calculated as Monetary Power Efficiency Indicator (MPEI).

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

G 45

CO_2 Emissions CR KPI.

(Changes compared against 2008 base year in thousands of metric tons of CO_2)

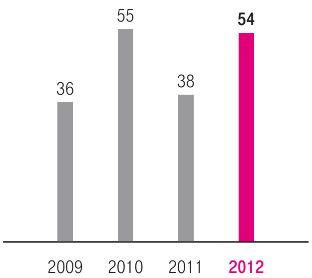


	2009	2010	2011	2012
CO_2 emissions ('000 t)	3,446	3,549	3,510	**3,647**
Changes compared against 2008 (%)	+11	+14	+13	**+17**

- Changes in CO_2 emissions (Scopes 1 and 2) compared against 2008 (base year). Emissions are measured in CO_2 equivalent values based on energy and fuel consumption in accordance with the Greenhouse Gas Protocol and employing the emission factors specified by the International Energy Agency and the Greenhouse Gas Protocol.

G 46

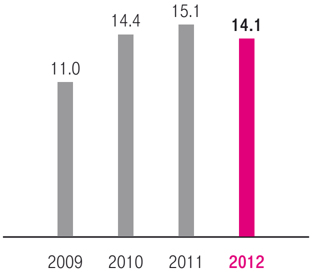
Sustainable Procurement CR KPI. (%)



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

G 47

Socially Responsible Investment (SRI) CR KPI. (%)



- Share of Deutsche Telekom AG stock that is owned by investors whose investment strategies take environmental, social, and governance criteria into account (data taken from: Ipreo, since 2009). Please note that year-on-year comparisons may prove unreliable as the calculation base is updated annually.

ENVIRONMENTAL AND CLIMATE PROTECTION.

Used appropriately, information and communications technology (ICT) will be able to save almost 9.1 metric gigatons of CO_2 each year worldwide by 2020 by optimizing, reducing or replacing energy-intensive processes. This was the claim made by the global SMARTer 2020 study presented at the 18th UN Climate Conference in Doha in November 2012 by our Board Representative for Climate Protection and Sustainability. The savings potential is equivalent to around 16.5 percent of all CO_2 emissions and is seven times higher than ICT's own emissions. For this reason, we support consumers and business customers who are looking to optimize their energy management. A few examples that show how the carbon footprint of enterprises and consumers can be reduced with ICT are cloud services, smart clients, video conferences, and smart grids. Simultaneously, we are systematically reducing our own CO_2 emissions. To this end, we are shifting our network technology away from the traditional telephone network over to the Internet protocol, replacing second generation mobile technology with new technologies and improving the utilization and energy efficiency of our data centers.

Please also refer to GRAPHIC G 44, PAGE 133.

The **Energy Consumption CR KPI** increased slightly compared with the prior year, as the Group's electricity consumption increased by around 3 percent. The corresponding revenue remained largely stable over the same period – the relevant revenue generated by the Group units included in CR reporting accounted for 96 percent of the Group's net revenue. The constant growth in data volumes is another reason for the increased electricity consumption. Nevertheless, our considerable efforts to save energy and to increase energy efficiency prevented the increase in energy consumption from being much higher.

Please also refer to GRAPHIC G 45, PAGE 133.

The **CO_2 Emissions CR KPI** rose by around 4 percentage points on the previous year and by 17 percent compared with the 2008 base value. Changes in the figures reported for 2008 through 2011 over those quoted in the combined management report for 2011 result from adjustments made to the report parameters (deconsolidation of the former T-Mobile UK subsidiary in the 2008 figures and inclusion of three new companies (Globul Bulgaria, Cosmote Romania, and AMC Albania in the data for 2008 to 2011)), corrected presentation of a figure for the 2008 base year in last year's chart (1,500 instead of 3,195 thousand metric tons of CO_2), and a few corrections in the basic energy consumption figures for 2011. At the end of 2012, IEA completely revised the emission factors it had published for emissions resulting from electricity consumption. This was taken into account for the 2012 emissions and resulted in a rise in the emissions figure.

Glossary, PAGE 301 et seq.

Calculations are based on Scopes 1 and 2 of the Greenhouse Gas Protocol (GHG). They relate to both direct and indirect emissions. Indirect emissions as defined in GHG Scope 3 have not been included here. They include CO_2 emissions resulting from our business travel.

Carbon footprint. In 2012 we developed a concept to record our indirect emissions as defined in GHG Scope 3. At the end of the reporting period, we submitted our draft for review by a verification company of international repute. The results are expected by mid-2013. We continue to participate in industry initiatives to ensure that our data can be compared with that of other companies. With support from Öko-Institut e.V., we also developed a guideline for calculating product carbon footprints (PCF).

FROM VALUE CHAIN TO VALUE CYCLE.

Responsibility in the supply chain. Through our guidelines and voluntary commitments, we require our suppliers to comply with minimum social and ecological standards. Our Group's Code of Conduct and its Social Charter contain an explicit reference to this and deploy a series of tools to ensure compliance with these standards. Before we enter into a business relationship, we use a pre-qualification questionnaire on the Supplier Management Portal to ask potential suppliers about their CR and voluntary commitments. Later on, we expect the voluntary disclosure of further details where necessary and may conduct social audits on site with a supplier's consent. We also work with our competitors within a joint audit cooperation (JAC) and take part in a broad array of programs designed to improve the conditions under which raw materials are extracted and processed and products manufactured.

Innovations in supply chain management. In September 2012 a new version of our Supplier Management Portal (SMP) went into service. A new feature is a points system for supplier evaluation, which permits a graded reaction if suppliers do not comply with the rules. One important element of our supply chain management system is E-TASC. We use the supplier data recorded with it to determine the Sustainable Procurement CR KPI. Since 2012, we have also included suppliers from the SMP alongside suppliers and social audits recorded in E-TASC.

Glossary, PAGE 301 et seq.

The **Sustainable Procurement CR KPI** measures the share of procurement volume we obtain from suppliers where one or several companies of the corporate group have been audited for compliance with our social and environmental standards. This also includes audits carried out with upstream suppliers. In this way, we focus above all on suppliers that are of strategic relevance and have an increased CR risk. Collaboration with our suppliers is based on dialog and cooperation on equal terms.

Please also refer to GRAPHIC G 46, PAGE 133.

We have significantly increased the procurement volume that we audited for compliance with our sustainability criteria. As the procurement volume covered by SMP is now integrated as a supplier self-assessment figure in KPI calculations, the percentage of the order volume covered has risen by 16 percentage points to 54 percent.

SUSTAINABILITY RATINGS AND AWARDS.

As in previous years, we were again listed in leading indexes and rankings for socially responsible investment (SRI) in the reporting year. These include the Dow Jones Sustainability World and Europe Indexes, the FTSE4Good Index and the STOXX Global ESG Leaders Index. As another bonus, we improved our company's results in several ratings. For instance, we were once again commended as a Prime Company by rating agency Oekom in the reporting year, and climbed within the Swiss SAM agency rating by another three points to 82 points (of a maximum of 100). **TABLE T 034** provides an overview of T-Share listings in the leading sustainability indexes.

T 034

Listing of the T-Share in sustainability indexes/ratings.

Rating agency	Indexes/ratings/ranking	Successfully listed in index			
		2012	2011	2010	2009
SAM	DJSI World	✓	✓	✓	✓
	DJSI Europe	✓	✓	✓	✓
Oekom	"Prime"	✓	✓	✓	✓
VIGEO	ASPI	✓	✓	✓	✓
	ESI	✗	✓	✓	✓
imug/EIRIS	FTSE4Good	✓	✓	✓	✓
Sarasin	DAX Global Sarasin Sustainability	✓	✓	✓	✓
CDP	Carbon Disclosure Leadership	✗	✗	✗	✗
	Carbon Performance Leadership (new since 2010)	✗	✗	✓	n.a.
MSCI[a]	MSCI Global Climate	✗	✓	✓	✓
Newsweek 2011 Green Rankings	Rank Germany #5, Global #41, Technology #7	✓	✓	✓	n.a.
STOXX	STOXX Global ESG Leaders (new since 2011)	✓	✓	n.a.	n.a.

[a] Previously RiskMetrics/KLD.

✓ Successfully listed ✗ Not listed

Please also refer to GRAPHIC G 47, PAGE 133.

In 2012, 12 percent of Deutsche Telekom AG's shares were held by investors who take SRI/ESG criteria into account at least partially in their investment decisions. 2 percent of T-Shares were held by investors who give priority to SRI/ESG aspects when managing their funds.

INNOVATION AND PRODUCT DEVELOPMENT.

■ More innovation through cooperation ■

EXPLOITING OPPORTUNITIES IN GROWTH AREAS.

DEUTSCHE TELEKOM INNOVATION.

To further improve our competitive position and secure the future of our company, we need to strengthen our capacity to innovate. This ultimately also benefits our customers, since innovative technology enables us to deliver the best networks – above all for mobile communications – and to offer our customers access to new products and services so that ideally they say: "Deutsche Telekom – My first choice for connected life and work."

We see very promising opportunities for generating revenue in our key growth areas: mobile Internet, connected home, Internet offers, T-Systems, and intelligent networking solutions. It is now up to us to exploit the opportunities offered by these growth areas and to maximize their potential. The fact that we now include the growth areas in our corporate targets underlines their importance for us. We have done this to encourage all management staff and their employees to place the same focus on our future products and services as they do on those of today.

For more information on our growth areas, please refer to the section "Group strategy," PAGE 75 et seq.

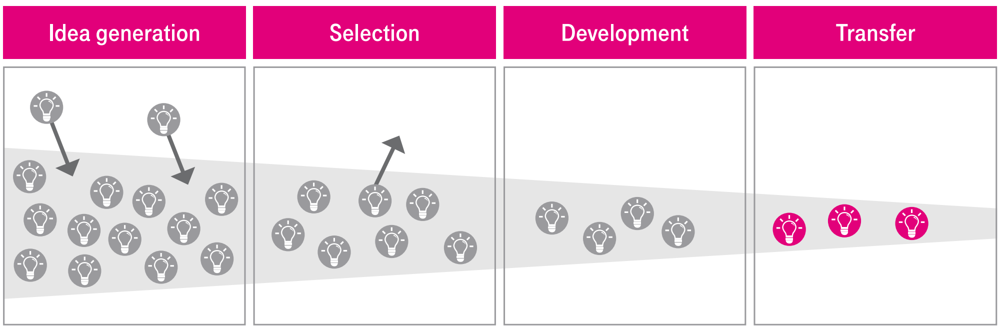
The basis for innovative applications and services remains unchanged, namely a high-speed broadband infrastructure for the fixed and mobile networks. The volume of data that is transported and stored is growing astronomically. In the coming years, it will therefore be vital for us to go on investing heavily in infrastructure. Group capex including MetroPCS is planned to grow to around EUR 9 to 10 billion in the next three years, bringing the total up to almost EUR 30 billion. The focus will be on Germany, where activities will center around building out the LTE network as well as rolling out optical fiber and vectoring technology in the fixed network. On top of that, we plan to launch a hybrid solution that combines LTE and vectoring, thereby increasing bandwidths. Our customers in Austria, Hungary, Croatia, and Greece will also profit from LTE. In 2013, LTE is scheduled to be launched in Poland, the Czech Republic, Montenegro, and the Netherlands. In the United States, the roll-out of the national LTE network is on the agenda.

Glossary, PAGE 301 et seq.

Innovation culture and innovation process. Innovation cannot be prescribed. Innovation is a culture that has to be nurtured and brought to life from the inside. Large enterprises like our corporate group, especially, need a culture that fosters innovation. Our plan is therefore to create a dynamic innovation culture which gives our growth areas the best chance to prosper. Key elements of this culture include fast decisions and implementation on the basis of lean internal processes, creative potential, promoting and challenging new ideas, and entrepreneurial initiative.

G 48

Deutsche Telekom's innovation process.



Please also refer to
GRAPHIC G 48, PAGE 137.

Clear process structures give ideas the scope they need to grow and transform into innovative products and services. Innovation processes in our company pass through four phases:

- First, there is an idea – which may be the result of market research or customer feedback or may have come from internal sources such as our Creation Center or Ideas Management. In addition to this, we have established a global scouting network, with trend scouts in Germany, the United States, Israel, and Asia.
- During the selection phase, we evaluate each idea: How easy is it to implement? How great is its potential?
- In the development phase, we integrate customer desires and design requirements into the product or service concept.
- Finally, the product or service is transferred to the market.

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

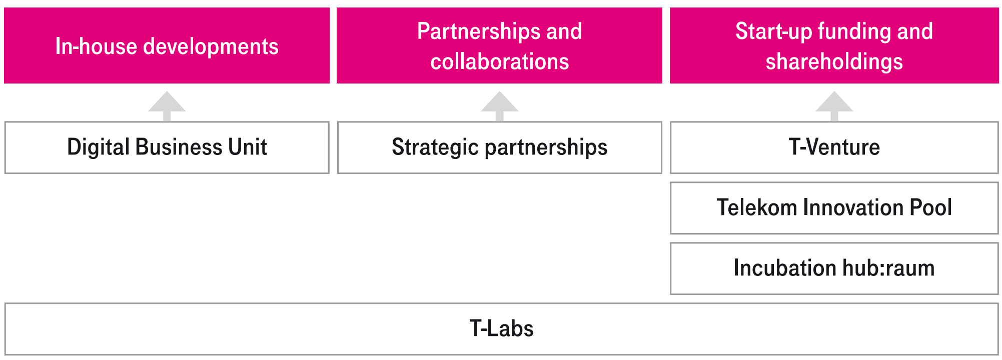
Innovation governance. We have set up an innovation governance concept to manage innovation processes in the Group and promote our innovation culture. It includes the new Portfolio & Innovation Board, which makes sure we get our priorities right. The board is headed by our CEO and identifies and selects innovation focuses for the Group and resolves the individual strategies for their implementation. This means, for example, defining a portfolio which offers the greatest opportunities and making sure these are actually exploited. Corporate priorities have been set in this respect and will be introduced successively in all national companies. They currently include cloud services for small and medium-sized enterprises, the communication service Joyn, data communications between different devices and machines (machine-to-machine, M2M), and mobile payments.

THREE-PRONGED INNOVATION STRATEGY.

We plan to generate growth from innovation in three different ways: from in-house developments, from partnerships, and from company shareholdings. As GRAPHIC G 49 shows, we approach innovation with a three-pronged strategy. The central focus is always on the benefit for our customers.

G 49

Growth through innovation.



T-Labs: Our own powerhouse of ideas.

With our central research and innovation unit, Telekom Laboratories – T-Labs – we operate our own research and development facilities at various locations, including Berlin, Darmstadt (Germany), Tel Aviv (Israel), and Silicon Valley (USA). There, around 400 experts and scientists from various disciplines develop and test new technologies, cooperating closely with international universities and research institutes.

At its main Berlin site, T-Labs has been associated with Technische Universität Berlin since 2005 and represents one of the biggest and best known public-private partnerships in Europe. In the course of the reporting year, our T-Labs helped develop new products that include:

- **Mobile Wallet:** Mobile Wallet turns your cell phone into a wallet. Our customers can pay for products or buy tickets for events or local public transport with their cell phone using near field communication (NFC). NFC is a wireless transmission technology enabling contactless data exchange between devices at close range.

- **Business Marketplace:** Small and medium-sized enterprises can order innovative and secure software solutions for standard business applications from the cloud. The online cloud platform means small enterprises are able to afford highly professional solutions without the need for hardware or software investment, as the services they order are all billed on a per-usage basis. We are the single source of contact for the customer, from ordering to support and billing. Our Business Marketplace range of services was used by some 10,000 customers at the end of 2012.

- **De-Mail:** De-Mail enables secure electronic communication that is legally equivalent to paper-based mail and as easy to use as e-mail. Messages and documents can be sent online in a way that is legally binding, confidential, and tamper-proof. Delivery can be confirmed if required.

- **Remote Control app:** Our Remote app turns smartphones into remote controls for Entertain TV.

T-Labs also established new start-ups such as Trust2Core.

Please also refer to the section “Open innovation – Integrating new external trends,” **PAGE 140.**

In-house developments.

Digital Business Unit – Gaining pace in the market. With the realignment of our Innovation & Product Development unit, we have paved the way for more growth. The Digital Business Unit (DBU) consists of six business areas: Core Telco Products, Media, Cloud Services, Portals & Advertising, Classifieds, and Payment. It contributes toward an increase in the revenue we generate with online services and the mobile Internet. The DBU’s task is to ensure that we deliver the right products to the right customers through suitable channels in our different markets. All six areas are built so that they can act autonomously in their individual markets. The unit heads manage their business as if they were in charge of their own companies. They are free to decide what is necessary for their products to succeed in the market. This gives us the chance to get ready for the future and bring innovative products and services to market at even greater speed than before.

Partnerships and cooperations.

The need to become even faster, more creative, and more open is a fixed item on our corporate agenda. This means we must be receptive to the ideas and business models of other companies which offer us new possibilities. Partnerships and cooperations are therefore a basic element of our innovation strategy.

"Innovation by cooperation" is one of the four focuses of our Group strategy. We benefit from the external innovation capacity made available to us through strategic partnerships and cooperations. Some examples are described below:

- In September 2012 we launched our exclusive high-speed version of LTE for iPhone 5 and the new iPads by Apple.
- We collaborate with MasterCard in the area of mobile payments.
- We have joined forces with Spotify to offer our customers an attractive add-on option and special rate packages containing the music streaming service.
- In our cooperation with Telefónica and Vodafone, we work together on the new Joyn communication service.
- Qivicon, the vendor-independent platform for the smart home, enables partners from the energy, consumer electronics, and household appliance sectors to offer a secure, flexible infrastructure for the connected home.

Please also refer to the section "Group strategy," **PAGE 75 et seq.**

We also collaborate successfully with other business enterprises and institutions on intelligent network solutions, one of our main growth areas:

Glossary, **PAGE 301 et seq.**

- **Energy:** In the energy sector we have established ourselves as an expert partner to the energy industry and are set to play a key role in the energy turnaround. We have already taken numerous smart metering orders and, together with RWE, ABB, and EnBW, are driving growth in the smart grid.

- **Healthcare:** We made especially good progress in 2012 in networking in the healthcare sector. We signed groundbreaking contracts, for example with Heil- und Hilfsmittel GmbH at the Barmer Ersatzkasse health insurer and the Association of General Practitioners in Germany (Hausärzteverband), but also internationally with the Raffles Medical Group in Singapore and Presbyterian Healthcare Service in the United States. Together with our partners, we also brought health monitoring products such as a smart home emergency call system and Fitbit, a wireless fitness coach, to market.

- **Connected car:** We cooperate with our customers and specialist partners to develop pilot projects and solutions to integrate the automobile into an increasingly networked society. In fact, our applications do far more than simply use the car as a moving end device. A pilot project with the Hamburg port authorities, for instance, uses smartphones and tablet PCs to keep traffic moving. The object is to optimize traffic and logistics processes in order to handle large volumes of goods in the port. In 2012 we also reached agreement on a strategic technology partnership with Deutsche Bahn in the area of fleet management. In a pilot project in Friedrichshafen, we show how it will be possible to integrate connected electric cars in the power grid.

DEUTSCHE TELEKOM INNOVATION.

Start-up funding and shareholdings.

Open innovation – Integrating new external trends. Beside the traditional approach with in-house research and development, we also rely on open innovation. We look for the best ideas and the best brains outside as well as inside the company. Through our participation in joint ventures, we not only help finance new businesses but also provide advice and support. Likewise, we pass on our entrepreneurial know-how. At the same time, we leave these young and often very small enterprises enough space to stay mobile and agile.

Another way in which we participate in innovation is through **T-Venture,** our venture capital arm. Through it, we have set up close ties with very promising startup companies over the last 15 years. T-Venture is one of the most active corporate venture capital funds in Germany and is positioned among the top five worldwide. Its volume currently stands at EUR 410 million. Since its inception we have acquired over 180 minority shareholdings, have supported these companies in their development over a specific period and, in some cases, later withdrew once the companies in question went public.

T-Venture currently holds interests in around 90 companies. The following examples show that this bears fruit:

- **MyTaxi** by Intelligent Apps GmbH is a mobility platform that is widely known above all in Germany through its highly successful MyTaxi app. Alongside the app, the myTaxi software revolutionizes the entire cab market with its automated order process, direct contact with cab drivers, and the elimination of dispatchers. MyTaxi also reports increasing success at international level. T-Venture was the company's first provider of seed financing as far back as summer 2010 and has supported the company in its outstanding development ever since.

- **CipherCloud** provides data security solutions for cloud applications. CipherCloud's technology enables secure usage and full control over data in private, hybrid, and public cloud applications, thereby eliminating the data privacy and regulation concerns commonly seen in cloud applications. Besides this, CipherCloud detects malware and prevents the propagation of infected files. This guards against hacker attacks as well as against the potential manipulation of external cloud applications.

In mid-2012, we established **Deutsche Telekom Innovation Pool GmbH** (TIP) to enable us to integrate young companies as majority shareholdings in the Deutsche Telekom Group in the future. The new company is led by T-Venture, i.e., T-Venture supplies funding and is also responsible for its administration. TIP also takes over internal company spin-offs, units that are outsourced from Deutsche Telekom as standalone companies. One example is Trust2Core GmbH, which was founded in 2012 as a spin-off from T-Labs.

Furthermore, we provide targeted support for companies starting up in business. To help us do so, we launched a so-called incubator **– hub:raum –** on May 8, 2012. By networking people and capital, we want to promote innovative business ideas and build up new business. We support talented young founders with telecommunications infrastructure, technical development platforms and startup financing – all supervised by experienced mentors. We as a company benefit from the dynamics of these startups.

Experiencing ideas.

T-City. T-City was established as our future lab in 2007. Together with the city of Friedrichshafen, we work to make tomorrow's world a hands-on experience with more than 40 seminal projects from the energy, healthcare, and traffic sectors.

T-Gallery. In order to experience our developments, we recommend a visit to our innovation forum, the T-Gallery in Bonn. Prototypes of future products and services are showcased here along with global developments in the area of connected life and work.

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 Deutsche Telekom's IPR (intellectual property rights) agenda. On the one hand, the scope for action in the Group's business areas must be maintained. On the other, mechanisms need to be put in place to enable open innovation through cooperation and partnerships.

National and international IPRs are vital for these types of activity. We are dedicated to generating our own IPRs in the context of our research and development activities as well as in product and technology development. In the reporting year we filed 151 patent applications, taking the total number of IPRs held by the Group to around 7,600 (2011: around 7,500).

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

EXPENDITURE AND INVESTMENT IN RESEARCH AND DEVELOPMENT.

Research and development expenditure includes pre-production research and development, such as the search for alternative products, processes, systems, and services. By contrast, we do not class as research and development expenditure the costs of developing system and user software with the aim of increasing productivity and providing more effective IT support for business processes. In 2012, research and development expenditure in the Deutsche Telekom Group amounted to EUR 65.9 million, which is less than in the previous year. As the parent company, Deutsche Telekom AG bears part of the Group's research and development expenditure. At EUR 52 million, this amount was slightly above the prior-year figure of EUR 48 million.

However, this indicator must not be considered in isolation from the three-pronged innovation strategy described above. We also rely on new external innovations and plan to generate growth not only from our in-house developments but also from our partnerships and company shareholdings. For example, we currently have a fund of EUR 410 million available for such projects in our T-Venture company.

Deutsche Telekom's investments in internally generated intangible assets to be capitalized were down year-on-year at EUR 78.0 million. These investments predominantly relate to internally developed software, mainly for our Systems Solutions operating segment. In the reporting year, some 2,400 employees (2011: around 2,200) were involved in projects and activities to create new products and market them more efficiently. The majority of employees working for T-Labs, the unit responsible for results-oriented research and innovation, are researchers from a wide variety of disciplines.

T 035

Expenditure and investment in research and development.

	2012 millions of €	2011 millions of €	2010 millions of €	2009 millions of €	2008 millions of €
Research and development expenditure	65.9	121.4	145.6	205.5	172.4
Investments in internally generated intangible assets to be capitalized	78.0	122.4	162.2	232.5	413.6

EMPLOYEES.

■ HR strategy ■ Diversity management and health & safety ■
HR development ■

HR STRATEGY.

Deutsche Telekom's Group strategy centers around four strategic areas of operation: "Seamless connectivity for the Gigabit Society," "More innovation by cooperation," "Secure cloud solutions," and "Best-in-class customer experience." This, in turn, provides the framework for our human resources strategy. We also make allowance for any external factors that could influence the focus of our HR strategy, including mega-trends such as globalization, individualization, sustainability, and demographic change, as well as the current competitive landscape. The fundamental requirement for achieving our corporate targets is a motivated, focused workforce. This is the basis on which our human resources vision was formulated: "HR accelerates the success of the company and its employees."

Please also refer to the section "Group strategy," **PAGE 75 et seq.**

HR strategy program.

Our three strategic directions "productivity," "performance," and "power" are elementary HR themes for leveraging the corporate strategy. Specifically, this means that:

- Having employees with the right skills, the right attitude, in the right place and with the right cost/capacity ratio helps to boost our **productivity** and competitiveness.
- Inspiring leadership, personal and organizational advancement, appropriate rewards for good **performance** and the fair handling of performance issues are all pivotal to the company's successful on-going transformation.
- Agile corporate structures, modern work environments, and entrepreneurial attitudes and actions enhance our innovative **power.**

For 2013, we have formulated four key themes, the so-called HR Big 4, which translate our HR vision and strategic directions into more specific terms.

Big I – "We manage our internal and external employee structure to maximize productivity." The aim here is to optimize our deployment of internal and external employees for ultimate productivity. Within the context of Total Workforce Management, quantitative and qualitative planning of the internal and external workforce is carefully fine-tuned with regard to cost, capacity, skills, demography, and location. Additionally, 2013 will see the launch of a targeted cost management system for our external employees.

Big II – "We anchor inspiring leadership principles to encourage and reward top performance." This theme focuses on developing a new performance management system at top management level which will streamline the formerly separate processes of target and performance management and help to differentiate and inspire achievements. We are also redefining our concept and understanding of leadership in line with the challenges of the current and future working environment. We are working on an appropriate leadership concept and a raft of ancillary measures to give our managers the best possible support for their work.

Big III – “We design modern work environments where professional experience and knowledge can be shared and enhanced.” We are conscious of the extremely diverse expertise existing within our Group, and are mindful that this knowledge could be more extensively shared within the context of contemporary work environments. We help our employees to make the most of these opportunities. A dedicated internal project team is already working on a project entitled “Future Workplace” to analyze and assess various aspects of the future workplace and devise pioneering concepts for our Group. Moreover, we are creating an environment where all employees can keep or bring their knowledge up to date, explore new fields, and be equipped to handle the challenges of their roles.

Big IV – “Our promise: clear and simple processes.” This area covers all activities within the Human Resources department. We are committed to ensuring that our HR processes, offerings, and products are clearly and simply structured, in the interests of the user. To this end, our entire global product and service portfolio underwent a critical review in 2012. We are continuously refining our cross-segment HR work so as to support our customers – employees and executives – as effectively as possible. Alongside a customer-centric portfolio, our success can also be attributed to seamless interaction within our triple-role HR model, whereby our HR Competence Centers carry out steering tasks, the HR Business Partners give advice on strategic HR topics, and our Group HR Services provide business-centric HR services. We are continuing to optimize our HR portfolio, internal organization and collaboration within HR in 2013, under the headings “Lean HR” and “HR category and product management.”

DEUTSCHE TELEKOM
INNOVATION.

DIVERSITY MANAGEMENT AND HEALTH & SAFETY MANAGEMENT.

Diversity and women’s quota. Our Group brings together numerous cultures, attitudes, and talents from around the world. We encourage and use this diversity as a source of creativity and agility. We see diversity as the precursor to innovation and customer orientation and as the driving force behind the transformation of our corporate culture toward an open, flexible company. Diversity management aims to foster an awareness of social diversity within the company, whereby diversity is recognized and encouraged among the workforce as a corporate strength. Diversity and corporate success go hand in hand. Teams with a strong mix of nationalities, ages, and genders tend to be highly successful on the national market, and especially on the international market.

In 2010, we were the first DAX 30-listed company to introduce a women’s quota in management. By the end of 2015, we want at least 30 percent of senior and middle management positions worldwide to be held by women. We now have a global program in place to implement this quota at every stage of the talent pipeline, from recruitment and executive development programs and assessment centers through to the appointment to Group-internal supervisory committees.

Deutsche Telekom’s diversity efforts acknowledged. In the year under review, we received a number of awards for our successful activities to improve diversity within the Group and establish an integrative corporate culture. In 2012, a national competition to find Germany’s most family-friendly employer praised Deutsche Telekom for its comprehensive work-life balance concept. The Max Spohr prize recognized our determination to view the sexual identities of our employees as an advantage which should be consciously perceived and actively utilized. The Landschaftsverband Rheinland Regional Council also awarded us the distinction of “disability-friendly employer.”

Women in management on the rise. A quick glance at our recent past indicates a significant improvement since the women's quota was introduced. The proportion of women in management positions across the Group increased from 19 percent in February 2010 to 24 percent in December 2012. Compared to December 2011, the figure underwent a slight 0.7-percent drop owing to a reorganization (including the sale of parts of the company) at T-Mobile USA. In all other segments the figure continued to rise, as in previous years. Since 2010, we have also consistently increased the proportion of women in our supervisory boards, particularly on the employers' side. In 2010, women accounted for 17.7 percent of employers' representatives in Germany, rising to 24.8 percent by the end of 2012. Over the same period, we have achieved an equally positive effect in our international supervisory boards, where the proportion of women on the employers' side increased from 7.4 to 25.5 percent. Furthermore, two out of the seven Board of Management positions have been held by women since 2012. The number of women in our Business Leader Team, the international management team below the Group Board of Management, increased from two in February 2010 to nine in December 2012.

Striking a healthy balance between work and leisure. Our work-life@telekom program is designed to systematically improve the balance between work and home life. In the year under review, we continued to extend the range of options available. Since 2010 we have increased the number of company childcare places in Germany by 212 to a total of 559, and the number of places for schoolchildren during the school holidays from 170 to 300. We have also set up seven new parent-and-child offices at locations across Germany and are planning to create at least ten more over the coming year to cushion any childcare shortfalls. Free assistance is available to help employees find local childcare places, as is an emergency child-minding service. A rising number of male employees, too, are taking time out to take care of their children, a trend that is reflected in a twofold increase in the number of men opting for more than two months' parental leave. In mid-2011, 11.3 percent of the employees who took parental leave were men; by the end of 2012, the figure had risen to 22.1 percent.

Health & safety management services. Our multi-disciplinary team of experts adopts an overarching, systematic approach to occupational health & safety and fire protection. This includes designing uniform Group-wide H&S and fire protection products and processes to comply with statutory requirements, and making continuous improvements to employee safety. As well as ensuring compliance with the health and safety legislation and implementing target group-specific measures, we also devise projects and Group-wide prevention campaigns to promote health competence and awareness among the workforce – from special mental health schemes such as stress prevention seminars to conventional corporate healthcare offerings such as flu jabs, colon cancer screening, information on nutrition, exercise and relaxation, and a full health check with our company physicians. Some 130 company physicians and 120 health and safety specialists are on hand to assist with the health and safety concerns of our employees. Additionally, employees can also take advantage of a free, confidential, personal consultation with one of 50 or so counselors on psychosocial issues.

Mental health. We believe that our managers have a pivotal role to play in preventing mental illness. A raft of guidelines and information sheets helps them to understand their own influence on their employees' health and to use suitable tools when dealing with psychological disorders, stress, and burnout. We also offer all our managers a web-based training course on mental health. This e-learning program sensitizes our managers to identify potential mental stress in themselves and their employees early on, so that support can be offered without delay.

All our employees can benefit from a broad range of workshops on mental health issues, stress prevention, and advice on healthy living. Our innovative workshop on mental resilience is particularly popular among employees. We also offer one-to-one psychosocial counseling on all aspects of stress, addiction, conflict, change, leadership, and health. Our free telephone counseling service provides fast, unbureaucratic assistance with work-related and personal problems. It is particularly important to tackle mental illness in its early stages before it becomes chronic, bearing in mind that psychological disorders impair employees' ability to perform well in their jobs, incurring high costs for employers long before absenteeism becomes a problem.

International health & safety. Providing the best possible protection for our employees is our pivotal concern. We support the Group-wide approach of our occupational health and safety team with a uniform international health, safety & environmental management system. 29 national companies are already integrated into the system, and nine more will be linked in during 2013. This has paved the way for uniform Group-wide standards in occupational health and safety. The system is based on the following international standards: OHSAS 18001, ISO 14001 and ISO 9001 on health, safety, environmental protection, and quality. We have also defined uniform indicators, e.g., for measuring the number of days lost. Minimum standards and related indicators create greater transparency and facilitate comparability at international level. The health, safety & environmental management system also helps us to maintain our global telecommunications infrastructure in the event of a crisis.

STAFF RESTRUCTURING.

For details, please refer to the section "Development of business in the Group," PAGE 90 et seq.

For further information, please refer to our Human Resources Report: WWW.TELEKOM.COM/HR-REPORT

The relentlessly fierce competition in our industry, coupled with a difficult economic situation in our core markets, necessitated further staff restructuring and efficiency improvements in 2012, toward an effective, future-oriented workforce.

WORKFORCE STATISTICS.

T 036

Headcount development.

Employees in the Group		Dec. 31, 2012	Dec. 31, 2011[c]	Dec. 31, 2010[c]	Dec. 31, 2009	Dec. 31, 2008
TOTAL		**229,686**	**235,132**	**246,777**	**259,920**	**227,747**
Of which: Deutsche Telekom AG[a]		30,637	33,335	35,855	49,122	44,645
Germany operating segment		67,497	69,574	70,902	81,336	85,637
Europe operating segment		56,468	58,010	63,338	71,163	39,140
United States operating segment		30,288	32,868	37,760	40,697	38,031
Systems Solutions operating segment		52,847	52,170	51,742	46,021	45,862
Group Headquarters & Shared Services		22,586	22,510	23,035	20,703	19,077
BREAKDOWN BY GEOGRAPHIC AREA						
Germany		118,840	121,564	123,174	127,487	131,713
International		110,846	113,568	123,603	132,433	96,034
Of which: other EU Member States		63,244	64,257	68,941	76,196	45,115
Of which: rest of Europe		9,422	9,736	9,991	10,061	7,908
Of which: North America		31,037	33,511	38,467	41,235	38,621
Of which: rest of world		7,143	6,064	6,204	4,941	4,390
PRODUCTIVITY TREND[b]						
Net revenue per employee	thousands of €	250	244	247	251	263

[a] On account of the spin-off of the fixed-network business, these figures are not comparable with the figures for the previous year.
[b] Average number of employees.
[c] Figures for prior-year periods of the operating segments and the Group Headquarters & Shared Services have been adjusted.

T 037

Personnel costs.

		2012 billions of €	2011 billions of €	2010 billions of €	2009 billions of €	2008 billions of €
Personnel costs in the Group		14.6	14.7	15.1	14.3	14.1
Special factors[a]		1.1	1.1	1.0	0.5	1.1
Personnel costs in the Group adjusted for special factors		13.5	13.6	14.1	13.8	13.0
Net revenue		58.2	58.7	62.4	64.6	61.7
ADJUSTED PERSONNEL COST RATIO	%	**23.2**	**23.1**	**22.5**	**21.4**	**21.1**
PERSONNEL COSTS AT DEUTSCHE TELEKOM AG UNDER GERMAN GAAP[b]		**3.3**	**3.4**	**3.4**	**4.0**	**3.9**

[a] Expenses for staff-related measures (for detailed information, please refer to the section “Development of business in the Group,” **PAGE 90 et seq.**).
[b] On account of the spin-off of the fixed-network business in 2010, these figures are not comparable with the figures for the previous year.

HR DEVELOPMENT.

We believe in life cycle-based HR and organizational development and offer our employees various options to accommodate individual personal and professional circumstances. In addition to our vocational training programs we also operate our Start up! program for ambitious new recruits, and career development opportunities for experts and managers. In future, our lifelong learning scheme will make better use of our older employees' valuable experience and develop additional dedicated offerings. Learning methods are also evolving: conventional face-to-face training courses are being replaced by innovative formats such as "leadership labs" for managers, which combine management theory and experience-based learning in a real-life context. In carefully selected contexts, our learning on demand courses have been extended to include purpose-developed smartphone apps. Meanwhile, our in-house Telekom Social Network likewise plays an important role in knowledge transfer.

Vocational training/cooperative degree courses. For many years, we have ranked among the largest vocational training providers in Germany. In the year under review, more than 3,200 young people were given the opportunity to experience our high-quality vocational training and cooperative degree courses. Nationwide, competent young people can train in eleven different training programs and nine cooperative study programs in cooperation with ten partner universities. In the academic year 2012/2013, the total number of apprentices and students was around 9,300, including some 1,200 students on cooperative degree courses.

The Group's own HfTL University of Applied Sciences in Leipzig is a key provider of higher education and professional development courses, particularly in the technology sector. In the year under review, around 70 percent of the 340 graduates from our on-campus and cooperative study programs at all cooperating universities were subsequently offered positions within the Group, including 72 graduates from HfTL alone.

Advanced training programs extended, with a particular emphasis on expert development. CAMPUS, our modular expert development system, has been designed to help us meet the business's strategic development requirements more effectively.

CAMPUS@Telekom – Facts and figures:

- We currently have eight Group-wide programs specializing in different areas, such as finance and controlling, project management, and sales.
- CAMPUS has enabled us to reduce and consolidate our existing range of training initiatives by around 40 percent, from 1,800 to around 1,100 in total.
- The initiatives are closely linked to Go ahead!, our standardized expert development and career program, and are available at three different levels (basic, advanced and professional).

Bologna@Telekom – Part-time Bachelor's and Master's degree courses. Our Bologna@Telekom initiative encourages talented employees to study for a Bachelor's or Master's degree alongside their work. We support top performers who have been working for the company for at least two years by granting them ten days' leave of absence for examinations (per academic year) and funding 50 percent of the course fees.

Bologna@Telekom – Facts and figures:

- Each year, we award around 200 Bologna scholarships to carefully selected employees. We currently support around 600 employees while they complete their course.
- The first 33 employees graduated under this scheme in 2012.
- Since 2011, we have also supported employees wishing to study part-time for a doctorate.

RISK AND OPPORTUNITY MANAGEMENT.

■ Risk early warning system ■ Identification of opportunities ■

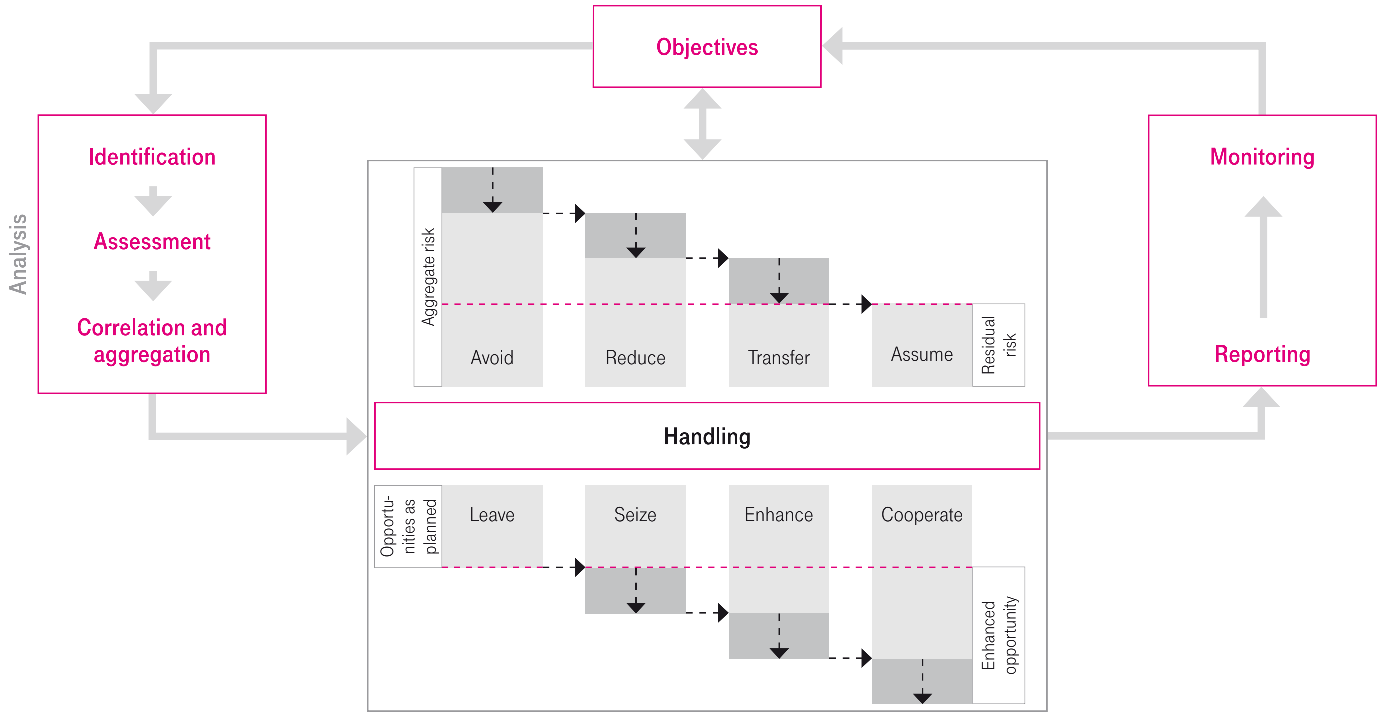
RISK AND OPPORTUNITY MANAGEMENT SYSTEM.

As one of the world's leading providers in the telecommunications and information technology industry we are subject to all kinds of uncertainties and change. In order to operate successfully in this ongoing volatile environment, we need to anticipate any developments at an early stage and systematically identify, assess, and manage the resulting risks. It is equally important to recognize and exploit opportunities.

Our risk and opportunity management system is based on our standard process (please also refer to GRAPHIC G 50), starting with the definition of the desired risk profile. Once opportunities and risks have been identified, we move on to analyze and assess them in more detail. This also includes aggregating opportunities and risks depending on their probability of occurrence and magnitude. This is followed by a decision on the actual action to be taken (e.g., reducing risks/seizing opportunities). The associated action plan is implemented, constantly monitored, and evaluated. All steps are traversed again and again, and modified to reflect the latest developments and decisions.

G 50

The risk and opportunity management system.



Our risk and opportunity management system covers all strategic, operational, and financial risks and opportunities. The aim is to identify these early on, monitor them, and manage them in accordance with the desired risk profile. 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 for the associated reporting.

In addition, our Group Controlling unit has established a Group guideline for the planning, budgeting, financial management, and reporting of investments and projects. This guideline guarantees the necessary transparency during the investment process and the consistency of investment planning and decisions in our Group and operating segments. It also provides decision-making support for the Board of Management and the Board of Management Capital Expenditure Committee. Furthermore, the system foresees the systematic identification of strategic opportunities that provide input for the Group's financial planning.

Our financial transactions are subject to the principle of risk minimization. This also applies to the use of derivative financial instruments, which we use to hedge interest rate and currency exposures that could have an effect on cash flow as well as other price risks. We do not use them for trading or other speculative purposes. We record all financial transactions and risk items in a central treasury system and inform Group management about them on a regular basis. Depending on the type and volume of the financial transaction, prior approval is required from the Board of Management, which is also regularly briefed on the scope and magnitude of the current risk exposure. We use various simulations that ideally cover conceivable market developments to the largest possible extent to assess the impact of various market factors. We use selected derivative and non-derivative hedging instruments to hedge market risks. However, we only hedge risks that affect cash flows.

Our Internal Audit unit reviews the functionality and effectiveness of the risk management system at regular intervals. The external auditor mandated by law to audit the Company's annual financial statements and consolidated financial statements 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. The system complies with the statutory requirements for risk early warning systems and conforms to the German Corporate Governance Code.

Risk 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. The report assesses individual risks and opportunities in relation to their impact on EBITDA, both in terms of magnitude and probability of occurrence. Moreover, actions to be taken are identified and measures suggested or initiated.

This information forms the basis for the Group risk report to the Board of Management. This report presents individual material risks as a portfolio and ranks them according to their impact on EBITDA, draws correlations, and presents them using a simulation process. The analysis also takes in a number of qualitative factors which could have a bearing on our reputation and help to determine the overall risk. The Board of Management informs the Supervisory Board accordingly. The Audit Committee of the Supervisory Board examines the risk report at its meetings. If any unforeseen risks arise outside regular reporting of key risks and opportunities, they are reported ad hoc.

Professional risk management is more important than ever. In response to the financial crisis in 2008, we expanded our risk management system and significantly enhanced the early warning component. Around three years ago we started to produce "risk cockpits" as an additional risk monitoring and analysis tool for the Board of Management alongside quarterly risk reports. This tool collects a large number of early warning and economic indicators each quarter, e.g., on macroeconomic, political, and legal developments in our core countries. When analyzing economic indicators, we use leading, coincident, and lagging indicators. The OECD's composite leading indicators, for example, as the product of several upstream sub-indicators, can map economic developments overall. Being generated on a monthly basis, they give a better up-to-date view of economic activity than a quarterly publication of gross domestic product ever could (please also refer to GRAPHIC G 51).

We develop various scenarios based on the entire system of indicators of macroeconomic trends and taking into account political and legal developments, and calculate the potential effects on the results of operations, financial position, or cash flows of the Group. With the risk cockpit, we have developed a tool that creates greater transparency about our risks, assesses the relevance of these risks, and prioritizes them. This is essential if we are to focus on all the risks that need to be managed and counter them quickly and effectively when things do not develop as planned.

G 51

Extract from the risk cockpit.

<table>
<tr><th colspan="2">Economic trends.</th><th>Germany</th><th>United States</th><th>Greece</th><th>Poland</th><th>Hungary</th><th>UK</th></tr>
<tr><td rowspan="3">Leading [a]</td><td>Composite leading indicator</td><td>98.9 | 99.0</td><td>101.0 | 100.6</td><td>99.8 | 99.5</td><td>100.3 | 100.0</td><td>99.0 | 99.0</td><td>100.7 | 100.0</td></tr>
<tr><td>Consumer climate</td><td>5.8 | 5.9</td><td>72.9 | 79.2</td><td></td><td></td><td></td><td></td></tr>
<tr><td>Trend</td><td></td><td></td><td></td><td></td><td></td><td></td></tr>
<tr><td rowspan="4">Coincident [b]</td><td>GDP</td><td>0.5 % | 0.9 %</td><td>1.9 % | 2.6 %</td><td>–3.3 % | –6.9 %</td><td>1.1 % | 1.9 %</td><td>–1.9 % | –1.6 %</td><td>0.4 % | 0.0 %</td></tr>
<tr><td>Consumer spending</td><td>0.6 % | 0.1 %</td><td>1.9 % | 1.9 %</td><td>–3.6 % | –8.4 %</td><td>0.4 % | 0.1 %</td><td>–3.0 % | –3.1 %</td><td>1.3 % | 1.3 %</td></tr>
<tr><td>Industrial output</td><td>–1.7 % | –1.1 %</td><td>2.1 % | 3.4 %</td><td>1.2 % | –3.2 %</td><td>–1.2 % | 1.5 %</td><td>–2.8 % | 0.2 %</td><td>–2.0 % | –1.8 %</td></tr>
<tr><td>Trend</td><td></td><td></td><td></td><td></td><td></td><td></td></tr>
<tr><td rowspan="3">Lagging [b]</td><td>Unemployment</td><td>6.9 % | 6.8 %</td><td>7.8 % | 8.0 %</td><td>26.2 % | 25.6 %</td><td>13.2 % | 13.0 %</td><td>10.6 % | 10.4 %</td><td>7.7 % | 7.8 %</td></tr>
<tr><td>Consumer prices</td><td>2.0 % | 1.9 %</td><td>1.9 % | 1.7 %</td><td>1.1 % | 1.3 %</td><td>3.0 % | 3.9 %</td><td>5.6 % | 6.1 %</td><td>2.6 % | 2.4 %</td></tr>
<tr><td>Trend</td><td></td><td></td><td></td><td></td><td></td><td></td></tr>
</table>

[a] Current month | Corresponding month in prior quarter.
[b] Q4 2012 | Q3 2012, compared with the respective prior-year quarter.

Sources: OECD, destatis, BEA, Oxford Economics, GfK, Conference Board, Bloomberg.

Identifying opportunities. Opportunities in our business are identified and recorded throughout the year by our operating segments and Group Headquarters as part of the short-term monitoring of results and medium-term planning processes. While short-term monitoring of results mainly targets opportunities for the current financial year, the medium-term planning process focuses on opportunities that are of strategic importance for the Group. We distinguish between two types of opportunity:

- Opportunities with external causes that cannot be influenced, e.g., the revocation of additional taxes in Europe.
- Opportunities created internally, for example by focusing our organizational structure on innovations (e.g., establishment of the Digital Business Unit (DBU), T-Labs, T-Venture), growth areas and products, and business relationships and collaborations from which we expect synergies.

In 2012 we gave our planning process a more efficient structure so as to give us greater scope. This puts the organization in a position to seize new opportunities and generate new business. The preliminary plans of our operating segments form the basis for the actual planning phase during which members of the Board of Management, business leaders, executives, and experts from all business areas intensively discuss the strategic and financial focus of the Group and the operating segments on a daily basis and ultimately produce an overall picture. The identification of opportunities and their strategic and financial evaluation play a substantial role during this phase, which is closely supervised by our innovation unit, the DBU. During the decision-making rounds that take place on a daily basis during the planning phase, the results of this "brainstorming" are either rejected, passed back to the working groups for revision, or adopted and transferred to the organization.

THE RISKS.

For information on our opportunities, please refer to the section "The opportunities," **PAGE 167 et seq.**

Of all the risks and opportunities identified for the Group, the following section examines those risk areas or individual risks and opportunities that could, as it stands today, materially affect Deutsche Telekom's financial position and results and, by way of the profits and losses of the Company's subsidiaries, also Deutsche Telekom AG's financial position and results of operations. Our business operations may also be impacted by other factors that we are not currently aware of or significant changes in factors we do not currently deem to be critical. To the extent possible and economically viable, we obtain Group-wide insurance cover for insurable risks.

Economic environment.

The sovereign debt crisis continued to have a significant impact on economic performance in 2012. The European Central Bank (ECB) and the U.S. Federal Reserve (Fed) have massively increased liquidity since the late summer of 2012. Although this has calmed the capital markets, the sovereign debt crisis remains a significant risk for economic development. Significant uncertainty is still attached to both the long-term development of sovereign debt as well as the performance of national economies, especially in the European crisis states Greece, Portugal, Ireland, Spain, and Italy. If the euro crisis were to flare up again or individual countries were to leave the eurozone, the capital markets and the real economy could be adversely affected. The "fiscal cliff" problem in the U.S. budget, which was unresolved in 2012 and not yet finally resolved at the start of 2013, also poses a risk for economic development in the United States, although now with a much lower probability of occurrence.

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

In late 2012, the ECB and the U.S. Federal Reserve extended their expansionary monetary policies, increasing the risk of accelerating price rises in the United States and many eurozone countries in the medium term.

Industry and competition.

Prices for voice and data service decreased again in 2012 in the fixed network and in mobile communications. Aside from price reductions imposed by the regulatory authorities, e.g., for interconnection, mobile termination, and international roaming, this was primarily due to intense competition in the telecommunications industry and cannibalization effects from technological progress.

Competitive pressure increased further, especially in the fixed network. Regional telecommunications carriers further increased their market coverage. The trend of mobile communications replacing fixed-network communications is unbroken.

In the fixed-network broadband market, we continue to observe a growing dominance of cable network operators in the new customer business, especially in Germany. They provide private homes and smaller companies throughout Germany with telecommunications products that require them to neither build out a network nor lease unbundled local loop lines from Deutsche Telekom.

In certain regions, competitors are additionally extending their own fiber-optic network to the home so that they are independent of our network in the local loop, too. Another competitive risk lies in the fact that we are increasingly faced with competitors who are not part of the telecommunications sector as such, but rather major players in the Internet and consumer electronics industries. We continue to be exposed to the risk of a further loss of market share and falling margins.

We expect prices in mobile voice telephony and mobile data services to decline further, which could adversely affect our mobile revenue. Among the reasons for the decrease in prices are discount operators that are expanding in Germany and elsewhere in Europe.

During the reporting year, we were the smallest of the four national mobile providers in the United States. Thanks to the agreed business combination with MetroPCS, the new company can achieve a better market position and tackle the challenge of winning over customers head on through new product and service quality and attractive pricing.

Our Systems Solutions operating segment also faces challenges; after all, the ICT market is dominated by continued strong competition, price erosion, long sales cycles, and restrained awarding of projects. This creates a potential risk of revenue losses and declining margins for T-Systems.

Products, services, and innovations.

Ever shorter innovation cycles confront the telecommunications sector with the challenge of bringing out new products and services at increasingly closer intervals.

Technological progress means that technologies and products may to some extent substitute one another. This could lead to lower prices and revenues in both voice and data traffic. But new and refined smartphones and above all mobile data services (such as mobile payment, connected car, or smart metering) will be new sources of mobile Internet revenue.

Regulation.

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 intensify existing price and competitive pressure.

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

We are always subject to strict regulation in cases where national regulatory bodies consider us to have "significant market power" in the relevant telecommunications market. We therefore face ex-post control of anti-competitive practices in Germany in the market for fixed-network telephone lines and related packages. We also have to offer our competitors wholesale services at prices set by the regulatory authority on the basis of a strict cost review. Examples of this kind of regulated service include access to unbundled local loops, bitstream access, and fixed-network and mobile termination. Our European subsidiaries are also subject to corresponding regulatory regimes in the fixed-network and mobile areas.

Furthermore, the European Commission is issuing recommendations which are not directly binding but do have to be taken into account by the national regulatory authorities.

- According to the Commission Recommendation of May 7, 2009 on the Regulatory Treatment of Fixed and Mobile Termination Rates in the EU (2009/396/EC), termination rates across the European Union are to be set on the basis of a new costing approach from January 1, 2013. This exposes us and our European subsidiaries to the risk that termination rates will be reduced further.

For details, please refer to the section "Regulatory influence on Deutsche Telekom's business," **PAGES 88 – 89.**

- For 2013, the European Commission plans to issue a new recommendation on non-discrimination obligations and costing methodologies. In this context, non-discrimination relates to the equal treatment of all recipients of regulated services. Depending on the precise content of this recommendation, it could give rise both to risks in terms of increased regulation and to opportunities due to more stable regulatory requirements.

For details, please refer to the section "Regulatory influence on Deutsche Telekom's business," **PAGES 88 – 89.**

- The roaming regulation, which entered into force on July 1, 2012, increases regulation through additional requirements, in particular the unbundling of services to be implemented by July 2014.

Network neutrality. To this day, there is still no generally accepted and, at the same time, technically appropriate definition of the term “network neutrality” and it is increasingly becoming a subject of public debate. There are even demands from some quarters that all data packets should be treated in exactly the same way, both in technical and in commercial terms. Content and application providers in particular expect network operators to continue expanding their transport capacities and their infrastructure in the years to come. There is a risk of regulation restricting the scope for introducing new business models on the Internet.

Assignment of frequencies. In mobile communications, 2013 will again see the extension of expiring licenses and the assignment of new frequency usage rights in a number of European countries. This will give rise to risks from uncertainty with regard to the scope and availability of future spectrum as well as the costs of acquiring frequency resources. These risks relate, for example, to the appearance of new competitors and above all to the potential reservation of frequency sub-ranges for new competitors.

Below we describe a number of important ongoing and future spectrum allocation proceedings:

- In **Hungary,** spectrum was allocated to a new state-owned mobile communications company in the spring of 2012. The conditions of the licenses stipulated that market launch had to come before the end of 2012. Established network operators were obligated to offer upstream services to this potential new market player. On September 17, 2012, a Hungarian court ruled that the state-run company Magyar Posta’s participation in the 0.9 GHz auction was unlawful. The Hungarian regulatory authorities were ordered to annul the results of the auction. As such, we expect the results of the auction to be revoked in 2013 and the spectrum reassigned, possibly together with frequencies from other ranges (0.8 GHz, 1.8 GHz, 2.1 GHz, and 2.6 GHz). This would give Magyar Telekom another opportunity to increase its frequency resources as planned.

- In **Germany,** the Federal Network Agency plans to make a decision by mid-2013 on the process to amend regulation of the 0.9/1.8 GHz rights (extension of licenses or reallocation by auction) from 2017. No new spectrum allocation process or date for this has been set as yet.

- In the **Czech Republic** and in the **Netherlands,** spectrum auctions were held for a number of different frequency ranges. Our national subsidiaries took part in these auctions. In the Netherlands, the auction ended on December 14, 2012 with the acquisition of spectrum in the 0.9 GHz, 1.8 GHz and 2.6 GHz ranges. The auction in the Czech Republic is not yet complete.

- In **Croatia,** the tender process for the 0.8 GHz spectrum (three licenses for 2 x10 MHz each) was carried out in September 2012. Hrvatski Telekom successfully secured one of the licenses, with the relevant usage rights allocated to the company on October 29, 2012 for the period until December 18, 2024.

- Additional 1.8 GHz (2 x 25 MHz) spectrum was advertised for tender in **Poland** in fall 2012. We expect Polska Telefonia Cyfrowa (PTC) to be allocated 2 x10 MHz of the available spectrum in February 2013. The authority is further planning to stage an auction for the 0.8 GHz and 2.6 GHz frequencies in the second half of the year.

- In **Slovakia,** the allocation of 0.8 GHz, 1.8 GHz and 2.6 GHz spectrum is planned for the second half of 2013.

- In **Austria,** a frequency auction for the 0.8 GHz, 0.9 GHz and 1.8 GHz ranges is expected for fall 2013.

- As in the **Netherlands** and the **Czech Republic,** new carriers are expected to compete for the spectrum to be allocated in the 2013 auctions, too, and that frequency sub-ranges will be reserved exclusively for new competitors.

Intensified regulation for international subsidiaries. Regulation is also on the increase internationally. Magyar Telekom (Hungary) was obligated to provide access to all elements of its fixed-line access network and to give the market at least six months' notice of its fixed-network build-out. In Croatia, in a decision by the national regulator on March 21, 2012, the regulation of Hrvatski Telekom and Iskon Internet was extended to include the retail market for broadband Internet access as well as the broadcast of television programs, both with ex-ante rate regulation. In October 2012, the regulatory authority in Montenegro began to review the need to regulate the retail market for broadband (ADSL) and mobile communications and is preparing corresponding price regulation. In Hungary, an amendment to the Telecommunications Act was adopted on November 17, 2012, which has negative consequences for Magyar Telekom in relation to retail contracts, has resulted in requirements and legal remedy in connection with future spectrum allocation proceedings and has impacted negatively on the role of Magyar Telekom as a universal service provider. In Poland, the Telecommunications Act was amended. The final text specifies, to the detriment of Polska Telefonia Cyfrowa (PTC), that the Polish regulatory authority does not have to revise certain spectrum auctions held in 2007 – despite clearly contrary court rulings. In the Czech Republic, the national regulator is planning to impose access obligations on all mobile network operators in order to establish mobile virtual network operators (MVNOs) as additional market players.

According to regulatory decisions or preliminary drafts by the competent regulatory authorities, mobile termination rates will be reduced further in 2013 in all countries in which our subsidiaries operate. This is mainly due to a recommendation by the EU Commission enforcing changeover to a cost standard that rules out the previous recognition of costs that can only be allocated indirectly.

For information on administrative court proceedings, please refer to **PAGE 162.**

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 decisions made by the national regulatory authority. The regulatory authority must then decide again on the rates for past periods. It is generally not clear in this context whether and to what extent rates will be revised.

For more details, please refer to "Highlights in the 2012 financial year," **PAGE 64 et seq.,** and **NOTE 30** "Depreciation, amortization and impairment losses" in the notes to the consolidated financial statements, **PAGES 253 – 254.**

Business combination of T-Mobile USA and MetroPCS.

Deutsche Telekom and the U.S. mobile company MetroPCS agreed to combine their business activities in the United States.

The combined entity will be able to compete more aggressively with other national mobile operators in the United States thanks to an improved mobile spectrum position and additional financial resources. The transaction will create a combined entity on the U.S. mobile market with the objective of providing value leadership. It will make it possible to offer customers a wider selection of affordable products and services, improved network coverage, and a clear-cut technology path to one common LTE network.

The transaction is subject to approval by the U.S. Department of Justice (DOJ), the Federal Communications Commission (FCC), and the Committee on Foreign Investment in the United States (CFIUS). The approval of the MetroPCS shareholders is also required. Deutsche Telekom and MetroPCS expect to obtain all the necessary approvals in the first half of 2013. If the authorities refuse to approve the transaction and if, as a result, it cannot be consummated, Deutsche Telekom would have to make a compensation payment of USD 250 million to MetroPCS.

The risk of a competing bid for MetroPCS by one or more third parties cannot be ruled out. Should MetroPCS receive such a competing bid and then recommend to its shareholders to accept the bid, Deutsche Telekom would be able to terminate the agreement with MetroPCS and claim a compensation payment of USD 150 million from MetroPCS. In mid-October and thereafter, Deutsche Telekom AG also received notification of a number of class action suits that were filed in the United States against the business combination of MetroPCS and T-Mobile USA. Two are pending in the U.S. state of Texas; another class action suit representing four individual suits was filed in the state of Delaware. All of these are also directed at Deutsche Telekom AG and T-Mobile USA. Lawsuits of this nature are common in connection with business combinations in the United States and there is currently no reason to assume they could lead to the prohibition of the merger.

Personnel.

In 2012, we once again used socially responsible measures to restructure the workforce in the Group, essentially by means of voluntary redundancies, partial and early retirement, and employment opportunities for civil servants and employees offered by Vivento, especially in the public sector. Staff restructuring will continue in the coming financial year. If it is not possible to implement the measures as planned or at all, this may have negative effects on our financial targets and profitability.

For further details on major litigation in connection with personnel, please refer to the section "Legal risks," **PAGE 160 et seq.**

Civil servants' right to return to Deutsche Telekom AG. 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 some 2,643 civil servants who are entitled to return to Deutsche Telekom in this way. On the assumption that all these civil servants were to return to us in 2013, the maximum risk is around EUR 0.2 billion per year. This risk can be reduced by compensation payments, for example, but not completely eliminated.

Risks from IT/NT infrastructure.

We have a complex information/network technology (IT/NT) infrastructure. Technical infrastructure outages cannot be completely ruled out. Any such disruptions could result in revenue losses or increased costs.

Our IT/NT infrastructure comprises all buildings (network nodes), communication services (networks), and hardware and software used for information processing. Our IT/NT resources and structures are the organizational and technical backbone for our operations.

Risks could arise in this area relating to all IT/NT systems and products that require Internet access. For instance, faults between newly developed and existing IT/NT systems could cause interruptions to business process, products and services, such as smartphones and Entertain. In order to avoid the risk of failures, e.g., arising from natural disasters or fire, we use technical early warning systems and duplicate IT/NT systems. Our Computer Emergency Response Team (CERT) at T-Systems provides security for our corporate customers' servers. In cloud computing, all data and applications are stored at a data center. Deutsche Telekom's data centers have security certification and meet strict 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 or reduce any damage. Furthermore, we have Group-wide insurance cover for insurable risks.

DEUTSCHE TELEKOM INNOVATION.

Data privacy and data security.

The security and privacy of customer data are always our top priority. This also applies to the growing cloud computing business, which is subject to the same rigorous requirements for security and data privacy as all our other products.

In order to maintain these high standards and minimize risks, we support the view that European data protection rules should be made mandatory where a company offers its services on the European market. This would provide consumers with the same rights all over Europe. Loopholes in data protection in Europe could also be closed and uniform competitive conditions created.

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

Cyber crime and industrial espionage are on the rise. We are addressing these risks with new security concepts, and we are increasingly doing so in partnerships, for example with public and private organizations. This allows us to create greater transparency and thus be better able to tackle the threats. With Security by Design we work continuously on making security a fixed development component for new products and information systems. This means more intensive and mandatory security tests, which we intend to establish as a standard within the industry.

We provide regular reports on the latest developments in these areas on our website at **WWW.TELEKOM.COM/DATAPROTECTION** and **WWW.TELEKOM.COM/SECURITY.**

Health and the 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 on 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 mobile networks and the use of mobile terminal devices. In the fixed network, it affects sales of traditional DECT (digital cordless) phones and devices that use WiFi technology. Apart from legal risks (e.g., reduction of thresholds), regulatory interventions are also possible, such as 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 the use of mobile technology is safe based on current scientific knowledge. In 2011, despite a lack of scientific evidence, the International Agency for Research on Cancer (IARC), a WHO agency, classified high-frequency electromagnetic fields as “possibly carcinogenic” on the basis of isolated indications. This is the weakest category indicating a potential carcinogenic effect. Drinking coffee is also included in the same category. The classification provoked an increase in media coverage, as well as controversy among experts. The German Commission on Radiological Protection, for example, criticized this classification on the basis that there is insufficient scientific evidence for it in the Commission’s view. There is agreement among all institutions and expert committees on the need for more research into this issue and that there is no scientific evidence of a health risk from electromagnetic fields.

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 recognized bodies. The basis of our responsible management of mobile communications is our EMF Policy. With this policy we are committing ourselves to more transparency, information, participation and financial support of independent research on mobile communications, far beyond that which is stipulated by legal requirements. We aim to overcome uncertainty among the general public by pursuing an objective, scientifically well-founded, and transparent information policy.

Procurement.

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

Supply risks cannot be entirely ruled out. Delivery bottlenecks, price increases, changes in the prevailing economic conditions, or suppliers’ product strategies may have a negative impact on our business processes and our results. Risks may result from the dependence on individual suppliers or from individual vendors’ defaulting as a direct result of the economic crisis. We employ organizational, contractual, and procurement strategy measures to counteract such risks. For example, we have introduced a KPI-based supplier evaluation system, which includes KPIs with a certain predictive quality. In this way we can identify supplier risks early on, and introduce risk reduction measures in good time.

Legal risks.

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Major ongoing litigation.
Toll Collect arbitration proceedings
Prospectus liability proceedings
Eutelsat arbitration proceedings
Claims for damages concerning the provision of subscriber data
Claims for damages due to price squeeze
Claims relating to charges for shared use of cable ducts
Litigation concerning decisions by the Federal Network Agency
Monthly charges for the unbundled local loop
Spectrum allocation (auction of LTE frequencies, extension of GSM frequency usage)
Shareholder litigation
Patent risks
Mobile communications patent litigation
Claim for compensation against Slovak Telekom
Claim for compensation against OTE
MetroPCS
Year-end bonus for civil servants
Reduced pay tables

Major ongoing litigation. Deutsche Telekom is party to several proceedings both in and out of court with government agencies, competitors, and other parties. The proceedings listed below are of particular importance from Deutsche Telekom's point of view.

- **Toll Collect arbitration proceedings.** The principal members of the Toll Collect consortium are Daimler Financial Services AG and Deutsche Telekom. 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 new 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.

  The Chairman of the arbitral tribunal stood down as of March 31, 2012. At the end of October 2012, following administrative proceedings, Dr. Wolfgang Nitsche was named as his successor. The proceedings will thus continue in the near future.

- **Prospectus liability proceedings.** There are around 2,600 ongoing actions filed by around 16,000 alleged buyers of T-Shares sold on the basis of the prospectuses published on May 28, 1999 (second public offering, or DT2) and May 26, 2000 (third public offering, or DT3). The complainants assert that individual figures given in these prospectuses were inaccurate or incomplete. The amount in dispute totals approximately EUR 80 million. Some of the actions are also directed at KfW and/or the Federal Republic of Germany as well as the banks that handled the issuances. The Frankfurt/Main Regional Court has issued certified questions to the Frankfurt/Main Higher Regional Court in accordance with the German Capital Investor Model Proceedings Act (Kapitalanleger-Musterverfahrensgesetz – KapMuG) and has temporarily suspended the initial proceedings. On May 16, 2012, the senate of the Frankfurt Higher Regional Court ruled in the model proceedings ("Musterverfahren") on the third public offering (DT3) that there were no errors in the prospectus for Deutsche Telekom AG's third public offering and that Deutsche Telekom is not liable. This decision is not final and legally binding. The plaintiffs' side – lead plaintiffs and summoned third parties – has filed an appeal ("Rechtsbeschwerde") against the decision with the Federal Court of Justice.

- **Eutelsat arbitration proceedings.** As part of the arbitration proceedings being conducted against Deutsche Telekom AG by Eutelsat S.A. since 2011, in arbitration proceedings initiated at the International Chamber of Commerce, Eutelsat S.A. particularly requested clarification concerning a right to use a certain orbital position. Eutelsat claims to have this usage right for a longer period of time. Eutelsat S.A. also requested clarification concerning the term of an agreement concluded between Deutsche Telekom AG and Eutelsat S.A. on the use of this orbital position by an Eutelsat satellite. Furthermore, Eutelsat S.A. asserted claims to various payments depending on the term of said agreement. Deutsche Telekom AG is no longer active in the satellite business; it was transferred a number of years ago to Media Broadcast GmbH, a company with which it is no longer associated. Following intensive negotiations, the parties signed a settlement agreement on February 7, 2013 to terminate the proceedings.

- **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 planned market share. Also in 2005, Deutsche Telekom AG received a claim for damages of approximately EUR 329 million plus interest from Dr. Harisch. Dr. Harisch alleges that the excessive prices for the provision of subscriber data between 1997 and 1999 caused telegate AG's equity ratio to decrease significantly on several occasions, resulting in the need for capital increases. This required Dr. Harisch and another shareholder to release shares from their own holdings, which diluted their remaining shareholdings. The complainant has since lodged an increased claim for EUR 612 million plus interest. Both actions are still pending before the Cologne Regional Court in the first instance. A further claim for approximately EUR 14 million plus interest was filed in 2006 by klickTel AG, which is now part of telegate AG, on the grounds that the company had lost substantial profits because, without the allegedly excessive prices, it would have launched online directories as early as in 1999. The Cologne Regional Court dismissed the action in its ruling on November 27, 2012.

- **Claims for damages due to price squeeze.** Various competitors had filed actions against Deutsche Telekom AG or Telekom Deutschland GmbH seeking damages on the grounds of a price squeeze between wholesale and retail prices in the local network after a squeeze was identified by the European Commission in 2003 as part of a decision to impose fines. In April 2012, two further competitors, QSC and DOKOM, asserted their claims in court of EUR 7 million and EUR 4.5 million, respectively, plus interest. The action brought by QSC was withdrawn after the parties settled; the DOKOM action is still pending before the court of first instance. The Cologne Regional Court dismissed actions brought by Versatel (approximately EUR 70 million plus interest) and M-Net (approximately EUR 27 million plus interest) in the first instance in a ruling on November 9, 2012. Versatel has given notice of appeal against this dismissal. The ruling against M-Net is now final and legally binding, as M-Net as a consequence of a settlement refrained from appealing. On January 17, 2013, the Cologne Regional Court ruled in favor of the claims by NetCologne (approximately EUR 73 million plus interest) and EWE Tel (approximately EUR 82 million plus interest) on the merits of the cases, but rejected part of the claims as barred under the statute of limitations. In 2012, the actions brought by Hansenet (claiming approximately EUR 126 million plus interest) and Vodafone (claiming approximately EUR 223 million plus interest) were also withdrawn after settlements were reached in both cases.

- **Claims relating to charges for shared use of cable ducts.** With an action filed on June 14, 2012, Kabel Deutschland Vertrieb und Service GmbH (KDG) is asserting two claims: first, Telekom Deutschland GmbH is to reduce the annual charge for the rights to use cable duct capacities in the future; second, it is to partially refund payments made in this connection since 2004, which KDG puts at approximately EUR 273 million plus interest. On January 23, 2013, Telekom Deutschland GmbH also received a claim filed by Unitymedia Hessen GmbH & Co. KG, Unitymedia NRW GmbH, and Kabel BW GmbH, demanding that Telekom Deutschland GmbH cease charging the complainants more than a specific and precisely stated amount for the shared use of cable ducts. Unitymedia Hessen GmbH & Co. KG is also demanding payment of approximately EUR 36.5 million plus interest, Unitymedia NRW GmbH EUR 90.8 million plus interest, and Kabel BW GmbH EUR 61.5 million plus interest for allegedly excessive charges paid since 2009 for the shared use of cable ducts. 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 Deutsche Telekom's point of view:

  - **Monthly charges for the unbundled local loop.** With the exception of the approval of one-time charges from 1999, approvals for monthly charges of unbundled local loop lines (ULLs) are not final, because competitors have applied to have them revoked by the competent courts. Individual approvals have been revoked with final and binding effect, so the Federal Network Agency has to decide again on the charges. So far, this applies specifically to the rate approvals of the ULL monthly charges from 1999, 2001, and 2003 and for the ULL one-time charges from 2001, 2002, and 2003. In 2012, the rate approvals for the ULL monthly charges from 2005 and the ULL one-time charges from 2004 and 2005 were revoked. A number of competitors filed new suits against the new decisions on the ULL one-time charges from 2001 and 2002, which only applied to the former complainants. Under a ruling dated December 21, 2012, the new decision on the ULL one-time charges from 2002 concerning the termination charges was revoked, but otherwise the claim was dismissed.

  - **Spectrum allocation.** A number of appeals are pending against the decisions by the Federal Network Agency on the allocation of certain frequencies to individual mobile carriers, including Telekom Deutschland GmbH.

    - **Auction of LTE frequencies.** In April/May 2010, the Federal Network Agency auctioned off additional frequencies in the 800 MHz, 1.8 GHz, 2.0 GHz, and 2.6 GHz ranges, with all four German mobile network operators participating in the auction. The legal basis for this frequency auction in April/May 2010 was a general order issued by the Federal Network Agency on October 12, 2009 (a Decision of the President's Chamber). Several mobile companies, cable operators, and broadcasters have filed actions to rescind this general order with the Cologne Administrative Court. Telekom Deutschland GmbH has not filed a complaint itself and is not involved in the proceedings. The actions brought by the cable companies and broadcasters have been dismissed with final and binding effect. The German Federal Administrative Court found that the rights of the complainants were not infringed by the disputed Federal Network Agency ruling. Only the later allocation of frequencies to the mobile communications operators could result in an infringement of rights. All complainants have also appealed against the allocation of frequencies to Telekom Deutschland GmbH; this has not yet been ruled upon. In actions brought by mobile operators, the German Federal Administrative Court referred the proceedings back to the administrative court for a second hearing and decision on the grounds that the facts relevant to a decision were insufficiently clarified. No final ruling has yet been made.

    - **Extension of GSM frequency usage.** In an administrative act issued on July 31, 2009, the Federal Network Agency extended the usage period of the GSM frequencies assigned to T-Mobile Deutschland GmbH (today Telekom Deutschland GmbH), which were originally assigned until December 31, 2009, until December 31, 2016. E-Plus, Telefónica, and Airdata objected to the Federal Network Agency's decision to extend the usage period. Telefónica later withdrew its objection; E-Plus' objection proceedings have meanwhile been suspended. Airdata's objection was rejected by the Federal Network Agency. Airdata has lodged an appeal against the rejection, which is still pending before the Cologne Administrative Court.

- **Shareholder litigation.** In connection with these two aforementioned proceedings on the allocation of spectrum, in 2011, a shareholder filed a nullity and rescission suit against Deutsche Telekom AG with the Cologne Regional Court, seeking declaration of the nullity of the resolutions passed by the Deutsche Telekom AG shareholders' meeting on May 12, 2011 concerning approval of the actions of the members of the Board of Management and Supervisory Board of Deutsche Telekom for the 2010 financial year (items 3 and 5 on the agenda) and of the nullity of the annual financial statements for the 2010 financial year. In its ruling on January 6, 2012, the court dismissed the claim in the first instance. The Cologne Higher Regional Court rejected the appeal against this judgment in a ruling on September 11, 2012 and refused leave to appeal. The shareholder has lodged a complaint against the non-allowance of appeal with the Federal Court of Justice.

- **Patent risks.** Like many other large telecommunications and Internet providers, Deutsche Telekom is exposed to a growing number of intellectual property rights (IPR) disputes. For Deutsche Telekom, there is a risk that it may have to pay license fees and/or compensation. Some disputes may result in cease-and-desist orders. The proceedings listed below are of particular importance from Deutsche Telekom's point of view:

  - **Mobile communications patent litigation.** The patent management company IPCom GmbH & Co. KG filed an action against Deutsche Telekom AG and various members of the Board of Management of Deutsche Telekom as well as Telekom Deutschland GmbH for alleged infringement of patents that are supposedly essential to certain standards in the field of mobile communications. In addition to damages, IPCom is seeking abstention from the use of patents in connection with important mobile services, which could lead to their deactivation. Seven infringement proceedings relating to five different patents are currently pending. On April 24, 2012, the Düsseldorf Regional Court ruled in favor of the claim by IPCom GmbH & Co. KG against Telekom Deutschland GmbH concerning a patent infringement in connection with the sale of UMTS-enabled devices manufactured by HTC and Nokia. On April 25, 2012, the European Patent Office in Munich fully revoked the disputed patent. Both decisions are not final and legally binding yet. We have appealed against the ruling of the Düsseldorf Regional Court and expect that it will not be enforced. IPCom filed an appeal against the ruling of the European Patent Office. The hearing is to be held on March 7, 2013. In further proceedings concerning a patent for a voice encoding technique, an agreement was reached with IPCom on July 18, 2012: IPCom has waived all claims against the Deutsche Telekom Group arising from this patent and withdrawn its patent infringement suit. In return, Deutsche Telekom has withdrawn its rescission suit against the patent. Further legal disputes with IPCom are still pending. It is currently not possible to estimate the total financial impact of the disputes with sufficient certainty. Several nullity suits and opposition proceedings are running in parallel to the infringement proceedings to review the validity of the patents that IPCom alleges have been infringed.

- **Claim for compensation against Slovak Telekom.** In 1999, an action was filed against Slovak Telekom based on the accusation that the legal predecessor of Slovak Telekom had ceased broadcast of an international radio program contrary to the underlying contract. The claimant originally demanded approximately EUR 100 million plus interest for damages and lost profit. On November 9, 2011, the Bratislava Regional Court ruled partly in favor of the plaintiff and ordered Slovak Telekom to pay approximately EUR 32 million plus interest. On December 27, 2011, Slovak Telekom appealed to the Supreme Court against this judgment. In case of a final and legally binding court ruling against Slovak Telekom, Deutsche Telekom AG can assert recourse claims against third parties for a part of the sum demanded.

- **Claim for compensation against OTE.** In May 2009, Lannet Communications S.A. filed an action claiming compensation for damages of EUR 176 million arising from an allegedly unlawful termination of services by OTE – mainly interconnection services, unbundling of local loops, and leasing of dedicated lines. The hearing was set by the competent court for February 17, 2011, but was postponed to May 30, 2013.

- **MetroPCS.** In connection with the agreed business combination of T-Mobile USA with MetroPCS Communications, Inc., Deutsche Telekom AG received notice in October 2012 and thereafter of several class actions filed in the United States against this business combination. Two are pending in the U.S. state of Texas; another class action suit representing four individual suits was filed in the state of Delaware. All of these are also directed at Deutsche Telekom AG and T-Mobile USA. Actions of this nature are common in connection with business combinations in the United States and there is currently no reason to assume they could lead to the prohibition of the merger.

- **Year-end bonus for civil servants.** In November 2004, the Federal Republic of Germany passed the first Act to amend the Act on the Legal Provisions for the Former Deutsche Bundespost Staff (Postpersonalrechtsgesetz), which abolished the obligation on Deutsche Telekom and other successor companies to Deutsche Bundespost to pay active civil servants an annual year-end bonus under the German Federal Act on Bonus Payments (Bundessonderzahlungsgesetz). Various court instances saw no conflict with constitutional law in this. In December 2008, the Federal Administrative Court decided to refer the standards in dispute to the Federal Constitutional Court for a judicial review pursuant to Article 100 of the Basic Law. In a decision on January 17, 2012, the Federal Constitutional Court ruled that the abolition of the year-end bonus for Deutsche Telekom civil servants is constitutional. The move does not violate the principle of equal pay laid down in Article 3 (1) of the Basic Law in conjunction with Article 33 (5) of the Basic Law. Taking into account the decision of the Federal Constitutional Court, the Federal Administrative Court now has to rule on the current litigation on claims for payment of the difference between the payment under the Federal Act on Bonus Payments and the reduced payment under the Deutsche Telekom Special Allowance Ordinance.

- **Reduced pay tables.** With the entry into force of the reform of civil service law (Dienstrechtsneuordnungsgesetz) on February 11, 2009, the legislator integrated the previous year-end bonus paid annually in accordance with the German Federal Act on Bonus Payments into the basic monthly salary for all federal civil servants. In accordance with § 78 of the Federal Civil Service Remuneration Act (Bundesbesoldungsgesetz – BBesG), this does not apply for civil servants employed by the successor companies to Deutsche Bundespost. Some civil servants also appealed the new, reduced pay tables. In a ruling on December 15, 2009, the Stuttgart Administrative Court decided in two court proceedings to present the question of whether § 78 of the Federal Civil Service Remuneration Act is constitutional to the Federal Constitutional Court for decision. The Federal Constitutional Court proposed to the Stuttgart Administrative Court to withdraw the question, making reference to the ruling made to abolish the bonus payment; the Stuttgart Administrative Court has since withdrawn its question from the Federal Constitutional Court. Some complainants have withdrawn their actions; others have been rejected by the court. We consider it unlikely that recourse will be taken to the courts in the cases still pending.

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

Concluded actions:

- **Contingent asset – Claim for compensation/reimbursement sought from the Federal Republic of Germany and KfW.** Following a ruling of the Federal Court of Justice in 2011 in favor of Deutsche Telekom, the state-owned KfW-Bankengruppe (KfW) refunded the costs and related interest incurred by Deutsche Telekom for a settlement in a class action by shareholders in the United States. In early April 2012 Deutsche Telekom received the total amount claimed – including accrued interest – of approximately EUR 96 million on the basis of a contractual agreement concluded in March 2012. In addition, Deutsche Telekom was successful in claiming EUR 20 million to be paid to the D&O (Directors and Officers) insurers from which Deutsche Telekom had already received a refund in anticipation of the KfW payment. This concludes the legal dispute.

  KfW also paid a refund of EUR 32.3 million, including interest of around EUR 7.8 million, to Deutsche Telekom following an out-of-court settlement. In doing so, it agreed – provided no material error was found in the prospectus – to take on Deutsche Telekom's legal defense costs in the German prospectus liability proceedings relating to Deutsche Telekom's third public offering (DT3).

- **Proceedings initiated by the Croatian competition authority against Hrvatski Telekom.** On October 24, 2012, the Croatian competition authority AZTN closed the proceedings against Hrvatski Telekom (HT) and other mobile communications providers concerning alleged collusion in violation of anti-trust law relating to the introduction of a state levy on mobile communications, which it had opened in September 2011. Since the statutory waiting period elapsed in January 2013 the decision has been final and legally binding.

Breaches of anti-trust and consumer protection law.

Like many other companies, our Group is subject to the regulations of anti-trust law. In individual countries, Deutsche Telekom and its subsidiaries, associates and joint ventures are subject to various proceedings under anti-trust or competition law. Deutsche Telekom believes the respective allegations are unfounded. The major anti-trust and consumer protection actions are described below.

Proceedings by Anti-Monopoly Commission in Poland. On November 23, 2011, the Anti-Monopoly Commission in Poland (UOKiK) concluded investigations started in 2010. It accuses Polska Telefonia Cyfrowa (PTC) and other Polish telecommunications companies of price fixing in breach of anti-trust law and imposed a fine of PLN 34 million (approximately EUR 8 million). PTC continues to believe these allegations are unfounded and filed action against the ruling. As a result, the fine is not yet due. The same applies to another fine of PLN 21 million (approximately EUR 5 million) imposed by UOKiK on PTC on January 2, 2012 for an alleged breach of consumer protection law.

European Commission proceedings against Slovak Telekom and Deutsche Telekom. The European Commission decided on May 8, 2012 to send a statement of objections to Slovak Telekom and Deutsche Telekom. In this statement of objections, it communicates its preliminary opinion that Slovak Telekom, in which Deutsche Telekom AG holds a 51-percent stake, has breached European anti-trust law on the Slovakian broadband market. The European Commission intends to hold also the parent company, Deutsche Telekom, liable. The European Commission had initiated proceedings against Slovak Telekom in April 2009 and against Deutsche Telekom in December 2010.

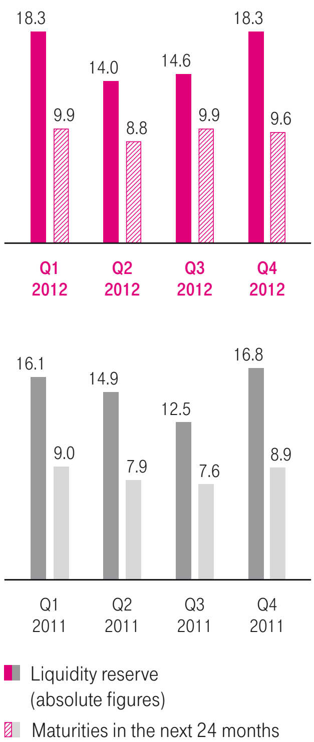
We continue to see no basis for holding Deutsche Telekom liable for the alleged breach of anti-trust law by Slovak Telekom. Furthermore, we are convinced that Slovak Telekom complies with applicable law. Intense competition and the ongoing price erosion on the Slovak broadband market argue against any obstruction of competitors by Slovak Telekom. The statement of objections does not constitute a final decision. Should the Commission uphold its allegations in the course of the proceedings, it may impose a fine on Slovak Telekom and Deutsche Telekom. The financial impact of the proceedings cannot be estimated with sufficient certainty at this point in time.

Search at T-Mobile Netherlands. Following a search of T-Mobile Netherland's (TM NL's) premises on December 6, 2011, the Dutch anti-trust authority NMa initiated proceedings against TM NL and other Dutch mobile communications providers. The providers are accused of anti-competitive collusion on rates and sales channels. TM NL considers these accusations to be unfounded, but is assisting the authority with its inquiries.

G 52

Liquidity reserve and maturities in 2012 compared with 2011.

(billions of €)



Financial risks.

Most of our financial risks arise from liquidity, credit, currency, and interest rate risks. High-risk financial investments by subsidiaries, in particular in banks in Southern and Eastern Europe, exist on account of operational requirements and transfer restrictions. We monitor and manage these risks by means of regular analysis and evaluation of the investment 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. The primary instruments used for medium- to long-term financing are bonds and medium-term notes (MTNs) issued in a variety of currencies and jurisdictions. These are generally issued via Deutsche Telekom International Finance B.V. and are forwarded within the Group as internal loans.

GRAPHIC G 52 shows the development of our liquidity reserve in relation to maturity dates. As of the end of 2012 and in preceding quarters, we clearly met our targets for the liquidity reserve to cover maturities due in the next 24 months.

As of December 31, 2012, 22 banks had granted us credit lines totaling EUR 13.2 billion. A new line was agreed in 2012; one credit line expired in 2012. From today's perspective, access to the international debt capital markets is not jeopardized. Deutsche Telekom issued a bond amounting to USD 2.0 billion (around EUR 1.5 billion) in 2012 as well as several MTNs amounting to the equivalent of around EUR 1.5 billion.

As of December 31, 2012, Deutsche Telekom's credit rating with Moody's was Baa1, while Fitch and Standard & Poor's rated us BBB+. All three agencies gave us a "stable" outlook. If our rating fell below certain defined levels, interest rates for some of the bonds and MTNs issued would rise.

Impairment of Deutsche Telekom'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 215 et seq.**

Sales of shares by the Federal Republic or KfW.

As of December 31, 2012, the Federal Republic and KfW jointly held approximately 32.0 percent in Deutsche Telekom AG.

It is possible that the Federal Republic will continue its policy of privatization and sell further equity interests, including shares in Deutsche Telekom AG, in a manner designed not to disrupt the capital markets and with the involvement of KfW. On May 16, 2008, KfW issued a five-year exchangeable on shares of Deutsche Telekom AG. Exchangeables are debt certificates that the holder can exchange during a pre-determined period and at a pre-determined conversion price for shares in another company (in the case of the KfW exchangeable referred to here, for registered shares in Deutsche Telekom AG). If the conversion price is exceeded, KfW may exchange the exchangeables submitted to it for shares in Deutsche Telekom AG. If the holders of the exchangeables exercise the conversion option, it must exchange them. When the exchangeables mature, KfW has the right to pay them out in Deutsche Telekom shares. The exchangeable has a volume of EUR 3.3 billion and a conversion price of EUR 14.9341. 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 short-term impact on the price of the T-Share.

Management's assessment of the aggregate risks and opportunities position.

The assessment of the aggregate risk position is the outcome of the consolidated analysis of all material areas of risk or individual risks. The aggregate risk position did not change fundamentally in 2012 compared with the previous year. Our major challenges particularly include the economic and regulatory factors, intense competition, and price erosion in the telecommunications business. As it stands today, Deutsche Telekom's management sees no risk to the Company's continued existence as a going concern. We are convinced that we will also be able to exploit future opportunities and challenges without having to take on any unacceptably high risks.

THE OPPORTUNITIES.

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 evaluation play a major role in our annual planning process. Our operating segments and the Digital Business Unit have been given greater scope to seize new opportunities that arise in connection with general business conditions and our entrepreneurial actions and to translate them into new business.

Our medium-term planning process focuses on opportunities that are of strategic importance for the Group. In this context we distinguish between two types of opportunity:

- Opportunities with external causes that cannot be influenced, e.g., the withdrawal of additional taxes in Europe.
- Opportunities created internally, for example by focusing our organizational structure on increased investment in research and development as well as growth areas and products, or also through business relationships and collaborations, from which we expect synergies.

We can see that demand for applications, services, and social networks is rising steadily and with it, the demand for ever faster speeds on the information highway – both at home and on the move. This requires both fixed-network and mobile broadband networks that offer ever higher bit rates. At our Capital Markets Day in Bonn at the start of December 2012, we presented our plans and opportunities for growth. We primarily want to invest heavily in modern broadband networks in Germany, the United States, and Europe to set ourselves clearly apart from many other companies in our industry. From 2013 onwards, as part of our integrated network strategy we will set about an additional LTE roll-out. We will expand and strengthen our position in the fixed-network segment through high capital expenditure on fiber to the curb (FTTC). And with vectoring, we will be able to bring higher bandwidths to the customer.

Glossary, **PAGE 301 et seq.**

For further details, please refer to the section "The economic environment," **PAGE 84 et seq.**

In this context, the environment in which we operate is set to change. The European Commission has announced a refocus of fixed-network regulation in order to stimulate investment in broadband access networks. In our view, this constitutes a significant improvement compared with the approaches that had been under discussion since fall 2011, which included, among other measures, a substantial reduction in access charges. Stable and predictable general conditions and price flexibility are basic prerequisites for long-term investment in modern broadband networks.

Technological progress means that technologies and products may to some extent substitute one another. This could lead to lower prices and revenues in both voice and data traffic. But new and refined smartphones and above all mobile data services (such as mobile payment, connected car, or smart metering) will be new sources of mobile Internet revenue.

Through regulations rolled out Group-wide, we have firmly embedded data privacy and security in our corporate culture and our products and made it a guiding principle for our employees. The Data Privacy Advisory Council, which comprises leading data privacy experts and representatives from politics, academia, industry, and independent organizations, continued its successful work again in 2012. In its meetings, the Council discussed subjects such as cloud computing and intelligent networks (energy and connected car).

Glossary, **PAGE 301 et seq.**

Below is an overview of the major opportunities which we have identified for our operating segments and which result from the general business environment and our own entrepreneurial action.

In Germany, we will accelerate the LTE roll-out. By 2016, 85 percent of the population should be able to use this mobile technology. At the same time, we are expanding the fiber-optic network. Again, by 2016 around 65 percent of the population should have access to it as a result of the integrated network strategy. This will enable greater coverage than in the cable operators' networks. Deployment of the new **vectoring technology,** provided a corresponding regulatory framework is in place, will increase VDSL data transmission rates to up to 100 Mbit/s. On December 19, 2012, Deutsche Telekom AG submitted an application to the Federal Network Agency for an amendment to the regulatory order on the regulation of unbundled local loop lines.

The aim is to change the regulatory framework such that we can make a significant contribution to meeting the federal government's broadband targets through the extensive use of vectoring. Similar changes to the national regulatory order have already been made in other European countries. Furthermore, we want to combine optical fiber and LTE in a hybrid box in the future, which will enable download rates of up to 200 Mbit/s and upload rates of up to 90 Mbit/s. Another key growth area is De-Mail, introduced in 2012, which transmits digital letters via secure communications channels in a manner that is legally and technically secure. The market for communication between machines (M2M) with areas of application such as the connected car, container tracking, fleet management, or meter reading by local energy providers also opens up new potential for growth.

In the United States, besides the opportunities arising from the business combination with MetroPCS, our focus is above all on the modernization of our network. We are investing some USD 4 billion in the roll-out of the LTE network alone. The agreed business combination with MetroPCS will help T-Mobile USA to substantially improve its position regarding mobile spectrum in major metropolitan areas such as New York City. From 2014 we are going to roll out LTE with a bandwidth of at least 2x20 MHz in 90 percent of the top 25 markets. In addition, the business combination with MetroPCS will enable T-Mobile USA to consolidate its position in the fast-growing prepay segment. Finally, from 2013 T-Mobile USA will start selling Apple products, a key element that was previously missing from our U.S. strategy.

In the Europe operating segment, stronger collaboration across the national companies aims to leverage economies of scale and raise economic efficiency by centralizing shared tasks. We will also focus more on the growth markets of B2B/ICT, mobile data revenue, and television. However, the path to high bandwidths in mobile communications requires further steps. First, through new mobile frequencies. In some countries, we have successfully taken part in auctions to extend existing licenses or acquire additional spectrum. Second, network partnerships in Poland, the Czech Republic, and Austria are helping us to increase network coverage and capacity.

T-Systems marked a significant milestone in July 2012 with the launch of Telekom IT, where the Group's internal IT activities in Germany are now pooled. The aim of the new unit is to sustainably reduce the Group's IT costs by EUR 1 billion by 2015. In external business, T-Systems is focusing even more squarely on cloud-based solutions. Experts are forecasting annual average growth rates in this market of 17 percent through 2017, which is significantly higher than the growth rate of 2 percent per year projected for the traditional ICT business.

Besides these areas of activity in our operating segments, we have identified business opportunities in establishing and expanding cross-segment partnerships, such as BUYIN, the procurement joint venture between Deutsche Telekom and France Télécom-Orange. Strategic partnerships are also promising when it comes to opening up further market potential or collaborating on innovation and product development. There are few markets in which the speed of innovation is as fast as in the IT and telecommunications sector. Any company wanting not only to keep up, but to drive new innovations forward should strategically complement its own ideas with those generated by external partners. Intelligent approaches can often be cleverly combined – so that the sum of their parts gives rise to an even greater overall customer experience. That is why we are engaging in a rising number of partnerships. All companies, whether global corporations, small start-ups, or entrepreneurs are welcome to join us on a level playing field. These partnerships will mainly be based on three models: collaborations with major established partners, financial investments, or partnerships with start-ups. This produces a win-win situation for all parties. We can integrate innovations from outside the Group. Our customers are able to share in the latest developments and ideas. Our partners benefit from access to our Group's communication and Internet services as well as our sales channels and distribution capacities.

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.

The Audit Committee of Deutsche Telekom AG monitors the effectiveness of the ICS as required by § 107(3) sentence 2 AktG. The Board of Management has the responsibility to define the scope and structure of the ICS at its discretion. Internal Audit is responsible for independently reviewing the functionality and effectiveness of the ICS in the Group and at Deutsche Telekom AG, and, to comply with this task, has comprehensive information, audit, and access rights. In addition, the external auditors conduct a risk-oriented audit to verify the effectiveness of those parts of the ICS that are relevant to financial reporting.

The accounting-related ICS comprises the principles, methods, and measures used to ensure appropriate accounting. It is continuously being refined and aims to ensure the consolidated financial statements of Deutsche Telekom are prepared in accordance with the International Financial Reporting Standards (IFRS) as adopted by the European Union, as well as with the regulations under commercial law as set forth in § 315a (1) HGB. Another objective of the accounting-related ICS is the preparation of annual financial statements of Deutsche Telekom AG in accordance with German GAAP.

It is generally true of any ICS that regardless of how it is specifically structured there can be no absolute guarantee that it will achieve its objectives. Regarding the accounting-related ICS, there can therefore only ever be relative, 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, 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. In this context, the ICS safeguards the quality of internal processes as well as of the interfaces to our customer by means of adequate controls and an internal certification process.

Internal controls are embedded in the accounting process depending on risk levels. The accounting-related ICS comprises both preventive and detective controls, which include:

- IT-based and manual data matching
- The segregation of functions
- The dual checking principle
- 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 processes are selected based on risk factors. They are then reviewed for effectiveness in the course of the year, generally by way of external audits. In order to ensure a high-quality accounting-related ICS, Internal Audit is closely involved in all stages of the process.

SIGNIFICANT EVENTS AFTER THE REPORTING PERIOD.

Cooperation with Sky. In early January 2013, we signed an agreement with Sky Deutschland concerning an extensive partnership. For the 2013/2014 Bundesliga season, we will offer the program packages from Sky Deutschland to our Entertain IPTV customers for the first time. From mid-2013, Entertain customers will be able to choose from the full range of Sky packages: Sky Welt, Sky Fußball Bundesliga, Sky Sport, and Sky Film as well as the wide-ranging Sky HD offering. The arrangement runs until mid-2017.

Issuance of a euro bond. Deutsche Telekom AG issued a bond in the amount of EUR 2 billion on January 10, 2013 via its Dutch financing subsidiary Deutsche Telekom International Finance B.V. There are two tranches to the bond: an 8-year tranche with a volume of EUR 1.25 billion and a coupon of 2.125 percent, and a 15-year tranche with a volume of EUR 750 million and a coupon of 3.25 percent. The issuance forms part of the Company's general corporate financing. It does not increase the level of our net debt. The bond will be shown under non-current financial obligations as of the issuance date.

Extension of the early retirement scheme to 2013 resolved. Our Board of Management resolved in January 2013 to extend the early retirement scheme for civil servants to 2013. This will incur expenses of EUR 0.6 billion in 2013.

Share buy-back in January 2013 in connection with the share matching plan. Deutsche Telekom AG brought the share buy-back program resolved by the Board of Management on December 18, 2012 to an end on January 16, 2013. In the period from January 2 to 16, 2013 a total of 268,295 shares with a total acquisition volume of EUR 2.4 million were acquired as part of the program (average price per share: EUR 8.92); this concluded the buy-back of shares in the Company. As a result, treasury shares of EUR 0.7 million were openly deducted from issued capital (imputed value of EUR 2.56 per share) and the retained earnings of the Group decreased by around EUR 1.7 million. The shares were bought back as part of the Deutsche Telekom compensation plan to implement the share matching plan.

Workforce restructuring in Germany. The management of Telekom Deutschland GmbH decided in January 2013 to introduce a special severance program for staff working in steering and centralized functions in the Germany operating segment that will run through June 30, 2013. Deutsche Telekom will also offer early retirement arrangements above all for civil servants for these functions. This gradual workforce reduction will enable Telekom Deutschland to manage the process in a responsible, socially considerate manner. We expect this to make a significant contribution to lowering our personnel costs.

ULL application. On January 22, 2013, Deutsche Telekom filed an application with the Federal Network Agency for a monthly charge of EUR 12.37 for the provision of the unbundled local loop (ULL) line. For the first time, the approval period will be three years, with an option to extend it for a further three years (until December 31, 2019). The current charge of EUR 10.08 will expire on June 30, 2013.

OTE bond issue. OTE S.A. issued a bond on January 30, 2013 in the amount of EUR 0.7 billion via its UK financing subsidiary OTE PLC. The bond has a five-year term and a coupon of 7.875 percent. The issuance forms part of the Company's general corporate financing. It does not increase the level of our net debt. The bond will be shown under non-current financial liabilities as of the issuance date. The bond generated considerable interest among investors and demonstrates the markets' confidence in OTE's strategy. The success of the issuance is also a positive sign for Greek companies' access to the global finance markets.

Sale of Hellas Sat. On February 7, 2013 OTE, which is part of the Europe operating segment, entered into an agreement to sell its shares in its subsidiary Hellas Sat for EUR 0.2 billion. The sale is expected to be completed in the first half of 2013. The sale proceeds and the impact on net profit are not likely to be material.

For details on the **Eutelsat arbitration proceedings, claims for damages due to price squeeze,** on **claims relating to charges for shared use of cable ducts,** and on the concluded **proceedings initiated by the Croatian competition authority against Hrvatski Telekom,** please refer to the section "Risk and opportunity management."

Please also refer to **PAGE 149 et seq.**

OTHER DISCLOSURES.

The Statement is available to the public on Deutsche Telekom's website **(WWW.TELEKOM.COM)**.

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.

For information on the share capital in accordance with § 289 (4) No. 1 of the German Commercial Code (Handelsgesetzbuch – HGB), please refer to **NOTE 15** "Shareholders' equity" in the notes to the consolidated financial statements, **PAGES 242 – 243.**

Deutsche Telekom AG, Bonn, is the parent of the Deutsche Telekom Group. Its shares are traded on the Frankfurt/Main Stock Exchange as well as on other German stock exchanges.

Shareholders' equity.

Each share entitles the holder to one vote. These voting rights are nevertheless restricted in relation to treasury shares (around 2 million as of December 31, 2012) and trust shares (around 19 million as of December 31, 2012). The trust shares are connected with the acquisition of VoiceStream and Powertel (now T-Mobile USA) in 2001. As part of these acquisitions, Deutsche Telekom AG issued new shares from authorized capital to trustees for the benefit of holders of warrants, options, and conversion rights, among others. As regards the shares issued to trusts, the trustees in question waived voting rights and subscription rights and, in general, dividend rights for the duration of the trusts' existence. The shares issued to the trusts can be sold on the stock exchange on the instruction of Deutsche Telekom AG if the beneficiaries do not exercise their options or conversion rights or if these expire. The proceeds from the sale accrue to Deutsche Telekom AG.

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

The shares are to 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 are also to be used for purposes for which an exclusion of subscription rights is intended, but can also be withdrawn or sold through the stock market or by way of an offer to all shareholders. The shares are to be available 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 treasury shares through the use of equity derivatives.

Authorized capital and contingent capital. The shareholders' meeting on April 30, 2009 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 non-cash capital contributions in the period ending April 29, 2014. This authorization may be exercised either in full or in one or several partial amounts. The Board of Management is authorized, subject to the approval of the Supervisory Board, to disapply shareholders' preemptive rights 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. The Board of Management is also authorized, subject to the approval of the Supervisory Board, to determine the rights accruing to the shares in the future and the conditions for issuing shares **(2009/I authorized capital).**

The shareholders' meeting on April 30, 2009 authorized the Board of Management to increase the share capital with the approval of the Supervisory Board by up to EUR 38,400,000 by issuing up to 15,000,000 no par value registered shares against cash and/or non-cash contributions in the period ending April 29, 2014. This authorization may be exercised either in full or in one or several partial amounts. Shareholders' subscription rights are disapplied. The new shares may only be issued to grant shares to employees of Deutsche Telekom AG and of lower-tier companies (employee shares). The new shares can also be issued to a bank or some other company meeting the requirements of § 186 (5) sentence 1 AktG that assumes the obligation to use these shares for the sole purpose of granting employee shares. Where permitted by law, the employee shares may also be issued in such a way that the contribution to be paid in return is taken from the part of the income after income taxes that the Board of Management and the Supervisory Board may transfer to other retained earnings in accordance with § 58 (2) AktG. The shares to be issued as employee shares can also be acquired in the form of a securities loan from a bank or some other company meeting the requirements of § 186 (5) sentence 1 AktG and the new shares used to repay this securities loan. The Board of Management is authorized, subject to the approval of the Supervisory Board, to determine the rights accruing to the shares in the future and the conditions for issuing shares **(2009/II authorized capital).**

The share capital has been contingently increased by up to EUR 31,813,089.28 as of December 31, 2012, composed of up to 12,426,988 new no par value registered shares **(contingent capital II).** The contingent capital increase is exclusively for the purpose of meeting subscription rights to shares from stock options granted in the period until December 31, 2003 to members of the Board of Management of the Company, to members of second-tier management, and to other executives, managers, and specialists of the Company and to members of the boards of management, members of management, and other executives, managers, and specialists at lower-tier Group companies in Germany and other countries, on the basis of the authorization for a 2001 Stock Option Plan granted by resolution of the shareholders' meeting on May 29, 2001. It will be implemented only to the extent that the holders of stock options exercise these options.

The share capital was contingently increased by up to EUR 1,100,000,000 as of December 31, 2012, composed of up to 429,687,500 no par value registered shares **(2010 contingent capital).** The contingent capital increase will be implemented only to the extent that

a) the holders or creditors of bonds with warrants, convertible bonds, profit participation rights, and/or participating bonds (or combinations of these instruments) with options or conversion rights, which are issued or guaranteed by Deutsche Telekom AG or its direct or indirect majority holdings by May 2, 2015, on the basis of the authorization resolution granted by the shareholders' meeting on May 3, 2010, make use of their option and/or conversion rights or

b) those obligated as a result of bonds with warrants, convertible bonds, profit participation rights, and/or participating bonds (or combinations of these instruments) which are issued or guaranteed by Deutsche Telekom AG or its direct or indirect majority holdings by May 2, 2015, on the basis of the authorization resolution granted by the shareholders' meeting on May 3, 2010, 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 (5) 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 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 Everything Everywhere joint venture in the United Kingdom, Deutsche Telekom AG and France Télécom S.A. agreed in the joint venture agreement that if Deutsche Telekom comes under the controlling influence of a third party, France Télécom will be exempted from all the restrictions imposed on the shareholders with regard to a transfer of their shares for a period of one year. Transferring shares to competitors would remain prohibited even in this situation, however.

In the master agreement establishing the procurement joint venture BUYIN in Belgium, Deutsche Telekom AG and France Télécom S.A./Atlas Services Belgium S.A. (a subsidiary of France Télécom S.A.) agreed that if Deutsche Telekom or France Télécom comes under the controlling influence of a third party or if a third party that is not wholly owned by the France Télécom group of companies acquires shares in Atlas Services Belgium S.A., the respective other party (France Télécom and Atlas Services Belgium only jointly) can terminate the master agreement with immediate effect.

Changes in the consolidated group.

In addition to Deutsche Telekom AG, 68 German and 167 foreign subsidiaries are fully consolidated in Deutsche Telekom's consolidated financial statements (December 31, 2011: 64 and 174). Twelve associates (December 31, 2011: 10) and eight joint ventures (December 31, 2011: 7) are also included using the equity method.

The principal subsidiaries of Deutsche Telekom AG are listed under "Principal subsidiaries" in the "Summary of accounting policies" section in the notes to the consolidated financial statements, **PAGE 220.**

Business combinations. Deutsche Telekom did not effect any material business combinations in the 2012 financial year.

DEVELOPMENT OF REVENUE AND PROFITS.[1]

ECONOMIC OUTLOOK.

By the end of 2012, the stimulus plans of the European Central Bank (ECB) and the U.S. Federal Reserve (Fed) had substantially calmed the financial markets and economic confidence indexes were showing the first signs of a positive trend. However, we expect that the slowdown in the main industrial and emerging economies that was triggered by the consolidation measures will continue to impact negatively on national economies in the first few months of 2013.

Provided the sovereign debt and banking crisis does not deteriorate again, the expansion of the global economy could accelerate in the course of 2013, supported primarily by increased growth in the emerging economies. The eurozone economies could also recover slightly throughout 2013, underpinned in particular by the German economy.

T 039

GDP forecasts for 2013.

	2013 compared with 2012 %
Germany	0.7
United States	1.8
Greece	(4.3)
Poland	1.5
Hungary	0.0
Czech Republic	(0.2)
Croatia	0.3
Netherlands	(0.4)
Slovakia	1.7
Austria	0.9
United Kingdom	1.0

Source: Oxford Economics, January 2013.

The economic outlook in our core markets continues to vary greatly. After two strong years in 2010 and 2011 and moderate growth in 2012, growth in Germany's economy is forecast to slow down in 2013. The Ifo Institute forecasts real GDP growth for Germany of 0.7 percent, most of which is expected to be the result of positive developments in the second half of 2013. Other studies expect limited growth of 0.3 to 0.5 percent. Germany's relatively strong competitive position, however, is likely to remain safe in 2013. The labor market is also expected to remain stable in 2013, supported among other things by exports, which are expected to revive in the second half of the year.

Current estimates for 2013 for the United States expect a growth rate of up to 2 percent, primarily due to further rises in private consumption as well as a recovery on the real estate market. The unemployment rate is anticipated to again decrease slightly in 2013 to an average of 7.8 percent. But overall, growth in employment is still slower than in past recovery phases. It is crucial for further progress that politicians agree a long-term path for fiscal consolidation.

Economic growth in our core markets in Poland, Austria, and Slovakia is predicted to cool off yet continue to grow at a moderate pace in 2013, with annual growth rates of between 0.5 and 2.2 percent. Stagnation or a slight recession and in turn, a difficult economic situation is expected for 2013 in the economies in the Netherlands, the Czech Republic, and Hungary. Greece is expected to remain mired in recession in 2013, with current forecasts predicting average growth rates of minus 4.3 percent.

MARKET EXPECTATIONS.

For 2013 and 2014, we expect the **German** telecommunications market to decline overall, while competition remains intense, with cable companies increasingly competing with the industry's traditional providers. We expect the mobile market to decline slightly in 2013, driven by the reduction in termination charges. The regulation-induced decrease in revenue will be compensated primarily by the continued increase in use of mobile data services. The rising popularity of smartphones and tablet PCs will drive mobile data and Internet usage as well as mobile data revenues in the coming years. In the fixed-network market we expect no more than a slight increase in broadband lines. Traditional voice revenues will continue to decline. By contrast, we anticipate growth in related segments such as TV, De-Mail, and cloud services. Demand for telecommunications products from small and medium-sized enterprises is expected to continue to grow, especially in mobile data transmission and automated machine-to-machine data exchange.

The **European markets (excluding Germany)** are dominated by tough competition between market players from the traditional telecommunications industry and cable companies. We expect that decisions by regulatory authorities will continue to put pressure on the markets in the coming year and negatively impact revenue, especially in voice telephony. The allocation of mobile frequency licenses in several countries of our segment, for example, will noticeably increase the number of new market players. We also anticipate sharp cuts in termination charges, which are expected to affect all countries of our Europe segment. Despite all this, we expect to partially compensate the decline in traditional voice revenue through the rise of our growth areas, such as broadband and TV. The growing popularity of smartphones and tablet PCs in particular will drive up demand for higher bandwidths. We have also identified clear potential for growth in the business customer segment of ICT and in Internet services. In 2013, the economic crisis will continue to impact on a number of Southern and Eastern European markets in which we operate. For example, governments in several countries in our Europe segment will still endeavor to improve their financial situation through fiscal policies to our detriment. Such action could also have a dampening effect on private consumption, which would reduce the market volume. Overall, we expect telecommunications markets in the Europe segment to return to moderate growth from 2014.

The **United States mobile market** continues to be characterized by intense competition among the major mobile carriers while the economic recovery in the United States currently results in lower unemployment figures and an expected rise in consumer spending. In the context of the competitive and economic environment in the United States, the telecommunications market is expected to experience growth in no-contract product offerings and revenues from mobile broadband data services. This revenue growth is expected to offset declining revenue from providing voice and text services.

Due to the slight recovery anticipated in the global economy, we expect the growth trend in the **ICT market** to increase further in 2013 and 2014. We anticipate that the ICT market will continue to be dominated by ongoing cost pressure, delayed investment, and strong competition. Overall demand is constantly changing. The topics of cloud services, big data (storage, preparation, processing and analysis of large volumes of data), intelligent networks, and mobilizing business processes (use of mobile devices in a company's business processes) in particular are increasingly transforming the market.

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

- **"Telecommunications":** The macroeconomic trend has only a limited impact on the telecommunications market segment. As in previous years, we expect this market to be highly contested and that prices will continue to fall.

- **"IT services":** After slowing down slightly in the reporting year, the market for IT services is expected to recover again in the following years. IT services mainly comprise outsourcing and the IT project business:

  - "Outsourcing": The outsourcing business in Computing & Desktop Services recovered further in 2012, and this trend is set to continue in the near future. This is due not only to traditional outsourcing activities, but also to the increasing success of cloud services, the provision of IT services over the Internet.

  - "IT project business": In the reporting year, growth slowed due to the macroeconomic trend. Based on current forecasts, however, a significant recovery is expected in the IT project business. Growth is primarily driven by ICT security, big data and cloud services.

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

The future at a glance. At our Capital Markets Day in Bonn at the start of December 2012 we presented, among other things, our expectations for 2013 through 2015. The statements below contain the information communicated there, which we still stand by.

We will continue to drive forward Deutsche Telekom's evolution from a pure telecommunications company to a "telco plus." As we want to be our customers' first choice for connected life and work, we will increasingly invest in our future and return to growth by 2014. For the period 2013 through 2015, our strategic focus entails the following core messages:

- In Germany, we aim to stabilize our revenues from 2014.
- In Europe and the United States, we want to return to slight growth from 2014.
- In our innovation unit, the Digital Business Unit (DBU), we are aiming for double-digit growth.
- In the Systems Solutions operating segment, we want to grow profitably in our business with corporate customers and reduce overall expenses in intragroup IT services.

In order to achieve our aims, we will invest more in our networks and expand our broadband infrastructure, especially in Germany and the United States. Overall, the Group is aiming for a total **investment volume** (excluding spectrum investments) of EUR 9.8 billion, with MetroPCS being included for the full 2013 financial year based on a pro forma calculation.

Around EUR 6 billion is earmarked for rolling out the broadband infrastructure in the German fixed network with optical fiber and for vectoring between 2013 and 2020. However, our investments in the high-speed fixed network require a reliable, innovation-friendly regulatory environment in Europe. In mobile communications, we are focusing on the LTE standard. In addition, T-Mobile USA and Apple have signed an agreement under which T-Mobile will start selling Apple products in 2013. These initiatives aim to increase revenue and earnings by 2014:

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- After a decline in 2013, we expect the Group's total revenue to increase year-on-year (including MetroPCS on a like-for-like basis) by 2014. In our Germany segment, we expect that revenue will stabilize and in our Europe segment, we plan to return to organic growth, i.e., excluding the effects of regulatory decisions, exchange rates, and special government measures like additional taxes. In the United States we plan to return to growth in 2014, supported not only by the planned investments but also by our agreement with Apple, which will enable us to offer the popular smartphone models with excellent network quality and coverage. Our business with external corporate customers in the Systems Solutions operating segment is to grow profitably.

- Not least due to the market investments required in connection with our deal with Apple, the Group's adjusted EBITDA (including MetroPCS on a like-for-like basis) is expected to decline year-on-year to around EUR 18.4 billion in 2013. We expect adjusted EBITDA to grow again year-on-year in the following year, thanks to the positive impact of our investment measures and initiatives.

- The Group's free cash flow for 2013 is anticipated to reach around EUR 5 billion, mainly due to increased investments and the implementation of our challenger strategy on the U.S. market, including the arrangement with Apple. By 2015, the Group's free cash flow is to reach around EUR 6 billion (including MetroPCS).

We intend to continue leveraging economies of scale and synergies in the future, through partnerships or appropriate acquisitions in markets where we are already represented. There are no plans, however, for major acquisitions or expansion in emerging markets. We will strategically review our partnerships and equity investments such as Everything Everywhere and Scout with a view to goodwill maximization.

We will accompany the above measures and initiatives with cost-cutting programs, especially targeting indirect costs, in order to achieve profitable growth. In this way, we want to increase our total return on capital employed (ROCE) to 5.5 percent by 2015.

Despite substantial capital expenditure, we want to continue to compensate our shareholders appropriately. Subject to approval by the relevant bodies and the fulfillment of other legal requirements, therefore, a dividend of EUR 0.50 per dividend-bearing share is to be paid for each of the financial years 2013 and 2014. The plan is to give shareholders the choice of a cash dividend or a dividend in the form of shares in Deutsche Telekom AG.

The general mood on the international finance markets in 2012 was again dominated by the European debt crisis, which meant that some countries had difficulties refinancing their due debts. A stable market environment is initially anticipated for 2013. Financial market development is expected to be dominated by the introduction of suitable additional measures to address the debt crisis.

Deutsche Telekom continues to enjoy outstanding access to international capital markets and thanks to its continuous issuing activities is in a position to place issues on these markets at short notice and at any time. Provided we meet the following targets, defined as part of our finance strategy, we will continue to enjoy flexible access to the international debt capital markets in 2013 and in subsequent years:

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

For more information on the bond issued in January 2013, please refer to "Significant events after the reporting period," PAGES 172 – 173.

In 2012, Deutsche Telekom successfully placed bonds and medium-term notes (MTNs) of a total volume of more than EUR 3 billion on the international capital markets at attractive conditions. Repayments totaling EUR 3.9 billion in bonds, MTNs, and promissory notes will be due in 2013. We issued a bond in the amount of EUR 2 billion at good conditions in January 2013.

At the end of 2012, the rating agencies Fitch, Moody's, and Standard & Poor's rated us as a solid investment grade company at BBB+/Baa1/BBB+. The outlook from all three rating agencies was "stable." In order to retain secure access to the international financial markets in the future, a solid investment grade rating between A- and BBB is a key element of our finance strategy. Such a rating also helps us to manage our planned capital expenditure flexibly over the next few years and thus to contribute to future growth.

As of the end of 2012, we had a comfortable liquidity reserve of around EUR 18.3 billion. For 2013, too, we plan to maintain a liquidity reserve that is able to cover all maturities of the next 24 months. To maintain its liquidity, Deutsche Telekom will carry out borrowings on the capital market in 2013. First and foremost, we will align the timing of our financing measures with the environments of the various international capital markets.

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

Since we intend to pay a dividend of EUR 0.50 going forward, net income is a major factor in this connection. Based on the described expectations for our operating segments and the resulting effects for 2013 and 2014, and taking into account existing retained earnings, Deutsche Telekom AG also expects to distribute a corresponding dividend for the next two financial years.

Expectations up to 2015. The expectations for the Group and the operating segments up to 2015 are shown in TABLE T 040, PAGE 183, and assume a comparable consolidation structure and constant exchange rates. Expectations may change if the macroeconomic situation deteriorates further and/or there is any unforeseen government or regulatory intervention. All trends denote year-on-year changes.

T 040

		Results 2012	Expections 2013	Expections 2014[e]	Expections 2015[e]
REVENUE					
Group	billions of €	58.2	slight decrease		
Group (including MetroPCS)			slight decrease	slight increase	slight increase
Germany	billions of €	22.7	slight decrease	stabilization	stable development
Europe	billions of €	14.4	decrease	stabilization	slight increase
United States (in local currency)	billions of USD	19.8	stabilization		
United States (in local currency) including MetroPCS			stabilization	slight increase	slight increase
Systems Solutions	billions of €	10.0	stable development	slight increase	slight increase
Of which: Market Unit	billions of €	7.8	increase	increase	increase
EBITDA (ADJUSTED FOR SPECIAL FACTORS)					
Group	billions of €	18.0	around 17.4		
Group (including MetroPCS)	billions of €		around 18.4	slight increase	slight increase
Germany	billions of €	9.2	around 8.9	slight decrease	stable development
Europe	billions of €	4.9	around 4.7	stabilization	slight increase
United States (in local currency)	billions of USD	4.9	around 4.7		
United States (in local currency) including MetroPCS	billions of USD		around 6.0	slight increase	increase
Systems Solutions	billions of €	0.7	around 0.8	slight increase	slight increase
INVESTITIONEN[a]					
Group	billions of €	8.0	around 8.6		
Group (including MetroPCS)	billions of €		around 9.8	slight decrease	around 9.5
Germany	billions of €	3.5	around 3.4	around 4.1	around 4.3
Europe	billions of €	1.6	around 1.7	around 1.7	around 1.7
United States (in local currency)	billions of USD	2.9	3.3 to 3.4		
United States (in local currency) including MetroPCS	billions of USD		4.7 to 4.8	around 3.0	around 3.1
Systems Solutions (Market Unit)	billions of €	0.5	around 0.6	around 0.6	around 0.7
ROCE	%	(2.3)			target 2015: around 5.5
Free cash flow[b]	billions of €	6.2	around 5	slight increase	around 6
Dividend per share[c,d]	€	0.70	0.50	0.50	re-visit
EPS adjusted for special factors	€	0.59			target 2015: around 0.8
Equity ratio	%	28.3	25 to 35	25 to 35	25 to 35
Relative debt		2.1 x	2 to 2.5 x	2 to 2.5 x	2 to 2.5 x
Rating		BBB+	A–/BBB	A–/BBB	A–/BBB

[a] Before any investments in spectrum.
[b] Free cash flow before dividend payments and spectrum investment and before AT&T transaction.
[c] Additional option for shareholders: choice of cash dividend or dividend in the form of shares in Deutsche Telekom AG.
[d] Subject to approval by the relevant bodies and the fulfillment of other legal requirements.
[e] Expectations for 2014 and 2015 include MetroPCS.

T 041

Exchange rates.

Croatian kuna	HRK	7.52/€
Polish zloty	PLN	4.18/€
Czech koruna	CZK	25.14/€
Hungarian forint	HUF	289.17/€
U.S. dollar	USD	1.29/€

We have based our forecast on the exchange rates shown in **TABLE T 041**.

TABLE T 042 provides a summary of our model calculations and analyses of the key potential external factors.

T 042

Factors which might have an impact on results.

External factor	Current trend	Impact on results
Intensity of competition in the telecommunications sectors in the United States and Europe [a]	↓	–
Regulation of mobile communications in Europe [a]	↓	–
Regulation of fixed network in Europe [a, b]	↑	+
Development of exchange rates: U.S. dollars	↔	o
Development of exchange rates: European currencies	↔	o
Macroeconomic trends in Europe [a] and the United States	↔	o
Price pressure in telecommunications markets	↓	–
Inflation	↔	o
Euro crisis	↔	o
Additional taxes (in Europe/the United States)	↓	–
ICT market	↑	+
Data traffic	↑	+

[a] Europe including Germany.
[b] Due to the refocusing of fixed-network regulation to encourage investment in broadband access networks as announced by the European Commission, we expect the trend to improve.

↑ Improving
↔ No change
↓ Deteriorating

\+ Positive
o None
– Negative

EXPECTATIONS FOR THE OPERATING SEGMENTS.

Germany.

We expect that broadband demand for our innovative products, such as cloud services or TV across all screens, will continue to rise substantially both in mobile communications and in the fixed network. We are aiming for a mobile market share of around 35 percent in mobile service revenues and market leadership in the number of broadband lines at around 43 percent in Germany by 2015. For this reason, we will substantially increase our investments in broadband networks, products and customer services measured by the customer satisfaction index TRI*M[a] in Germany over the next few years in order to improve our competitiveness. We will focus on the accelerated LTE and fiber-optic network roll-out in Germany, concentrating specifically on the following points:

- Accelerated LTE roll-out up to a coverage of 85 percent of the population in 2016.

- Expansion of the fiber-optic network in the same period with the aim of being able to supply around 65 percent of households with FTTC. Deployment of the new vectoring technology will increase FTTC data transmission rates to up to 100 Mbit/s. This technology will be rolled out provided a corresponding regulatory framework is in place.

- In the future, an innovative hybrid technology will bundle the transmission capacities of the fixed and mobile networks intelligently, allowing additive use to be made of the maximum available bandwidth.

While we are driving forward investments in new technologies, we are also reducing investments in old technologies and thus clearly laying the foundation for innovation and growth.

In the Germany operating segment, we expect revenue to undergo a slight decrease year-on-year in 2013, mainly as a result of regulatory decisions (e.g., termination charges, interconnection, and roaming in mobile communications), but also due to declining revenue in traditional voice telephony and the wholesale fixed-network business.

In 2014, we aim to stabilize revenue against the prior year. In particular, the revenue trend is to be boosted by our attractive bundle products in mobile communications, which increasingly come with a high-quality device, as well as our television service Entertain, based on our expanded fiber-optic infrastructure in the fixed network. At the same time, we will drive forward innovative cloud solutions and other innovative product ideas, especially in the growth areas of mobile Internet and the connected home.[b] This is how we plan to offset the decline in traditional business activities.

We expect adjusted EBITDA for the Germany operating segment to decline slightly year-on-year in 2013 and 2014 due in part to lower revenue in 2013 and an increase in direct costs as a result of increased market investments over the next few years. By continuing our systematic cost management of indirect costs through the optimization of our processes and systems, we are aiming for an adjusted EBITDA margin of around 40 percent.

As announced at our Capital Markets Day in December 2012, we expect the medium-term trends for the Germany operating segment shown in **TABLE T 043**:

T 043

Mid-term ambition level.

Market	No. 1 in mobile service revenue market share ≈ 35 %	2015
	No. 1 broadband market share ≈ 43 %	2015
	No. 1 in TV growth	2012 through 2015
Quality	Customer loyalty index ≈ +10 %	2015 vs. 2012
Financials	Stable total revenue	2014
	Connected home revenue [b] +2 %	2015 vs. 2012
	EBITDA margin ≈ 40 %	2012 through 2015

[a] TRI*M (measuring, managing and monitoring) is a standardized indicator system for customer satisfaction based on customer surveys.
[b] This includes all revenues that we are set to generate with our existing double- and triple-play packages, i.e., our fixed-network voice, data, and TV services (including add-on options and excluding sales-related reductions).

Europe.

As described in the section on market expectations for 2013, we expect a strained market situation for our Europe operating segment.

Our national companies operate in a highly competitive environment. Most of them are virtually saturated, and line losses are the order of the day in the traditional fixed-line business. Prices are pushed down by decisions made by regulatory authorities, such as the repeated reduction in termination charges in mobile communications or decisions regarding wholesale fixed-line business. In addition, the competition is intensified by the allocation of additional and existing mobile spectrum to new potential market players.

Despite these difficult competitive circumstances, in most markets in this segment we aim to continue defending our strong earnings. Depending on our national companies' respective market position, we will work to retain market leadership in our "senior leaders" Greece, Hungary, Croatia, and the F.Y.R.O. Macedonia, both in fixed-network and mobile business. By contrast, in Romania, Slovakia and Montenegro – our "junior leaders" – we want to use our strong position in the fixed-network segment and drive forward mobile business. In our mobile-only companies, the "mobile runner-ups" in Poland and the Czech Republic, we intend to achieve market leadership. We also support the activities of our equity investments in the Netherlands, Austria, and Albania to grow as "smart attackers" in order to increase shareholder value.

In line with our vision "Deutsche Telekom – My first choice for connected life and work," we are working to delight our customers through a consistent user experience and the communication of digital content across all screens (television, computer, laptop, or mobile handset). This is supported by an attractive service portfolio, for example with modular and flexible bundled offers on intelligent devices. Innovative data and content services for smartphones and laptops complete the portfolio. Broadband access is particularly important for high-speed surfing, 3D television, high-definition movies, and value-added services.

One clear focus of our business will be on new growth areas. In the broadband and TV segments, we will augment the television service for our customers with a range of our own content and content provided by partners. We are also developing new products and services for the mobile Internet, such as the mobile wallet. This service was launched commercially in Poland at the end of 2012. Furthermore, our subsidiary in Poland will work to support other countries in the segment in introducing the mobile wallet.

Our strategy assumes that intelligent ICT solutions will become increasingly important. In the business-to-business (B2B) market, we will therefore offer powerful ICT services for small and medium-sized enterprises as well as corporate customers in the Europe segment. In this connection, we are working on standardized platforms across all national companies, for instance the development of an M2M platform in Austria. We also want to have a stronger position in the consumer segment with impressive cloud solutions.

To make this happen we are planning to transform the business model, in particular through IP transformation, i.e., a transformation from the traditional PSTN world to a new IP era. This will help us to create a simplified and standardized network and thus establish the foundation for an e-company with a promising future. We already forged ahead in 2012 with our two companies in Croatia and the F.Y.R.O. Macedonia. The main advantages are the automated generation of services and products as well as the substantial reduction in costs for equipment, for example, and lower energy consumption.

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The aim is to achieve seamless interplay between all access technologies. We will therefore focus investments on further developing the network infrastructure. In mobile communications, we are concentrating our efforts on introducing LTE as the fourth-generation mobile technology in Austria, Hungary, Croatia, and Greece, as well as various other countries in our segment. For this purpose, we will also participate in frequency auctions in the coming year. At the same time we are going to invest in building out the UMTS networks and making them HSPA plus-ready in most of the countries in the operating segment. More investments are to be made in the fixed network to increase broadband coverage. Furthermore, in the integrated markets, we are planning to offer customers the greatest possible bandwidth experience by bundling fixed-network and mobile data streams in a hybrid access product. We intend to launch this technology in at least one country in our Europe segment by 2014. Another technology milestone is TeraStream, a concept centering around a cloud-based IP architecture. In December 2012, an initial field test with consumers was successfully carried out in Croatia. In Greece too, we are planning to introduce a broadband network gateway (BNG) by 2015 as a preliminary stage for TeraStream. Further investments are planned to improve customer service and make processes more efficient.

Glossary, PAGE 301 et seq.

Our revenue and earnings may be adversely affected by changes in legislation, for instance in connection with government austerity programs. The special taxes, for instance, will not only impact negatively on revenue and/or earnings in Hungary, but also in Slovakia and Montenegro in 2013, restricting the potential for investment in these markets. Exchange rate effects could also adversely affect earnings on a euro basis. However, cost-cutting measures and strategic initiatives are anticipated to compensate to some extent for any negative effects. We will continue to increase productivity by cutting costs, which will entail headcount reductions in some of the countries in our segment. We also intend to look into the possibility of more network cooperations with competitors in certain countries of our Europe operating segment.

From January 1, 2013, tasks and functions of Group Technology and the Global Network Factory, which were previously managed by Group Headquarters & Shared Services, will be pooled and reported under the Europe segment. For the Europe operating segment, we expect the relocation of the aforementioned activities to result in unchanged revenue but slightly higher adjusted EBITDA.

In view of the aforementioned general parameters, we expect revenue and adjusted EBITDA in the Europe operating segment, based on constant exchange rates and also based on assumptions about regulation (e.g., reduction in termination charges), new market players, spectrum auctions, etc., as well as the same organizational structure – to decrease year-on-year in 2013. In 2014, we expect revenue and adjusted EBITDA to stabilize compared with 2013.

As announced at our Capital Markets Day in December 2012, we expect the medium-term trends for the Europe operating segment shown in **TABLE T 044**:

T 044

Ambition level for 2015.

	Financial stability in Europe	Technology leadership	
Operating free cash flow (adjusted)	Stable	All-IP migration in Croatia and F.Y.R.O. Macedonia	All-IP transformation
		All-IP migration launched in other countries	
Total revenue[a]	€ 14 billion	TeraStream trial in Croatia to start by end of 2012	TeraStream/BNG[c]
		BNG introduction in Greece ongoing until 2015	
Cumulative indirect opex reduction by 2015[b]	€ 0.6 billion	Maximum bandwidth experience by bundling fixed and mobile data streams, launch in at least one country 2014	Hybrid access[d]
Operating ROCE	Further improvement	Mass market product by 2015	Mobile wallet

[a] Adjusted, organic revenue development only, based on assumptions regarding regulation (esp. MTR cuts), new entrants/spectrum auction, etc.
[b] Baseline 2012.
[c] Broadband network gateway.
[d] Integrated Network Strategy.

United States.

In 2013, T-Mobile USA will continue to execute on its challenger strategy which is further accelerated by the planned combination with MetroPCS. Key elements of this strategy include providing amazing 4G services through advantaged spectrum and a next-generation LTE network deployment. Additionally, the challenger strategy focuses on attracting and retaining a loyal customer base by providing value-leading offers, driving operational efficiencies, the continued enhancement of network quality, and developing attractive device offerings, including the launch of Apple products.

T-Mobile USA continues to focus on the investment in and enhancement of network quality and coverage, and in particular further upgrade of its mobile broadband communications network to roll out the latest generation of LTE services in 2013. As a result, T-Mobile USA does not expect further significant investment in spectrum licenses in 2013 and 2014. However, the addition of MetroPCS will deepen spectrum holdings in top service areas with LTE and HSPA plus (1.9 GHz) coverage expanding to more than 200 million U.S. citizens by the end of 2013.

T-Mobile USA expects total revenues in local currency to be broadly stable in 2013 on a stand-alone basis. On a pro forma basis, including MetroPCS, we expect to see total revenues increase in 2014 with a projected five-year compound annual growth rate of 3 to 5 percent (five-year CAGR (compound annual growth rate) from

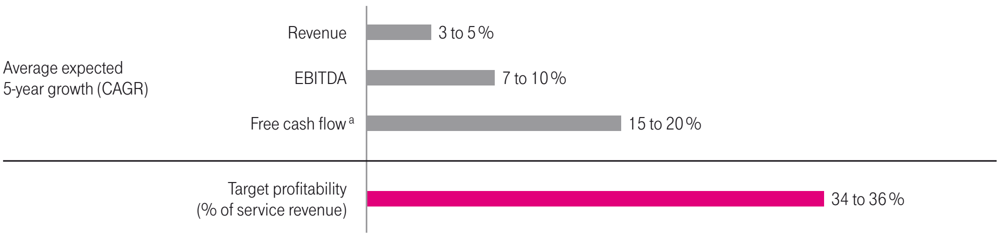
2012 through 2017). Results in 2013 are expected to be positively impacted by growth in no-contract products and non-voice services but be adversely affected by declining service revenue from customers moving to unlimited Value plans that at the same time benefit equipment revenues due to lower equipment subsidies.

On a stand-alone basis, T-Mobile USA expects adjusted EBITDA in local currency to decline in 2013. T-Mobile USA expects adverse impacts to adjusted EBITDA in 2013 due to continued investment in the network and increased marketing of the T-Mobile USA brand focused on attracting and retaining customers. However, continued focus on cost saving initiatives is expected to lower operating expenses. On a pro forma basis, including MetroPCS, T-Mobile USA expects to see adjusted EBITDA increase from 2014 with a projected five-year compound annual growth rate of 7 to 10 percent (five-year CAGR from 2012 through 2017). Additionally, competitive pressures may significantly affect expected revenues and adjusted EBITDA in local currency and exchange rates may significantly affect revenues and adjusted EBITDA in euros in 2013 and 2014.

As announced at our Capital Markets Day event in December 2012, we expect the medium-term trends for the United States operating segment shown in GRAPHIC G 53.

G 53

Projected growth for the new company, including MetroPCS.



[a] Free cash flow defined as EBITDA minus capital expenditure.

T 045

Principal sources of revenue growth for the new company.

Contract offers	Flat growth
	Stabilization of customer base in 2013 followed by modest customer growth from 2014
No-contract offers	Growth of 80 to 90 % (2012 through 2017)
Focused geographic expansion of MetroPCS brand	Growth of 10 to 20 % (2012 through 2017)

Systems Solutions.

Effective July 1, 2012, Deutsche Telekom reorganized the Group's IT structure and transferred all internal IT units from the Germany and Systems Solutions operating segments as well as Group Headquarters & Shared Services into the new Telekom IT unit within the Systems Solutions operating segment. As a result, the development of the Systems Solutions operating segment varied from business area to business area.

The T-Systems Market Unit focuses on the ICT services growth market, offering solutions for corporate customers. As companies globalize, the significance of international ICT solutions is on the rise. Drawing on a global infrastructure of data centers and networks, the T-Systems Market Unit manages information and communication services for some 400 corporate customers, including multinational corporations and public-sector and public-health institutions. On this basis, our corporate customers arm provides integrated solutions for the connected future of business and society. In 2012, we once again extended or won major new contracts with reputable industry giants such as Shell, the Catalan government, Clariant, BP, Daimler, British American Tobacco, and the Swiss industrial group Georg Fischer. Our standard solutions in the growth area of cloud computing succeeded in the face of strong competition, winning us contracts with many of these corporate customers. Accordingly, in 2012, T-Systems further expanded its dynamic resources, which allow customers to make use of bandwidth, computing capacity and memory on demand, pay for what they use, and share the infrastructure. It is also encouraging that significant deals were also concluded in the growth areas of intelligent networks and security. Utilities company RWE Deutschland, for example, has selected Deutsche Telekom as its partner for the largest smart metering project to date in Germany. These deals lay the foundation for revenue growth in the next few years. Efficiency enhancement measures based on technological progress and cost-cutting measures have already shown encouraging effects in terms of costs and will be continued.

Glossary, PAGE 301 et seq.

Glossary, PAGE 301 et seq.

As a service provider for the Group, Telekom IT constantly develops the Deutsche Telekom Group's IT landscape. As part of this process, standardized and optimized systems contribute significantly to our systematic efficiency management and to reducing the Group's IT costs further.

Overall, we expect revenue for the Systems Solutions segment to remain stable in 2013 and adjusted EBITDA to increase slightly. For 2014, both revenue and adjusted EBITDA are expected to grow slightly. Revenue generated outside the Group is expected to grow in 2013 and 2014, while revenue from other Group entities is anticipated to decline due to efficiency initiatives.

As announced at our Capital Markets Day in December 2012, we expect the medium-term trends for the Systems Solutions operating segment shown in TABLE T 046:

T 046

Ambition level for 2015.

Revenue [a, b]	Above market growth (≈ 2 % CAGR expected)
Quality	TRI*M index [c] to be maintained above peer average and > 70 points
EBIT margin [a] (adjusted for special factors)	Around 4 %
Telekom IT	IT expenditure to be reduced by ≈ € 1 billion to benchmark level

[a] Revenue and adjusted EBIT margin ambition levels refer to the Market Unit.
[b] Revenue: CAGR of 2 percent expected for the total addressable market, weighted according to T-Systems breakdown of revenue by Telecommunications/Information Technology.
[c] TRI*M (measuring, managing and monitoring) is a standardized indicator system for customer satisfaction based on customer surveys.

Group Headquarters & Shared Services.

Adjusted EBITDA will be negatively impacted in particular by expenditure at Group Headquarters and staff restructuring activities at Vivento. This is contrasted by higher earnings from Shared Services and the innovation unit, the Digital Business Unit (DBU). For the 2013 and 2014 financial years, we expect continued cost management in Shared Services to have a positive impact on EBITDA. The improvements triggered by the Shape Headquarters project will also have a positive effect, although their impact will still be dampened in 2013 by residual costs. The DBU, which was repositioned in 2012, will broaden the basis for stronger growth in 2013 through extensive market investments. These cost-intensive activities in the DBU's innovative growth areas (e.g., cloud services, payment, media business) will adversely affect adjusted EBITDA in 2013. Overall, we expect for Group Headquarters & Shared Services that the measures initiated in 2012 and 2013, which we will primarily implement in the DBU, will lead to a decline in adjusted EBITDA in 2013, but will effect a tangible improvement in EBITDA from 2014.

[1] The forecasts for the development of revenue and profits 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 net revenue, adjusted EBITDA, capital expenditure, 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 "Risk and opportunity management" section in the combined management report, **PAGE 149 et seq.,** and the disclaimer at the end of the Annual Report, **PAGE 306.** 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.

CONSOLI-DATED FINANCIAL STATE-MENTS

AT DEUTSCHE TELEKOM WE BRING ABOUT INNOVATIONS AS WE COMBINE IN-HOUSE DEVELOPMENTS, PARTNER-SHIPS, AND EQUITY INVESTMENTS IN INTELLIGENT WAYS. AS A RESULT, OUR CUSTOMERS BENEFIT FROM THE LATEST IT AND TELECOMMUNICA-TIONS SOLUTIONS.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION.

T 047

	Note	Dec. 31, 2012 millions of €	Dec. 31, 2011 millions of €
ASSETS			
CURRENT ASSETS		**15,019**	**15,865**
Cash and cash equivalents	1	4,026	3,749
Trade and other receivables	2	6,417	6,557
Current recoverable income taxes	25	95	129
Other financial assets	8	2,020	2,373
Inventories	3	1,106	1,084
Non-current assets and disposal groups held for sale	4	90	436
Other assets	9	1,265	1,537
NON-CURRENT ASSETS		**92,923**	**106,677**
Intangible assets	5	41,732	50,097
Property, plant and equipment	6	37,522	41,927
Investments accounted for using the equity method	7	6,726	6,873
Other financial assets	8	1,901	2,096
Deferred tax assets	25	4,714	4,449
Other assets	9	328	1,235
TOTAL ASSETS		**107,942**	**122,542**

	Note	Dec. 31, 2012 millions of €	Dec. 31, 2011 millions of €
LIABILITIES AND SHAREHOLDERS' EQUITY			
CURRENT LIABILITIES		**23,008**	**24,338**
Financial liabilities	10	9,260	10,219
Trade and other payables	11	6,445	6,436
Income tax liabilities	25	440	577
Other provisions	13	2,899	3,217
Liabilities directly associated with non-current assets and disposal groups held for sale	4	9	–
Other liabilities	14	3,955	3,889
NON-CURRENT LIABILITIES		**54,391**	**58,263**
Financial liabilities	10	35,354	38,099
Provisions for pensions and other employee benefits	12	7,280	6,095
Other provisions	13	1,862	1,689
Deferred tax liabilities	25	5,990	8,492
Other liabilities	14	3,905	3,888
LIABILITIES		**77,399**	**82,601**
SHAREHOLDERS' EQUITY	15	**30,543**	**39,941**
Issued capital		11,063	11,063
Treasury shares		(6)	(6)
		11,057	**11,057**
Capital reserves		51,506	51,504
Retained earnings including carryforwards		(29,212)	(25,498)
Total other comprehensive income		(2,176)	(2,326)
Net profit (loss)		(5,255)	557
ISSUED CAPITAL AND RESERVES ATTRIBUTABLE TO OWNERS OF THE PARENT		**25,920**	**35,294**
Non-controlling interests		4,623	4,647
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**107,942**	**122,542**

CONSOLIDATED INCOME STATEMENT.

T 048

	Note	2012 millions of €	2011 millions of €	2010 millions of €
NET REVENUE	16	**58,169**	**58,653**	**62,421**
Cost of sales	17	(34,202)	(33,885)	(35,725)
GROSS PROFIT		**23,967**	**24,768**	**26,696**
Selling expenses	18	(13,997)	(14,060)	(14,620)
General and administrative expenses	19	(4,852)	(5,284)	(5,252)
Other operating income	20	2,968	4,362	1,498
Other operating expenses	21	(11,896)	(4,200)	(2,817)
PROFIT (LOSS) FROM OPERATIONS		**(3,810)**	**5,586**	**5,505**
Finance costs	22	(2,033)	(2,325)	(2,500)
Interest income		306	268	349
Interest expense		(2,339)	(2,593)	(2,849)
Share of profit (loss) of associates and joint ventures accounted for using the equity method	23	(154)	(73)	(57)
Other financial income (expense)	24	(233)	(169)	(253)
PROFIT (LOSS) FROM FINANCIAL ACTIVITIES		**(2,420)**	**(2,567)**	**(2,810)**
PROFIT (LOSS) BEFORE INCOME TAXES		**(6,230)**	**3,019**	**2,695**
Income taxes	25	1,473	(2,349)	(935)
PROFIT (LOSS)		**(4,757)**	**670**	**1,760**
PROFIT (LOSS) ATTRIBUTABLE TO				
Owners of the parent (net profit (loss))		(5,255)	557	1,695
Non-controlling interests	26	498	113	65
EARNINGS PER SHARE	27			
Basic	€	(1.22)	0.13	0.39
Diluted	€	(1.22)	0.13	0.39

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME.

T 049

	2012 millions of €	2011 millions of €	2010 millions of €
PROFIT (LOSS)	**(4,757)**	**670**	**1,760**
Gains and losses from defined benefit plans recognized in equity (see **NOTE 12, PAGE 235 et seq.**)	(1,818)	177	(32)
Revaluation due to business combinations	0	0	(2)
Exchange differences on translating foreign operations			
Recognition of other comprehensive income in income statement	4	0	2,151
Change in other comprehensive income (not recognized in income statement)	318	10	1,547
Available-for-sale financial assets			
Recognition of other comprehensive income in income statement	(227)	0	0
Change in other comprehensive income (not recognized in income statement)	33	242	(3)
Gains (losses) from hedging instruments			
Recognition of other comprehensive income in income statement	9	200	0
Change in other comprehensive income (not recognized in income statement)	(197)	(765)	58
Share of profit (loss) of investments accounted for using the equity method	0	0	28
Other income and expense recognized directly in equity	0	0	0
Income taxes relating to components of other comprehensive income	631	102	(5)
OTHER COMPREHENSIVE INCOME	**(1,247)**	**(34)**	**3,742**
TOTAL COMPREHENSIVE INCOME	**(6,004)**	**636**	**5,502**
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO			
Owners of the parent	(6,366)	425	5,443
Non-controlling interests	362	211	59

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY.

T 050

	Issued capital and reserves attributable to owners of the parent					
	Number of shares	Equity contributed			Consolidated shareholders' equity generated	
		Issued capital	Treasury shares	Capital reserves	Retained earnings incl. carryforwards	Net profit (loss)
	thousands	millions of €	millions of €	millions of €	millions of €	millions of €
BALANCE AT JANUARY 1, 2010	**4,361,320**	**11,165**	**(5)**	**51,530**	**(20,951)**	**353**
Changes in the composition of the Group						
Unappropriated profit (loss) carried forward					353	(353)
Dividends					(3,386)	
Proceeds from the exercise of stock options/share matching plan				3	2	
Capital decrease	(40,001)	(102)		102	(400)	
Profit (loss)						1,695
Other comprehensive income					(52)	
Transfer to retained earnings					79	
BALANCE AT DECEMBER 31, 2010	**4,321,319**	**11,063**	**(5)**	**51,635**	**(24,355)**	**1,695**
BALANCE AT JANUARY 1, 2011	**4,321,319**	**11,063**	**(5)**	**51,635**	**(24,355)**	**1,695**
Changes in the composition of the Group				(131)		
Unappropriated profit (loss) carried forward					1,695	(1,695)
Dividends					(3,011)	
Proceeds from the exercise of stock options/share matching plan						
Share buy-back			(1)		(2)	
Profit (loss)						557
Other comprehensive income					105	
Transfer to retained earnings					70	
BALANCE AT DECEMBER 31, 2011	**4,321,319**	**11,063**	**(6)**	**51,504**	**(25,498)**	**557**
BALANCE AT JANUARY 1, 2012	**4,321,319**	**11,063**	**(6)**	**51,504**	**(25,498)**	**557**
Changes in the composition of the Group						
Unappropriated profit (loss) carried forward					557	(557)
Dividends					(3,010)	
Proceeds from the exercise of stock options/share matching plan				2		
Profit (loss)						(5,255)
Other comprehensive income					(1,264)	
Transfer to retained earnings					3	
BALANCE AT DECEMBER 31, 2012	**4,321,319**	**11,063**	**(6)**	**51,506**	**(29,212)**	**(5,255)**

Issued capital and reserves attributable to owners of the parent							Non-controlling interests	Total shareholders' equity
Total other comprehensive income						Total		
Translation of foreign operations millions of €	Revaluation surplus millions of €	Available-for-sale financial assets millions of €	Hedging instruments millions of €	Other comprehensive income millions of €	Taxes millions of €	millions of €	millions of €	millions of €
(6,577)	**118**	**(3)**	**1,037**	**0**	**(313)**	**36,354**	**5,583**	**41,937**
						0	(23)	(23)
						0		0
						(3,386)	(612)	(3,998)
						5	5	10
						(400)		(400)
						1,695	65	1,760
3,734	(2)	(1)	85		(16)	3,748	(6)	3,742
	(79)					0		0
(2,843)	**37**	**(4)**	**1,122**	**0**	**(329)**	**38,016**	**5,012**	**43,028**
(2,843)	**37**	**(4)**	**1,122**	**0**	**(329)**	**38,016**	**5,012**	**43,028**
(2)						(133)	(77)	(210)
						0		0
						(3,011)	(497)	(3,508)
						0	(2)	(2)
						(3)		(3)
						557	113	670
67		106	(565)		155	(132)	98	(34)
	(70)					0		0
(2,778)	**(33)**	**102**	**557**	**0**	**(174)**	**35,294**	**4,647**	**39,941**
(2,778)	**(33)**	**102**	**557**	**0**	**(174)**	**35,294**	**4,647**	**39,941**
						0		0
						0		0
						(3,010)	(387)	(3,397)
						2	1	3
						(5,255)	498	(4,757)
330		(59)	(188)		70	(1,111)	(136)	(1,247)
	(3)					0		0
(2,448)	**(36)**	**43**	**369**	**0**	**(104)**	**25,920**	**4,623**	**30,543**

CONSOLIDATED STATEMENT OF CASH FLOWS.

T 051

	Note	2012 millions of €	2011 millions of €	2010 millions of €
	31			
PROFIT (LOSS)		**(4,757)**	**670**	**1,760**
Depreciation, amortization and impairment losses		21,957	14,436	11,808
Income tax expense (benefit)		(1,473)	2,349	935
Interest expense (income)		2,033	2,325	2,500
Other financial (income) expense		233	169	253
Share of (profit) loss of associates and joint ventures accounted for using the equity method		154	73	57
(Profit) loss on the disposal of fully consolidated subsidiaries		(6)	(4)	349
Other operating income from the agreement with Crown Castle concerning the leasing and use of cell towers in the United States		(1,444)	–	–
Non-cash transactions in connection with the compensation from AT&T		–	(705)	–
Other non-cash transactions		15	27	(21)
(Gain) loss from the disposal of intangible assets and property, plant and equipment		(83)	28	90
Change in assets carried as working capital		(24)	690	(243)
Change in provisions		319	535	(68)
Change in other liabilities carried as working capital		(1,080)	(1,578)	(209)
Income taxes received (paid)		(694)	(778)	(819)
Dividends received		490	515	412
Net payments from entering into or canceling interest rate swaps		122	–	265
CASH GENERATED FROM OPERATIONS		**15,762**	**18,752**	**17,069**
Interest paid		(3,060)	(3,397)	(3,223)
Interest received		875	859	885
NET CASH FROM OPERATING ACTIVITIES		**13,577**	**16,214**	**14,731**
Cash outflows for investments in				
Intangible assets		(2,120)	(1,837)	(2,978)
Property, plant and equipment		(6,312)	(6,569)	(6,873)
Non-current financial assets		(1,028)	(430)	(997)
Investments in fully consolidated subsidiaries and business units		(19)	(1,239)	(448)
Proceeds from disposal of				
Intangible assets		26	20	26
Property, plant and equipment		187	336	318
Cell towers from the framework agreement with Crown Castle in the United States		1,769	–	–
Non-current financial assets		549	61	162
Investments in fully consolidated subsidiaries and business units		50	5	4
Net change in short-term investments and marketable securities and receivables		219	339	491
Other		8	39	(416)
NET CASH USED IN INVESTING ACTIVITIES		**(6,671)**	**(9,275)**	**(10,711)**
Proceeds from issue of current financial liabilities		22,664	66,349	30,046
Repayment of current financial liabilities		(29,064)	(71,685)	(34,762)
Proceeds from issue of non-current financial liabilities		3,539	3,303	3,219
Repayment of non-current financial liabilities		(171)	(51)	(149)
Dividends		(3,400)	(3,521)	(4,003)
Share buy-back		–	(3)	(400)
Repayment of lease liabilities		(169)	(163)	(139)
Other		–	(187)	(181)
NET CASH USED IN FINANCING ACTIVITIES		**(6,601)**	**(5,958)**	**(6,369)**
Effect of exchange rate changes on cash and cash equivalents		(28)	(40)	50
Changes in cash and cash equivalents associated with non-current assets and disposal groups held for sale		–	–	85
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		**277**	**941**	**(2,214)**
CASH AND CASH EQUIVALENTS, AT THE BEGINNING OF THE YEAR		**3,749**	**2,808**	**5,022**
CASH AND CASH EQUIVALENTS, AT THE END OF THE YEAR		**4,026**	**3,749**	**2,808**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS.
SUMMARY OF ACCOUNTING POLICIES.

GENERAL INFORMATION.

The Deutsche Telekom Group (hereinafter referred to as "Deutsche Telekom" or the "Group") is one of the world's leading service providers in the telecommunications and information technology sector. Deutsche Telekom offers its customers all kinds of products and services for connected life and work. The Group reports on the four operating segments Germany, Europe, United States, and Systems Solutions, as well as on Group Headquarters & Shared Services.

The Company was entered as Deutsche Telekom AG in the commercial register of the Bonn District Court (Amtsgericht – HRB 6794) on January 2, 1995.

The Company has its registered office in Bonn, Germany. Its address is Deutsche Telekom AG, Friedrich-Ebert-Allee 140, 53113 Bonn.

The declaration of conformity with the German Corporate Governance Code required pursuant to § 161 of the German Stock Corporation Act (Aktiengesetz – AktG) was released and made available to shareholders. The Declaration of Conformity can be found on the Deutsche Telekom website (WWW.TELEKOM.COM) via the following path: INVESTOR RELATIONS/ CORPORATE GOVERNANCE/DECLARATION OF CONFORMITY.

The shares of Deutsche Telekom AG are traded on the Frankfurt/Main Stock Exchange as well as on other German stock exchanges.

The annual financial statements of Deutsche Telekom AG as well as the consolidated financial statements of Deutsche Telekom AG, which have an unqualified audit opinion from PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Frankfurt/Main, are published in the electronic Federal Gazette (elektronischer Bundesanzeiger). The annual report is available upon request from Deutsche Telekom AG, Bonn, Investor Relations, and on Deutsche Telekom's homepage at WWW.TELEKOM.COM.

The consolidated financial statements of Deutsche Telekom for the 2012 financial year were released for publication by the Board of Management on February 12, 2013.

BASIS OF PREPARATION.

The consolidated financial statements of Deutsche Telekom have been prepared in accordance with the International Financial Reporting Standards (IFRS) as adopted by the European Union (EU), as well as with the regulations under commercial law as set forth in § 315a (1) of the German Commercial Code (Handelsgesetzbuch – HGB). All IFRSs issued by the International Accounting Standards Board (IASB), effective at the time of preparing the consolidated financial statements and applied by Deutsche Telekom, have been adopted for use in the EU by the European Commission. The consolidated financial statements of Deutsche Telekom thus also comply with IFRS as issued by the IASB. Therefore the term IFRS is used in the following.

The financial year corresponds to the calendar year. The consolidated statement of financial position includes comparative amounts for one reporting date. The consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity, and the consolidated statement of cash flows include two comparative years.

Presentation in the statement of financial position differentiates between current and non-current assets and liabilities, which are generally broken down further by their respective maturities in the notes to the consolidated financial statements. The consolidated income statement is presented using the cost-of-sales method. Under this format, net revenue is compared against the expenses incurred to generate these revenues, classified into cost of sales, selling, and general and administrative functions. The consolidated financial statements are prepared in euros.

The financial statements of Deutsche Telekom AG and its subsidiaries included in the consolidated financial statements were prepared using uniform group accounting policies.

INITIAL APPLICATION OF STANDARDS, INTERPRETATIONS AND AMENDMENTS TO STANDARDS AND INTERPRETATIONS IN THE FINANCIAL YEAR.

In the financial year, Deutsche Telekom applied the following IASB pronouncements and/or amendments to such pronouncements for the first time:

T 052

Pronouncement	Date of issue by the IASB	Title
IFRS 7	October 7, 2010	Disclosures – Transfers of Financial Assets
IAS 12	December 20, 2010	Deferred Tax – Recovery of Underlying Assets

In October 2010, the IASB issued the pronouncement **"Disclosures – Transfers of Financial Assets"** as an amendment to IFRS 7 "Financial Instruments: Disclosures." The amendment requires quantitative and qualitative disclosures to be made for transfers of financial assets where the transferred assets are derecognized in their entirety or the transferor retains continuing involvement. The amendment is intended to provide greater transparency around such transactions (e.g., securitizations) and help users understand the possible effects of any risks that may remain with the entity that transferred the assets. The amendment to the standard also requires supplementary information to be disclosed if a substantial proportion of the total amount of transfer activity takes place in the closing days of a reporting period. The amendment is effective for the first time for financial years beginning on or after July 1, 2011. The European Union endorsed this pronouncement in November 2011. The application of the standard results in additional disclosures, in particular with regard to factoring transactions.

In December 2010, the IASB issued the pronouncement **“Deferred Tax: Recovery of Underlying Assets – Amendments to IAS 12.”** The amendment clarifies which type of recovery is to be assumed for certain assets. This is relevant in those cases where different tax consequences can arise depending on how the carrying amounts are recovered. The pronouncement introduces a rebuttable presumption that the carrying amount of an investment property that is measured at fair value according to IAS 40 “Investment Property” will be recovered through sale. In any case, there is also a non-rebuttable presumption that the carrying amount of a non-depreciable asset that is measured using the fair value model in IAS 16 “Property, Plant and Equipment” will be recovered through sale. Interpretation SIC-21 “Income Taxes – Recovery of Revalued Non-Depreciable Assets” was replaced by the new pronouncement. The pronouncement was endorsed by the European Union in December 2012 and is effective for financial years beginning on or after January 1, 2012. Deutsche Telekom has applied the pronouncement since January 1, 2012. It does not have a major impact on the presentation of Deutsche Telekom’s results of operations, financial position or cash flows.

STANDARDS, INTERPRETATIONS AND AMENDMENTS ISSUED, BUT NOT YET ADOPTED.

In November 2009, the IASB issued **IFRS 9 “Financial Instruments.”** The standard is the result of the first of three phases of the project to replace IAS 39 “Financial Instruments: Recognition and Measurement” with IFRS 9. IFRS 9 governs the classification and measurement of financial assets. The rules for impairment of financial instruments and hedge accounting are currently being revised by the IASB. IFRS 9 will be effective for the first time for financial years beginning on or after January 1, 2015. The European Union has not yet endorsed this pronouncement. The endorsement process has currently been suspended. Prior periods do not have to be adjusted when the standard is adopted for the first time, but there is a requirement to disclose the effects of first-time adoption. Deutsche Telekom is analyzing the resulting effects on the presentation of results of operations, financial position or cash flows.

In October 2010, the IASB issued requirements on accounting for financial liabilities. These are integrated into **IFRS 9 “Financial Instruments”** and replace the existing provisions on this subject in IAS 39 “Financial Instruments: Recognition and Measurement.” In the new pronouncement, the requirements relating to recognition and derecognition as well as most of the requirements for classification and measurement are carried forward unchanged from IAS 39. Prior periods do not have to be adjusted when the standard is adopted for the first time, but there is a requirement to disclose the effects of first-time adoption. The pronouncement will be effective for the first time for financial years beginning on or after January 1, 2015. The European Union has not yet endorsed this pronouncement. The endorsement process has currently been suspended. Deutsche Telekom is analyzing the resulting effects on the presentation of results of operations, financial position or cash flows.

In May 2011, the IASB published three new IFRSs **(IFRS 10, IFRS 11, IFRS 12)** and two revised standards **(IAS 27, IAS 28)** that govern the accounting for investments in subsidiaries, joint arrangements and associates. The European Union endorsed the provisions in December 2012. The provisions will be effective within the European Union for financial years beginning on or after January 1, 2014. Deutsche Telekom is not planning earlier adoption. The adoption of the new and amended IFRSs will have an impact on the presentation of Deutsche Telekom’s results of operations, financial position or cash flows. This does not apply to the revised IAS 27, however, because this standard now exclusively relates to separate financial statements under IFRS which Deutsche Telekom does not prepare in accordance with § 325 (2a) HGB.

- The IASB is introducing a harmonized consolidation model by issuing **IFRS 10 “Consolidated Financial Statements.”** This new standard no longer distinguishes between traditional subsidiaries (IAS 27) and special-purpose entities (SIC-12). Control only exists if an investor has the power over the investee, is exposed to variable returns, and is able to use power to affect its amount of variable returns. When IFRS 10 becomes effective, it will replace SIC-12 “Consolidation – Special Purpose Entities” as well as the requirements relevant to consolidated financial statements in IAS 27 “Consolidated and Separate Financial Statements.”

- **IFRS 11 “Joint Arrangements”** will replace IAS 31 “Interests in Joint Ventures” and SIC-13 “Jointly Controlled Entities – Non-Monetary Contributions by Venturers.” It governs the accounting for joint ventures and joint operations. Proportionate consolidation for joint ventures will no longer be permissible as a result of the discontinuation of IAS 31. The amended **IAS 28 “Interests in Associates and Joint Ventures”** governs the application of the equity method when accounting for investments in both associates and joint ventures. In case of a joint operation, the share of assets, liabilities, expenses and revenues is directly recognized in the consolidated financial statements and annual financial statements of the joint operator.

- **IFRS 12 "Disclosure of Interests in Other Entities"** combines all disclosures required in the consolidated financial statements regarding subsidiaries, joint arrangements and associates, as well as unconsolidated structured entities.

- The revised **IAS 27 "Separate Financial Statements"** exclusively governs the accounting for subsidiaries, joint ventures and associates in the annual financial statements and the corresponding notes (separate financial statements according to § 325 (2a) HGB).

- The revised **IAS 28 "Investments in Associates and Joint Ventures"** governs the accounting of investments in associates and joint ventures using the equity method.

In May 2011, the IASB also published **IFRS 13 "Fair Value Measurement."** With this standard, the IASB has created a uniform, comprehensive standard for fair value measurement. IFRS 13 is effective for financial years beginning on or after January 1, 2013. IFRS 13 provides guidance on how to measure at fair value when other IFRSs require fair value measurement (or disclosure). A new definition of fair value applies which characterizes fair value as the selling price of an actual or hypothetical transaction between any independent market participants under normal market conditions on the reporting date. The standard is almost universally applicable, with the only exemptions being IAS 2 "Inventories," IAS 17 "Leases," and IFRS 2 "Share-based Payment." While the guidance remains virtually unchanged for financial instruments, the guidance for other items (e.g., investment property, intangible assets and property, plant and equipment) is now more comprehensively and/or precisely defined. The established three-level fair-value hierarchy has to be applied across the board. The adoption of IFRS 13 is likely to result in additional disclosures in Deutsche Telekom's financial statements. The European Union endorsed the provisions in December 2012.

In June 2011, the IASB issued amendments to **IAS 1 "Presentation of Financial Statements."** The amendments require that the items listed under other comprehensive income be split into two categories, according to whether or not they will be recognized in the income statement in future periods (recycling). The amendments to IAS 1 are effective for financial years beginning on or after July 1, 2012 and were endorsed by the European Union in June 2012. Deutsche Telekom will apply the aforementioned changes in the statement of comprehensive income from the 2013 financial year onward.

In June 2011, the IASB also issued amendments to **IAS 19 "Employee Benefits."** These amendments result in the discontinuation of existing options for the recognition of actuarial gains and losses. Other amendments concern the recognition of past service cost and of the net interest income/expense resulting from defined benefit plans as well as the differentiation between termination benefits and other employee benefits.

The elimination of the corridor method has no relevance for Deutsche Telekom because actuarial gains and losses are already recognized directly and exclusively in equity in their full amount in accordance with the applicable standard. The changes in the recognition of past service cost do not have a material effect because due to the current structure of the pension entitlements past service cost arises in a significant amount only in connection with vested benefits. On account of the comparatively low value of plan assets, material effects with regard to the amount and the presentation of net interest income from defined benefit plans are not anticipated either.

The changes in the definition and recognition of termination benefits may have material effects on the amounts recognized for personnel provisions and on personnel costs because under certain circumstances termination benefits may be recognized at a later date in accordance with IAS 19.166 (2011). In recent years, Deutsche Telekom has offered substantial severance packages to its employees in Germany on various legal bases and is likely to continue doing so in the future. The quantitative effects at the respective reporting dates nevertheless will depend to a large extent on the legal form and the timing of future programs. On account of the change in the definition, the top-up payments made as part of partial retirement programs may no longer be recognized as termination benefits and therefore have to be accrued over their vesting period. Owing to their special legal and financial characteristics, Deutsche Telekom's partial retirement programs offered after 2007 are no longer classified as termination benefits. For this reason, this amendment does not have any material effects.

Furthermore, disclosure requirements are also being extended, e.g., for characteristics of defined benefit plans and the risks arising from those plans. The amendments to IAS 19 are effective retrospectively for financial years beginning on or after January 1, 2013 and were endorsed by the European Union in June 2012.

In December 2011, the IASB published amendments to **IAS 32 "Financial Instruments: Presentation"** specifying the requirements for offsetting financial instruments. To meet the new offsetting requirements in IAS 32, an entity's right to set off must not be contingent on a future event and must be enforceable both in the normal course of business and in the event of default or insolvency of the entity and all counterparties. It is further specified that a gross settlement mechanism also complies with the offsetting requirements according to IAS 32, provided no major credit liquidity risks remain, and receivables and payables are processed in a single settlement step, making it equivalent to a net settlement. The new requirements shall be applied retrospectively for financial years beginning on or after January 1, 2014 and were endorsed by the European Union in December 2012. Deutsche Telekom is analyzing the resulting effects on the presentation of results of operations, financial position or cash flows, but does not currently expect any major changes.

In December 2011, the IASB also issued extended disclosure requirements regarding offsetting rights in **IFRS 7 "Financial Instruments: Disclosures."** In addition to extended disclosures on offsetting activities actually carried out pursuant to IAS 32, disclosure requirements on existing rights to set off are introduced regardless of whether the offsetting under IAS 32 is actually carried out. The new requirements shall be applied retrospectively for financial years beginning on or after January 1, 2013 and were endorsed by the European Union in December 2012. Deutsche Telekom is analyzing the resulting effects on the presentation of results of operations, financial position or cash flows and is expecting additional disclosure requirements.

The IASB issued **"Annual Improvements to IFRSs 2009 – 2011 Cycle"** in May 2012, which amended five standards. The new requirements shall be applied retrospectively for financial years beginning on or after January 1, 2013 and have not yet been endorsed by the European Union. Deutsche Telekom is analyzing the resulting effects on the presentation of results of operations, financial position or cash flows and does not expect any major changes. The amendment to **IAS 1 "Presentation of Financial Statements"** clarifies that when additional comparative information is provided in the financial statements on a voluntary basis, this information must also be presented in the related notes for that additional information. As a consequence of the amendment to **IAS 16 "Property, Plant and Equipment,"** servicing equipment is recognized as property, plant and equipment or as inventory depending on their expected useful life. The amendment to **IAS 32 "Financial Instruments: Presentation"** clarifies that the tax effect of distributions to holders of an equity instrument and the transaction costs of an equity transaction must be accounted for in accordance with IAS 12. Pursuant to the amendment to **IAS 34 "Interim Financial Reporting,"** information on segment assets and liabilities is only required to be disclosed if such information is regularly provided to the chief operating decision maker and if there has been a material change from the amount disclosed in the last annual financial statements for that reportable segment. The amendments to **IFRS 1 "First-time Adoption of IFRS"** do not have an impact on Deutsche Telekom.

In June 2012, the IASB published amendments to the transitional provisions for the three new consolidation standards adopted in May 2011: **IFRS 10, IFRS 11,** and **IFRS 12** (please refer to PAGES 202 – 203). The provisions have not yet been endorsed by the European Union and are expected to be effective within the European Union for financial years beginning on or after January 1, 2014. The adoption of the new and amended IFRSs will have an impact on the presentation of Deutsche Telekom's results of operations, financial position or cash flows.

The IASB issued further amendments to the consolidation standards **IFRS 10, IFRS 12,** and **IAS 27** (please refer to PAGES 202 – 203) in November 2012. The amendments relate to the consolidation of investment companies. The provisions have not yet been endorsed by the European Union and will be effective for financial years beginning on or after January 1, 2014. The adoption of the amended IFRSs is unlikely to have an impact on the presentation of Deutsche Telekom's results of operations, financial position or cash flows.

CHANGES IN ACCOUNTING POLICIES AND CHANGES IN THE REPORTING STRUCTURE.

With the exception of the standards, interpretations, and amendments of standards and interpretations presented that are effective for the first time in the financial year, Deutsche Telekom did not make any major changes in its accounting policies.

Since January 1, 2012, Deutsche Telekom has pooled the tasks and functions of the Digital Services growth business as well as the Internet service provider STRATO, which as of December 31, 2011 were still largely part of the Germany operating segment, in the Digital Business Unit (DBU) under Group Headquarters & Shared Services.

Effective July 1, 2012, Deutsche Telekom reorganized the Group's IT infrastructure and transferred all internal IT units from the Germany and Systems Solutions operating segments as well as Group Headquarters & Shared Services into the new Telekom IT unit within the Systems Solutions operating segment.

ACCOUNTING POLICIES.

Key assets and liabilities shown in the consolidated statement of financial position are measured as follows:

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Items of the statement of financial position	Measurement principle
ASSETS	
Current assets	
Cash and cash equivalents	Amortized cost
Trade and other receivables	Amortized cost
Current recoverable income taxes	Amount expected to be recovered from the taxation authorities, using the tax rates that have been enacted or substantively enacted by the end of the reporting period
Other financial assets	
Other non-derivative financial assets	
Held-to-maturity investments	Amortized cost
Available-for-sale financial assets	Fair value or at cost
Originated loans and receivables	Amortized cost
Derivative financial assets	Fair value
Inventories	Lower of net realizable value and cost
Non-current assets and disposal groups held for sale	Lower of carrying amount or fair value less costs to sell
Non-current assets	
Intangible assets	
Of which: with finite useful lives	Amortized cost
Of which: with indefinite useful lives (including goodwill)	Impairment-only approach
Property, plant and equipment	Amortized cost
Investments accounted for using the equity method	Pro-rata value of the investment's equity carried forward
Other financial assets	
Other non-derivative financial assets	
Held-to-maturity investments	Amortized cost
Available-for-sale financial assets	Fair value or at cost
Originated loans and receivables	Amortized cost
Derivative financial assets	Fair value
Deferred tax assets	Non-discounted amount measured at the tax rates that are expected to apply to the period when the asset is realized or the liability settled

Items of the statement of financial position	Measurement principle
LIABILITIES AND SHAREHOLDERS' EQUITY	
Current liabilities	
Financial liabilities	
Non-derivative interest-bearing and non-interest-bearing liabilities	Amortized cost
Derivative financial liabilities	Fair value
Trade payables	Amortized cost
Income tax liabilities	Amount expected to be paid to the taxation authorities, using the tax rates that have been enacted or substantively enacted by the end of the reporting period
Other provisions	Present value of the settlement amount
Liabilities directly associated with non-current assets and disposal groups held for sale	Lower of carrying amount or fair value less costs to sell
Non-current liabilities	
Financial liabilities	
Non-derivative interest-bearing and non-interest-bearing liabilities	Amortized cost
Derivative financial liabilities	Fair value
Provisions for pensions and other employee benefits	Actuarial projected unit credit method
Other provisions	Present value of the settlement amount
Deferred tax liabilities	Non-discounted amount measured at the tax rates that are expected to apply to the period when the asset is realized or the liability settled

The material principles on recognition and measurement outlined below were applied uniformly to all accounting periods presented in these consolidated financial statements.

Intangible assets (excluding goodwill) with finite useful lives, including UMTS and LTE licenses, are measured at cost and generally amortized on a straight-line basis over their useful lives. Such assets are impaired if their recoverable amount, which is measured at the higher of fair value less costs to sell and value in use, is lower than the carrying amount. Indefinite-lived intangible assets (mobile communications licenses granted by the Federal Communications Commission in the United States (FCC licenses)) are carried at cost. While FCC licenses are issued for a fixed time, renewals of FCC licenses have occurred routinely and at negligible costs. Moreover, Deutsche Telekom has determined that there are currently no legal, regulatory, contractual, competitive, economic or other factors that limit the useful lives of the FCC licenses, and therefore treats the FCC licenses as an indefinite-lived intangible asset. They are not amortized, but tested for impairment annually or whenever there are indications of impairment and, if necessary, written down to the recoverable amount. Impairment losses are reversed if the reasons for recognizing the original impairment loss no longer apply and the asset is recognized at a value that would have been applied if no impairment losses had been recognized in prior periods.

The useful lives and the amortization method of the assets are reviewed at least at each financial year-end and, if expectations differ from previous estimates, the changes are accounted for as changes in accounting estimates in accordance with IAS 8.

Amortization of mobile communications licenses begins as soon as the related network is ready for use. The useful lives of mobile communications licenses are determined based on several factors, including the term of the licenses granted by the respective regulatory body in each country, the availability and expected cost of renewing the licenses, as well as the development of future technologies.

The remaining useful lives of Deutsche Telekom's most important mobile communications licenses are as follows:

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Mobile communications licenses	Years
FCC licenses	Indefinite
LTE licenses	13
UMTS licenses	8 to 17
GSM licenses	2 to 24

Development expenditures are capitalized if they meet the criteria for recognition as assets and are amortized over their useful lives. **Research expenditures** are expensed as incurred.

Goodwill is not amortized, but is tested for impairment based on the recoverable amount of the cash-generating unit to which the goodwill is allocated (impairment-only approach). The impairment test is carried out on a regular basis at the end of each financial year, as well as whenever there are indications that the carrying amount of the cash-generating unit is impaired. For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the cash-generating units that are expected to benefit from the synergies of the combination. If the carrying amount of the cash-generating unit to which goodwill is allocated exceeds its recoverable amount, goodwill allocated to this cash-generating unit must be reduced in the amount of the difference. Impairment losses for goodwill must not be reversed. If the impairment loss recognized for the cash-generating unit exceeds the carrying amount of the allocated goodwill, the additional amount of the impairment loss is recognized through the pro-rata reduction of the carrying amounts of the assets allocated to the cash-generating unit.

Property, plant and equipment is carried at cost less straight-line depreciation, and impairment losses, if applicable. The depreciation period is based on the expected useful life. Items of property, plant and equipment are depreciated pro rata temporis in the year of acquisition. The residual values, useful lives and the depreciation method of the assets are reviewed at least at each financial year-end and, if expectations differ from previous estimates, the changes are accounted for as changes in accounting estimates in accordance with IAS 8. In addition to directly attributable costs, the costs of internally developed assets include proportionate indirect material and labor costs, as well as administrative expenses relating to production or the provision of services. In addition to the purchase price and costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management, costs also include the estimated costs for dismantling and removing the asset, and restoring the site on which it is located. If an item of property, plant and equipment consists of several components with different estimated useful lives, the individual significant components are depreciated over their individual useful lives. Maintenance and repair costs are expensed as incurred. Public investment grants reduce the cost of the assets for which the grants were made.

On disposal of an item of property, plant and equipment or when no future economic benefits are expected from its use or disposal, the carrying amount of the item is derecognized. The gain or loss arising from the disposal of an item of property, plant and equipment is the difference between the net disposal proceeds, if any, and the carrying amount of the item and is recognized as other operating income or other operating expenses when the item is derecognized. The useful lives of material asset categories are presented in TABLE T 055:

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	Years
Buildings	25 to 50
Telephone facilities and terminal equipment	3 to 10
Data communications equipment, telephone network and ISDN switching equipment, transmission equipment, radio transmission equipment and technical equipment for broadband distribution networks	2 to 12
Broadband distribution networks, outside plant networks and cable conduit lines	8 to 35
Other equipment, operating and office equipment	2 to 23

Leasehold improvements are depreciated over the shorter of their useful lives or applicable lease terms.

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalized as part of the cost of that asset. Deutsche Telekom defines qualifying assets as construction projects or other assets for which a period of at least twelve months is necessary in order to get them ready for their intended use or sale. Borrowing costs relating to assets measured at fair value and to inventories that are manufactured or produced in large quantities on a repetitive basis are not capitalized, even if it takes a substantial period of time to get the assets ready for use or sale.

Impairment of intangible assets (including goodwill) and items of property, plant and equipment is identified by comparing the carrying amount with the recoverable amount. If no future cash flows generated independently of other assets can be allocated to individual assets, recoverability is assessed on the basis of the cash-generating unit to which the assets can be allocated. At each reporting date, Deutsche Telekom assesses whether there is any indication that an asset may be impaired. If any such indication exists, the recoverable amount of the asset or cash-generating unit must be determined. In addition, annual impairment tests are carried out for intangible assets with indefinite useful lives (goodwill and FCC licenses).

The recoverable amount of a cash-generating unit is measured at the higher of fair value less costs to sell and the value in use. The recoverable amount is generally determined by means of a discounted cash flow (DCF) calculation, unless it has to be determined on the basis of a binding sale agreement or a market price in an active or liquid market. These DCF calculations use projections that are based on financial budgets approved by management covering a ten-year period and are also used for internal purposes. The planning horizon reflects the assumptions for short- to mid-term market developments. Cash flows beyond the ten-year period are extrapolated using appropriate growth rates. Key assumptions on which management has based its determination of fair value less costs to sell include the development of revenue, customer acquisition and retention costs, churn rates, capital expenditure, market share, growth rates and discount rates. Cash flow calculations are supported by external sources of information. The discount rate used reflects the risk specific to the asset or cash-generating unit.

Beneficial ownership of **leased assets** is attributed to the contracting party in the lease to which the substantial risks and rewards incidental to ownership of the asset are transferred.

If substantially all risks and rewards are attributable to the lessor (operating lease), the leased asset is recognized in the statement of financial position by the lessor. Measurement of the leased asset is then based on the accounting policies applicable to that asset. The lease payments are recognized in profit or loss by the lessor. The lessee in an operating lease recognizes the lease payments made during the term of the lease in profit or loss. Contractually defined future changes in the lease payments during the term of the lease are recognized on a straight-line basis over the entire lease term, which is defined only once at the inception date of the contract. Where extension options exist, the exercise of those extension options that are reasonably certain is initially taken into account at the time the lease is concluded. In the course of the lease, when circumstances come to light that could lead to a change in the original assessment of the exercise of extension options, the estimated future obligations arising from operating leases will be changed accordingly.

If substantially all risks and rewards incidental to ownership of the leased asset are attributable to the lessee (finance lease), the lessee must recognize the leased asset in the statement of financial position. At the commencement of the lease term, the leased asset is measured at the lower of fair value or present value of the future minimum lease payments and is depreciated over the shorter of the estimated useful life or the lease term. Depreciation is recognized as expense. The lessee recognizes a lease liability equal to the carrying amount of the leased asset at the commencement of the lease term. In subsequent periods, the lease liability is reduced using the effective interest method and the carrying amount is adjusted accordingly. The lessor in a finance lease recognizes a receivable in the amount of the net investment in the lease. Lease income is classified into repayments of the lease receivable and finance income. The lease receivable is reduced using the effective interest method and the carrying amount is adjusted accordingly.

If a sale and leaseback transaction results in a finance lease, any excess of sales proceeds over the carrying amount is deferred and amortized over the lease term.

Other non-current receivables are measured at amortized cost using the effective interest method.

Non-current assets and disposal groups held for sale are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. These assets are measured at the lower of the carrying amount and fair value less costs to sell and are classified as non-current assets and disposal groups held for sale. Such assets are no longer depreciated. As a rule, impairment of such assets is only recognized if fair value less costs to sell is lower than the carrying amount. If fair value less costs to sell subsequently increases, the impairment loss previously recognized must be reversed. The reversal of impairment losses is limited to the impairment losses previously recognized for the assets concerned. If the requirements for the classification of assets as held for sale are no longer met, the assets may no longer be shown as held for sale. The assets are to be measured at the lower of the carrying amount that would have applied if the asset had not been classified as held for sale, and the recoverable amount at the date at which the requirements for the classification as held for sale are no longer met.

Inventories are carried at the lower of net realizable value or cost. Cost comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. Cost is measured using the weighted average cost method. Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale. Deutsche Telekom sells handsets separately and in connection with service contracts. As part of the strategy to acquire new customers, it sometimes sells handsets, in connection with a service contract, at below its acquisition cost. As the handset subsidy is part of the Company’s strategy for acquiring new customers, the loss on the sale of handsets is recognized at the time of the sale and, as a rule, shown under cost of sales.

Financial assets are measured at fair value on initial recognition. For all financial assets not subsequently remeasured at fair value through profit or loss, the transaction costs directly attributable to the acquisition are taken into account. The fair values recognized in the statement of financial position are generally based on the market prices of the financial assets. If these are not available, they must be calculated using standard valuation models on the basis of current market parameters. For this calculation, the cash flows already fixed or determined by way of forward rates using the current yield curve are discounted at the measurement date using the discount factors calculated from the yield curve applicable at the reporting date. Middle rates are used.

Trade and other current receivables are measured at the amount the item is initially recognized less any impairment losses using the effective interest method, if applicable. Impairments, which take the form of allowances, make adequate provision for the expected credit risk; concrete cases of default lead to the derecognition of the respective receivables. For allowances, financial assets with a potential need for a write-down are grouped together on the basis of similar credit risk characteristics, tested collectively for impairment and written down, if necessary. The expected future cash flows of the portfolios are being calculated based on contractually agreed cash flows, taking previous cases of default into consideration. The cash flows are discounted on the basis of the weighted average of the original effective interest rates of the financial assets contained in the relevant portfolio.

Write-offs of trade receivables are recognized in some cases using allowance accounts. The decision to account for credit risks using an allowance account or by directly reducing the receivable will depend on the reliability of the risk assessment. As there is a variety of operating segments and regional circumstances, this decision is the responsibility of the respective portfolio managers.

Cash and cash equivalents, which include cash accounts and short-term cash deposits at banks, have maturities of up to three months when initially recognized and are measured at amortized cost.

The Group arranges **defined benefit pension plans** in different countries on the basis of the pensionable compensation of its employees and their length of service. Some of these pension plans are financed through external pension funds and some through incorporation in a contractual trust agreement (CTA). **Provisions for pensions** are measured using the projected unit credit method for defined benefit plans, taking into account not only the pension obligations and vested pension rights known at the reporting date, but also expected future salary and benefit increases. The interest rate used to determine the present value of the obligations is set on the basis of the yield on high-quality corporate bonds in the respective currency area. In countries without a deep market for such bonds, estimates based on the yield on government bonds are used instead. The return on plan assets and expenses for interest added to obligations are reported in finance costs. Service cost is classified as operating expenses. Past service cost is recognized immediately to the extent that the benefits are vested; otherwise, they are recognized on a straight-line basis over the average remaining vesting period.

The existing option relating to the recognition of actuarial gains and losses arising from adjustments and changes in actuarial assumptions is exercised in such a way that gains and losses are recognized in the period in which they occur directly in equity. This entails two major consequences relative to the alternatively permissible corridor method, as it is known: On the one hand, actuarial gains and losses are fully included in the pension obligation recognized in the statement of financial position. On the other hand, actuarial gains and losses are recognized directly in equity rather than in the income statement. Deutsche Telekom prefers its selected method as it provides more information and greater transparency, particularly in view of the fact that this method will be the sole permissible form of presentation as a result of the amendments to the standard effective for the financial year beginning on or after January 1, 2013.

Some Group entities grant **defined contribution plans** to their employees in accordance with statutory or contractual requirements, with the payments being made to state or private pension insurance funds. Under defined contribution plans, the employer does not assume any other obligations above and beyond the payment of contributions to an external fund. The amount of the future pension payments will exclusively depend on the contribution made by the employer (and their employees, if applicable) to the external fund, including income from the investment of such contributions. The amounts payable are expensed when the obligation to pay the amounts is established, and classified as expenses.

Civil-servant retirement arrangements at Deutsche Telekom. In accordance with the provisions of the German Posts and Telecommunications Reorganization Act (Postneuordnungsgesetz), the Federal Pension Service for Post and Telecommunications (Bundes-Pensions-Service für Post und Telekommunikation e.V. – BPS-PT) for current and former employees with civil-servant status makes pension and allowance payments to retired employees and their surviving dependents who are entitled to pension payments as a result of civil-servant status. The level of Deutsche Telekom AG's payment obligations to its special pension fund is defined under § 16 of the German Act on the Legal Provisions for the Former Deutsche Bundespost Staff (Postpersonalrechtsgesetz). Since 2000, Deutsche Telekom AG has been legally obliged to make an annual contribution to the special pension fund amounting to 33 percent of the pensionable gross emoluments of active civil servants and the notional pensionable gross emoluments of civil servants on leave of absence.

In the past, Deutsche Telekom AG and its domestic subsidiaries agreed on partial **retirement arrangements** with varying terms and conditions, predominantly based on what is known as the block model. Two types of obligations, both measured at their present value in accordance with actuarial principles, arise and are accounted for separately. The first type of obligation relates to the cumulative outstanding settlement amount, which is recorded on a pro-rata basis during the active or working phase. The cumulative outstanding settlement amount is based on the difference between the employee's remuneration before entering partial retirement (including the employer's social security contributions) and the remuneration for the part-time service (including the employer's social security contributions, but excluding top-up payments). The second type of obligation relates to the employer's obligation to make top-up payments plus an additional contribution to the statutory pension scheme. Top-up payments are often hybrid in nature, i.e., although the agreement is often considered a form of compensation for terminating the employment relationship at an earlier date, payments to be made at a later date are subject to the performance of work in the future. Insofar as partial retirement programs are mainly to be considered severance instruments, top-up payments are recognized in full as soon as the obligation arises. In cases where the focus is on the future performance of work, the top-up payments are recognized over their vesting period.

Provisions for voluntary redundancy and severance payments and in connection with early retirement arrangements for civil servants are recognized when Deutsche Telekom is demonstrably committed to granting those benefits. This is the case when Deutsche Telekom has a detailed formal plan for the termination of the employment relationship and is without realistic possibility of withdrawal. The termination benefits are measured based on the number of employees expected to be affected by the measures. Where termination benefits fall due more than twelve months after the reporting date, the expected amount to be paid is discounted to the reporting date.

Other provisions are recognized for current legal or constructive obligations to third parties that are uncertain with regard to their maturities or their amount. Provisions are recognized for these obligations provided they relate to past transactions or events, will probably require an outflow of resources to settle, and this outflow can be reliably measured. Provisions are carried at their expected settlement amount, taking into account all identifiable risks. The settlement amount is calculated on the basis of a best estimate; suitable estimation methods and sources of information are used depending on the characteristics of the obligation. In case of a number of similar obligations, the group of obligations is treated as one single obligation. The expected value method is used as the estimation method. If there is a range of potential events with the same probability of occurrence, the average value is taken. Individual obligations (e.g., legal and litigation risks) are regularly evaluated based on the most probable outcome, provided an exceptional probability distribution does not mean that other estimates would lead to a more appropriate evaluation. The measurement of provisions is based on past experience, current costing and price information, as well as estimates and reports from experts. If experience or current costing or price information is used to determine the settlement amount, these values are extrapolated to the expected settlement date. Suitable price trend indicators (e.g., construction price indexes or inflation rates) are used for this purpose. Provisions are discounted when the effect of the time value of money is material. Provisions are discounted using pre-tax market interest rates that reflect the term of the obligation and the risk associated with it (insofar as not already taken into consideration in the calculation of the settlement amount). Reimbursement claims are not netted against provisions; they are recognized separately as soon as their realization is virtually certain.

Provisions for decommissioning, restoration, and similar obligations arising from the acquisition of property, plant and equipment are recognized directly in equity as part of the cost of the relevant asset. Changes at a later date in estimates of the amount or timing of payments or changes to the interest rate applied in measuring such obligations are also recognized directly in equity and result in retrospective increases or decreases in the carrying amount of the relevant item of property, plant and equipment. Where the decrease in the amount of a provision exceeds the carrying amount of the related asset, the excess is recognized immediately in profit or loss.

Contingencies (contingent liabilities and assets) are potential liabilities or assets arising from past events whose existence will be confirmed by the occurrence or non-occurrence of one or more uncertain future events not entirely within the control of Deutsche Telekom. Contingent liabilities can also be present obligations that arise from past events for which an outflow of resources embodying economic benefits is not probable or for which the amount of the obligation cannot be measured reliably. Contingent liabilities are only recognized at their fair value if they were assumed in the course of a business combination. Contingent liabilities not assumed in the course of a business combination are not recognized. Contingent assets are not recognized. However, when the realization of income is virtually certain, then the related asset is no longer a contingent asset, but it is recognized as an asset. Information on contingent liabilities is disclosed in the notes to the consolidated financial statements, unless the possibility of an outflow of resources embodying economic benefits is remote. The same applies to contingent assets where an inflow of economic benefits is probable.

A **financial instrument** is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. Financial assets include, in particular, cash and cash equivalents, trade receivables and other originated loans and receivables, held-to-maturity investments, and derivative and non-derivative financial assets held for trading. Financial liabilities generally substantiate claims for repayment in cash or another financial asset. In particular, this includes bonds and other securitized liabilities, trade payables, liabilities to banks, finance lease payables, liabilities to non-banks from promissory notes, and derivative financial liabilities. Financial instruments are recognized as soon as Deutsche Telekom becomes a party to the contractual regulations of the financial instrument. However, in the case of regular way purchase or sale (purchase or sale of a financial asset under a contract whose terms require delivery of the asset within the timeframe established generally by regulation or convention in the marketplace concerned), the settlement date is relevant for the initial recognition and derecognition. This is the day on which the asset is delivered to or by Deutsche Telekom. In general, financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the entity currently has a right to set off the recognized amounts and intends to settle on a net basis. To the extent that contracts to buy or sell non-financial assets fall within the scope of IAS 39, they are accounted for in accordance with this standard.

Financial assets held for trading are measured at fair value. These mainly include derivatives that are not part of an effective hedging relationship as set out in IAS 39 and therefore shall be classified as held for trading. Any gains or losses arising from subsequent measurement are recognized in the income statement.

Certain types of investment are intended and expected to be **held to maturity** with reasonable economic certainty. These financial assets are measured at amortized cost using the effective interest method.

Non-derivative financial assets that do not fulfill the definition of another category of financial instruments are classified as **available for sale** and generally measured at fair value. The gains and losses arising from fair value measurement are recognized directly in equity, unless the impairment is permanent or significant, or the changes in the fair value of debt instruments resulting from currency fluctuations are recognized in profit or loss. The cumulative gains and losses arising from fair value measurement are only recognized in profit or loss on disposal of the related financial assets. If the fair value of unquoted equity instruments cannot be measured with sufficient reliability, these instruments are measured at cost (less any impairment losses, if applicable).

Deutsche Telekom has not yet made use of the option of designating financial assets upon initial recognition as **financial assets at fair value through profit or loss.**

The carrying amounts of the financial assets that are not measured at fair value through profit or loss are tested at each reporting date to determine whether there is objective, material evidence of **impairment** (e.g., a debtor is facing serious financial difficulties, it is highly probable that insolvency proceedings will be initiated against the debtor, an active market for the financial asset disappears, there is a substantial change in the technological, economic or legal environment and the market environment of the issuer, or there is a continuous decline in the fair value of the financial asset to a level below amortized cost). Any impairment losses caused by the fair value being lower than the carrying amount are recognized in profit or loss. Where impairments of the fair values of available-for-sale financial assets were recognized directly in equity in the past, these must now be reclassified from equity in the amount of the impairment determined to the income statement. If, in a subsequent period, the fair value of the financial asset increases and this increase can be related objectively to events occurring after the impairment was recognized, the impairment loss is reversed in the appropriate amount. In the case of debt instruments, these reversed impairment losses are recognized in profit or loss. Impairment losses on unquoted equity instruments that are classified as available for sale and carried at cost may not be reversed. Both the fair value of held-to-maturity securities to be determined by testing for impairment and the fair value of the loans and receivables measured at amortized cost, which are required for impairment testing, correspond to the present value of the estimated future cash flows, discounted using the original effective interest rate. The fair value of unquoted equity instruments measured at cost is calculated as the present value of the expected future cash flows, discounted using the current interest rate that corresponds to the investment's special risk position.

Financial liabilities are measured at fair value on initial recognition. For all financial liabilities not subsequently measured at fair value through profit or loss, the transaction costs directly attributable to the acquisition are also recognized.

Trade payables and other non-derivative financial liabilities are generally measured at amortized cost using the effective interest method.

Deutsche Telekom has not yet made use of the option to designate financial liabilities upon initial recognition as **financial liabilities at fair value through profit or loss.**

Derivatives that are not part of an effective hedging relationship as set out in IAS 39 must be classified as held for trading and measured at fair value through profit or loss. If the fair values are negative, the derivatives are recognized as financial liabilities.

Deutsche Telekom uses **derivatives** to hedge the interest rate and currency risks resulting from its operating, financing, and investing activities.

The Company does not hold or issue derivatives for speculative trading purposes.

Derivatives are carried at their fair value upon initial recognition. The fair values are also relevant for subsequent measurement. The fair value of traded derivatives is equal to their market value, which can be positive or negative. If there is no market value available, the fair value is determined using standard financial valuation models.

The fair value of derivatives is the value that Deutsche Telekom would receive or have to pay if the financial instrument were discontinued at the reporting date. This is calculated on the basis of the contracting parties' relevant exchange rates and interest rates at the reporting date. Calculations are made using middle rates. In the case of interest-bearing derivatives, a distinction is made between the clean price and the dirty price. In contrast to the clean price, the dirty price also includes the interest accrued. The fair values carried correspond to the full fair value or the dirty price.

Recording the changes in the fair values – in either the income statement or directly in equity – depends on whether or not the derivative is part of an effective hedging relationship as set out in IAS 39. If **hedge accounting** pursuant to IAS 39 is not employed, the changes in the fair values of the derivatives must be recognized in profit or loss. If, on the other hand, an effective hedging relationship as set out in IAS 39 exists, the hedge will be recognized as such.

Deutsche Telekom applies hedge accounting to hedge items in the statement of financial position and future cash flows, thus reducing income statement volatility. A distinction is made between fair value hedges, cash flow hedges, and hedges of a net investment in a foreign operation depending on the nature of the hedged item.

Fair value hedges are used to hedge the fair values of assets recognized in the statement of financial position, liabilities recognized in the statement of financial position, or firm commitments not yet recognized in the statement of financial position. Any change in the fair value of the derivative designated as the hedging instrument is recognized in profit or loss; the carrying amount of the hedged item is adjusted by the profit or loss to the extent of the hedged risk (basis adjustment). The adjustments to the carrying amount are not amortized until the hedging relationship has been discontinued.

Cash flow hedges are used to hedge against fluctuations in future cash flows from assets and liabilities recognized in the statement of financial position, from firm commitments (in the case of currency risks), or from highly probable forecast transactions. To hedge the currency risk of an unrecognized firm commitment, Deutsche Telekom makes use of the option to recognize this as a cash flow hedge rather than a fair value hedge. If a cash flow hedge is employed, the effective portion of the change in the fair value of the hedging instrument is recognized in equity (hedging reserve) until the gain or loss on the hedged item is realized; the ineffective portion of the hedging instrument is recognized in profit or loss. If a hedge of a forecast transaction subsequently results in the recognition of a financial or non-financial asset or liability, the associated cumulative gains and losses that were recognized directly in equity are reclassified into profit or loss in the same periods during which the financial asset acquired or the financial liability assumed affects profit or loss for the period. In doing so, Deutsche Telekom has decided not to make use of the basis adjustment option for hedging forecast transactions when non-financial items in the statement of financial position arise.

If **hedges of a net investment in a foreign operation** are employed, all gains or losses on the effective portion of the hedging instrument, together with any gains or losses on the foreign-currency translation of the hedged investment, are taken directly to equity. Any gains or losses on the ineffective portion are recognized immediately in profit or loss. The cumulative remeasurement gains and losses on the hedging instrument that had previously been recognized directly in equity and the gains and losses on the currency translation of the hedged item are recognized in profit or loss only on disposal of the investment.

IAS 39 sets out strict requirements on the use of hedge accounting. These are fulfilled at Deutsche Telekom by documenting, at the inception of a hedge, both the relationship between the financial instrument used as the hedging instrument and the hedged item, as well as the aim and strategy of the hedge. This involves concretely assigning the hedging instruments to the corresponding assets or liabilities or (firmly agreed/expected) future transactions and also estimating the degree of effectiveness of the hedging instruments employed. The effectiveness of existing hedge accounting is monitored on an ongoing basis; ineffective hedges are discontinued immediately.

Deutsche Telekom does not use hedge accounting in accordance with IAS 39 to hedge the foreign-currency exposure of recognized monetary assets and liabilities, because the gains and losses on the hedged item from currency translation that are recognized in profit or loss in accordance with IAS 21 are shown in the income statement together with the gains and losses on the derivatives used as hedging instruments.

Equity-settled share-based payment transactions are measured at fair value on the grant date. The fair value of the obligation is recognized as personnel costs over the vesting period. For equity-settled share-based payment transactions, the fair value is determined using internationally accepted valuation techniques, such as the Black-Scholes model or the Monte Carlo model.

Revenues include all revenues from the ordinary business activities of Deutsche Telekom. Revenues are recorded net of value-added tax and other taxes collected from customers that are remitted to governmental authorities. They are recognized in the accounting period in which they are earned in accordance with the realization principle. Customer activation fees are deferred and amortized over the estimated average period of customer retention, unless they are part of a multiple-element arrangement, in which case they are a component of the arrangement consideration to be paid by the customer. Activation costs and costs of acquiring customers are deferred, up to the amount of deferred customer activation fees, and recognized over the average customer retention period.

For **multiple-element arrangements,** revenue recognition for each of the units of accounting (elements) identified must be determined separately. Revenue is recognized on the basis of the fair value of the individual elements. Arrangements involving the delivery of bundled products or services shall be separated into individual elements, each with its own separate revenue contribution. Total arrangement consideration relating to the bundled contract is allocated among the different elements based on their relative fair values (i.e., a ratio of the fair value of each element to the aggregated fair value of the bundled deliverables is generated). The relative fair value of an individual element and thus the revenue recognized for this unit of accounting, however, is limited by that proportion of the total arrangement consideration to be provided by the customer, the payment of which does not depend on the delivery of additional elements. If the fair value of the delivered elements cannot be determined reliably but the fair value of the undelivered elements can be determined reliably, the total arrangement consideration provided by the customer is allocated by determining the fair value of the delivered elements as the difference between the total arrangement consideration and the fair value of the undelivered elements.

Payments to customers, including payments to dealers and agents (discounts, commissions) are generally recognized as a decrease in revenue. If the consideration provides a benefit in its own right and can be reliably measured, the payments are recognized as expenses.

Revenue recognition at Deutsche Telekom is as follows:

Revenue generated by the **mobile communications business** of the operating segments Germany, Europe, and United States includes revenues from the provision of mobile services, customer activation fees, and sales of mobile handsets and accessories. Mobile service revenue includes monthly service charges, charges for special features, call charges, and roaming charges billed to Deutsche Telekom customers, as well as other mobile operators. Mobile service revenue is recognized based upon minutes of use or other agreed calling plans less credits and adjustments for discounts. The revenue and related expenses associated with the sale of mobile phones, wireless data devices, and accessories are recognized when the products are delivered and accepted by the customer.

The **fixed-network business** in the operating segments Germany and Europe provides narrow and broadband access to the fixed network as well as the Internet. Revenue generated from these types of access for the use of voice and data communications is recognized upon rendering of the service. The services rendered relate to use by customers (e.g., call minutes), availability over time (e.g., monthly service charges) or other agreed calling plans. Telecommunications equipment is also sold, leased, and serviced. Revenue and expenses associated with the sale of telecommunications equipment and accessories are recognized when the products are delivered, provided there are no unfulfilled company obligations that affect the customer’s final acceptance of the arrangement. Revenue from rentals and operating leases is recognized monthly as the entitlement to the fees accrues. Revenues from customer activation fees are deferred over the average customer retention period. Revenues also result from charges for advertising and e-commerce. Advertising revenues are recognized in the period in which the advertisements are exhibited. Transaction revenues are recognized upon notification from the customer that qualifying transactions have occurred and collection of the resulting receivable is reasonably assured.

In the **Systems Solutions** operating segment, revenue is recognized when persuasive evidence of a sales arrangement exists, products are delivered or services are rendered, the selling price or fee is fixed or determinable and collectability is reasonably assured.

Revenue from Computing & Desktop Services is recognized as the services are provided using a proportional performance model. Revenue is recognized ratably over the contractual service period for fixed-price contracts and on an output or consumption basis for all other service contracts. Revenue from service contracts billed on the basis of time and material used is recognized at the contractual hourly rates as labor hours are delivered and direct expenses are incurred.

Revenue from hardware sales or sales-type leases is recognized when the product is shipped to the customer, provided there are no unfulfilled company obligations that affect the customer's final acceptance of the arrangement. Any costs of these obligations are recognized when the corresponding revenue is recognized.

Telecommunication services include network services and hosting & ASP services. Contracts for network services, which consist of the installation and operation of communication networks for customers, have an average duration of approximately three years. Customer activation fees and related costs are deferred and amortized over the estimated average period of customer retention. Revenues for voice and data services are recognized under such contracts when used by the customer. When an arrangement contains a lease, the lease is accounted for separately in accordance with IFRIC 4 and IAS 17. Revenues from hosting & ASP services are recognized as the services are provided.

Revenue from rentals and leases is recognized on a straight-line basis over the rental period.

Income taxes include current income taxes as well as deferred taxes. Tax liabilities/tax receivables mainly comprise liabilities/receivables relating to domestic and foreign income taxes. They include liabilities/receivables for the current period as well as for prior periods. The liabilities/receivables are measured based on the applicable tax law in the countries Deutsche Telekom operates in.

Deferred taxes are recognized for temporary differences between the carrying amounts in the consolidated statement of financial position and the tax base, as well as for tax loss carryforwards. Deferred tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized. Deferred tax is provided on temporary differences arising on the investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference can be controlled by Deutsche Telekom and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax is not recognized if it arises from the initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting profit or loss (before income taxes) under IFRS nor taxable profit or loss. Currently enacted tax laws and tax laws that have been substantively enacted as of the reporting date are used as the basis for measuring deferred taxes.

JUDGMENTS AND ESTIMATES.

The presentation of the results of operations, financial position or cash flows in the consolidated financial statements is dependent upon and sensitive to the accounting policies, assumptions and estimates. The actual amounts may differ from those estimates. The following critical accounting estimates and related assumptions and uncertainties inherent in accounting policies applied are essential to understand the underlying financial reporting risks and the effects that these accounting estimates, assumptions and uncertainties may have on the consolidated financial statements.

Measurement of **property, plant and equipment, and intangible assets** involves the use of estimates for determining the fair value at the acquisition date, provided they were acquired in a business combination. Furthermore, the expected useful lives of these assets must be estimated. The determination of the fair values of assets and liabilities, as well as of the useful lives of the assets is based on management's judgment.

The determination of **impairments of property, plant and equipment, and intangible assets** involves the use of estimates that include, but are not limited to, the cause, timing and amount of the impairment. Impairment is based on a large number of factors, such as changes in current competitive conditions, expectations of growth in the telecommunications industry, increased cost of capital, changes in the future availability of financing, technological obsolescence, discontinuance of services, current replacement costs, prices paid in comparable transactions and other changes in circumstances that indicate an impairment exists. The identification of impairment indicators, as well as the estimation of future cash flows and the determination of fair values for assets (or groups of assets) require management to make significant judgments concerning the identification and validation of impairment indicators, expected cash flows, applicable discount rates, useful lives and residual values. Specifically, the estimation of cash flows underlying the fair values from the mobile business considers the continued investment in network infrastructure required to generate future revenue growth through the offering of new data products and services, for which only limited historical information on customer demand is available. If the demand for these products and services does not materialize as expected, this would result in less revenue, less cash flow and potential impairment to write down these investments to their fair values. When determining the fair values, additional planning uncertainties are factored in that reflect the risks of macroeconomic development, which could adversely affect future operating results.

The determination of the **recoverable amount of a cash-generating unit** involves the use of estimates by management. Methods used to determine the recoverable amount include discounted cash flow-based methods and methods that use market prices in active and liquid markets or binding sale agreements as a basis. The measurements on the basis of discounted cash flows are founded on projections that are based on financial plans that have been approved by management and are also used for internal purposes. The planning horizon reflects the assumptions for short- to mid-term market developments. Cash flows beyond the planning horizon are extrapolated using appropriate growth rates. The key assumptions on which management has based its determination of fair value less costs to sell include the following assumptions that were primarily derived from internal sources and are based on past experience and extended to include internal expectations, and that are underscored by external market data and estimates: development of revenue, customer acquisition and retention costs, churn rates, capital expenditure, market share, and growth rates. Discount rates are determined on the basis of figures derived from the market, taking account of the risks associated with the cash-generating unit. Any future changes in the aforementioned assumptions could have a significant impact on the fair values of the cash-generating units.

Management maintains an **allowance for doubtful accounts** to account for estimated losses resulting from the inability of customers to make required payments. When evaluating the adequacy of an allowance for doubtful accounts, management bases its estimates on the aging of accounts receivable balances and historical write-off experience, customer creditworthiness and changes in customer payment terms. If the financial condition of customers were to deteriorate, actual write-offs might be higher than expected.

Income taxes must be estimated for each of the jurisdictions in which the Group operates, involving a specific calculation of the expected actual income tax exposure for each tax object and an assessment of temporary differences resulting from the different treatment of certain items for IFRS consolidated financial and tax reporting purposes. Any temporary differences will generally result in the recognition of deferred tax assets and liabilities in the consolidated financial statements. Management judgment is required for the calculation of actual and deferred taxes. Deferred tax assets are recognized to the extent that their utilization is probable. The utilization of deferred tax assets will depend on whether it is possible to generate sufficient taxable income in the respective tax type and jurisdiction, taking into account any legal restrictions on the length of the loss carryforward period. Various factors are used to assess the probability of the future utilization of deferred tax assets, including past operating results, operational plans, loss carryforward periods, and tax planning strategies. If actual results differ from these estimates or if these estimates must be adjusted in future periods, results of operations, the financial position, and cash flows may be negatively affected. In the event that the assessment of future utilization of deferred tax assets changes, the recognized deferred tax assets must be reduced in profit or loss or directly in equity, or the impaired deferred tax assets must be recognized in profit or loss or directly in equity, depending on how the deferred tax assets were originally recognized.

Pension obligations for benefits to non-civil servants are generally satisfied by defined benefit plans. Pension benefit costs for non-civil servants are determined in accordance with actuarial valuations, which rely on assumptions including discount rates, life expectancies and, if applicable, expected return on plan assets. The assumptions concerning the expected return on plan assets are determined on a uniform basis, considering long-term historical returns, asset allocation and future estimates of long-term investment returns. In the event that changes in assumptions are required with respect to discount rates and expected returns on invested assets, the future amounts of the pension benefit costs may be affected materially.

Deutsche Telekom is obligated, under the German Federal Posts and Telecommunications Agency Reorganization Act (Gesetz zur Reorganisation der Bundesanstalt für Post und Telekommunikation Deutsche Bundespost), to pay for its share of any operating cost shortfalls between the income of the **Civil Service Health Insurance Fund** (Postbeamtenkrankenkasse) and benefits paid. The Civil Service Health Insurance Fund provides services mainly in cases of illness, birth, or death for its members, who are civil servants employed by or retired from Deutsche Telekom AG, Deutsche Post AG and Deutsche Postbank AG, and their relatives. When Postreform II came into effect, participation in the Civil Service Health Insurance Fund was closed to new members. The insurance premiums collected by the Civil Service Health Insurance Fund may not exceed the insurance premiums imposed by alternative private health insurance enterprises for comparable insurance benefits, and, therefore, do not reflect the changing age distribution of the participants in the fund. Deutsche Telekom recognizes provisions in the amount of the actuarially determined present value of Deutsche Telekom's share in the fund's future deficit, using a discount rate and making assumptions about life expectancies and projections for contributions and future increases in general health care costs in Germany. Since the calculation of these provisions involves long-term projections over periods of more than 50 years, the present value of the liability may be highly sensitive even to small variations in the underlying assumptions.

Deutsche Telekom exercises considerable judgment in measuring and recognizing **provisions** and the exposure to **contingent liabilities** related to pending litigation or other outstanding claims subject to negotiated settlement, mediation, arbitration or government regulation, as well as other contingent liabilities. Judgment is necessary in assessing the likelihood that a pending claim will succeed, or a liability will arise, and to quantify the possible range of the final settlement. Provisions are recorded for liabilities when losses are expected from executory contracts, a loss is considered probable and can be reasonably estimated. Because of the inherent uncertainties in this evaluation process, actual losses may be different from the originally estimated provision. In addition, significant estimates are involved in the determination of provisions related to taxes and litigation risks. These estimates are subject to change as new information becomes available, primarily with the support of internal specialists, if available, or with the support of outside consultants, such as actuaries or legal counsel. Revisions to the estimates of these losses from executory contracts may significantly affect future operating results.

Revenue recognition.

Customer activation fees. The operating segments Germany, Europe, and United States receive installation and activation fees from new customers. These fees (and related directly attributable costs) are deferred and amortized over the expected duration of the customer relationship. The estimation of the expected average duration of the relationship is based on historical customer turnover. If management's estimates are revised, material differences may result in the amount and timing of revenue for any period.

Multiple-element arrangements. The fair values of individual units of accounting of bundled products or services are complex to determine, because some of the elements are price-sensitive and, thus, volatile in a competitive marketplace. Revisions to the estimates of these relative fair values may significantly affect the allocation of total arrangement consideration among the different units of accounting, affecting future operating results.

CONSOLIDATED GROUP.

All subsidiaries, joint ventures and associates are included in the consolidated financial statements. Subsidiaries are companies that are directly or indirectly controlled by Deutsche Telekom and are fully consolidated. The existence and effect of potential voting rights that are currently exercisable or convertible, including potential voting rights held by another entity, are considered when assessing whether an entity is controlled. Joint ventures are companies jointly controlled by Deutsche Telekom and other companies. Associates are companies on which Deutsche Telekom has a significant influence, and that are neither subsidiaries nor joint ventures. As with joint ventures, associates are accounted for using the equity method.

Subsidiaries are not included in the consolidated financial statements if an operating segment or the Group considers them to be insignificant based on the following criterion: The sum of all unconsolidated subsidiaries must not account for more than 1 percent of the Group's total assets, revenue, profit/loss for the year, contingent assets/liabilities, and other financial obligations. If the 1 percent limit is exceeded, the subsidiary to be included in the consolidated financial statements will be determined taking expected duration and consolidation effects into account. The materiality assessment for associates and jointly controlled entities is limited solely to the criteria of profit/loss for the year, contingencies, and other financial obligations. Aside from the quantitative criteria, qualitative criteria will also be used to assess the materiality of an entity for the consolidated group. Excluding a subsidiary must not significantly change the segment result or the Group's profit/loss for the year, nor may other significant trends be ignored.

The composition of the Deutsche Telekom Group changed as follows in the 2012 financial year:

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	Domestic	International	Total
CONSOLIDATED SUBSIDIARIES			
January 1, 2012	64	174	238
Additions	6	5	11
Disposals (including mergers)	2	12	14
DECEMBER 31, 2012	**68**	**167**	**235**
ASSOCIATES ACCOUNTED FOR USING THE EQUITY METHOD			
January 1, 2012	5	5	10
Additions	0	3	3
Disposals	1	0	1
DECEMBER 31, 2012	**4**	**8**	**12**
JOINT VENTURES ACCOUNTED FOR USING THE EQUITY METHOD			
January 1, 2012	2	5	7
Additions	1	0	1
Disposals	0	0	0
DECEMBER 31, 2012	**3**	**5**	**8**
TOTAL			
January 1, 2012	71	184	255
Additions	7	8	15
Disposals (including mergers)	3	12	15
DECEMBER 31, 2012	**75**	**180**	**255**

T-Mobile USA established two companies in each of which it holds a 100-percent stake for the purpose of the contribution of the 5,821 cell sites in accordance with the framework agreement signed between T-Mobile USA and Crown Castle concerning the leasing and use of cell sites (please also refer to "Business combinations and other transactions" in the section "Summary of accounting policies," PAGES 219 – 220). Both companies were deconsolidated as of the date of the closing of the transaction, because Crown Castle independently operates the cell sites and thus determines the finance and business policy of both companies. As a result, they are included in Deutsche Telekom's consolidated group as associates as of December 31, 2012, since Deutsche Telekom has a significant influence on these companies. 833 cell sites were contributed to two further newly established operating companies which were then sold to Crown Castle.

The other changes to the consolidated group were of no material significance for Deutsche Telekom's consolidated financial statements.

Deutsche Telekom held 40 percent plus one vote of the shares in the OTE group as of the reporting date. In accordance with shareholder agreements between Deutsche Telekom and the Hellenic Republic, Deutsche Telekom has taken control of 50 percent plus two voting shares and therefore the OTE group's financial and operating policy. Consequently, the OTE group companies are fully consolidated subsidiaries.

BUSINESS COMBINATIONS AND OTHER TRANSACTIONS.

Business combinations.

Deutsche Telekom did not effect any material business combinations in the 2012 financial year. The closing of the business combination between T-Mobile USA and MetroPCS is still pending.

Business combination of T-Mobile USA and MetroPCS.

On October 3, 2012, Deutsche Telekom AG and MetroPCS Communications, Inc., Dallas/United States, (MetroPCS) concluded an agreement to combine their business activities in the United States.

As part of this transaction, Deutsche Telekom AG will contribute T-Mobile USA into the listed company MetroPCS and in return receive a 74-percent stake in the capital stock of the combined company through a capital increase. The remaining share of 26 percent will be held by the previous shareholders of MetroPCS, who will also receive a one-time cash payment of USD 1.5 billion from MetroPCS.

The transaction triggered an impairment test, which as of September 30, 2012 resulted in an impairment loss on goodwill, other intangible assets and property, plant and equipment of T-Mobile USA of around EUR 7.4 billion in total (after taxes). For further information, please refer to NOTE 5 "INTANGIBLE ASSETS," PAGE 224 et seq., and NOTE 30 "DEPRECIATION, AMORTIZATION AND IMPAIRMENT LOSSES," PAGES 253 – 254.

Since the transaction is, in accounting terms, structured as a reverse acquisition, the existing carrying amounts of the assets and liabilities of T-Mobile USA will be carried forward upon its closing (expected in the first half of 2013). The carrying amounts of the assets and liabilities of MetroPCS, by contrast, will be remeasured at fair value within the scope of the business combination. Upon closing, the combined company will be shown as a fully consolidated entity in the consolidated financial statements of Deutsche Telekom and its shares are expected to be traded on the New York Stock Exchange (NYSE). The company's head office will continue to be in Bellevue, Washington, and it will retain a presence in Dallas, Texas.

The transaction is subject to approval by the U.S. Department of Justice (DOJ), the Federal Communications Commission (FCC) and the Committee on Foreign Investment in the United States (CFIUS). The approval of the MetroPCS shareholders is also required. Deutsche Telekom and MetroPCS expect to obtain all the necessary approvals in the first half of 2013.

Framework agreement on the leasing and use of cell sites in the United States.

On September 28, 2012, T-Mobile USA concluded a framework agreement with Crown Castle International Corp., Houston/United States, concerning the leasing and use of cell sites.

- 5,821 cell sites were transferred to two operating companies of T-Mobile USA, in each of which it holds a 100-percent stake. Both companies were deconsolidated as of the date of the closing of the transaction, since the sole right to continue to use and lease out these sites for an average period of 28 years was transferred to Crown Castle. Both companies were included in Deutsche Telekom's consolidated group as associates as of December 31, 2012 (please also refer to "CONSOLIDATED GROUP" in the section "Summary of accounting policies," PAGES 218 – 219, and NOTE 7 "INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD," PAGE 229).
- 451 cell sites cannot currently be transferred to T-Mobile USA's two operating companies for legal reasons. They are leased out to Crown Castle on the basis of a finance lease.
- 833 cell sites were contributed to two further operating companies which were then disposed of.

In return, T-Mobile USA received a payment of approx. EUR 1.9 billion (USD 2.5 billion). T-Mobile USA leases back the required infrastructure from Crown Castle through operating leases. Crown Castle may lease out any infrastructure not required by T-Mobile USA to third parties. The transaction was completed in the fourth quarter of 2012. The transaction has the following essential impact on Deutsche Telekom's statement of financial position, income statement and statement of cash flows in the consolidated financial statements as of December 31, 2012:

- The assets assigned to the cell sites totaling EUR 0.6 billion were derecognized as of December 31, 2012. Of this figure, EUR 0.5 billion relates to technical equipment and machinery and EUR 0.1 billion to land and buildings.
- Liabilities recorded under other liabilities of EUR 0.1 billion from straight-line leases which constitute deferrals for the straight-line recognition of the lease expense were released (please also refer to NOTE 14, PAGE 242). By contrast, additions of EUR 0.1 billion were recorded to reflect the payment received for the 833 cell sites disposed of.
- Upon closing, other operating income of EUR 1.4 billion was recognized (please also refer to NOTE 20, PAGE 245).
- The payment of EUR 1.9 billion received was primarily included in net cash used in investing activities (EUR 1.8 billion) and in net cash from operating activities (EUR 0.1 billion) (please also refer to NOTE 31, PAGES 255 – 256).

For further information on the transaction, please refer to "Disclosure on leases" (NOTE 34, PAGE 264 et seq.) and "Risk management, financial derivatives, and other disclosures on capital management" (NOTE 38, PAGE 272 et seq.).

PRINCIPAL SUBSIDIARIES.

The Group's principal subsidiaries are presented in TABLE T 057:

T 057

Name and registered office	Deutsche Telekom share Dec. 31, 2012 %	Net revenue 2012 millions of €	Profit (loss) from operations 2012 millions of €	Shareholders' equity 2012 millions of €	Average number of employees 2012
Telekom Deutschland GmbH, Bonn, Germany	100.00	22,388	4,683	5,501	13,814
T-Mobile USA, Inc., Bellevue, Washington, United States [a, b]	100.00	15,371	(7,547)	6,182	30,184
T-Systems International GmbH, Frankfurt/Main, Germany	100.00	7,073	(424)	1,162	22,937
Hellenic Telecommunications Organization S.A. (OTE), Athens, Greece [a]	40.00	4,685	296	3,673	26,951
Magyar Telekom Nyrt., Budapest, Hungary [a, b]	59.23	2,018	301	2,336	11,291
T-Mobile Netherlands Holding B.V., The Hague, Netherlands [a, b]	100.00	1,664	246	2,150	1,720
PTC, Polska Telefonia Cyfrowa S.A., Warsaw, Poland [b]	100.00	1,678	241	2,160	4,760
T-Mobile Czech Republic a.s., Prague, Czech Republic [b]	60.77	1,044	344	1,749	2,850
Hrvatski Telekom d.d., Zagreb, Croatia [a]	51.00	992	258	1,991	5,767
T-Mobile Austria Holding GmbH, Vienna, Austria [a, b]	100.00	878	(234)	1,516	1,235
Slovak Telekom a.s., Bratislava, Slovakia [a]	51.00	837	109	1,928	3,906

[a] Consolidated subgroup.
[b] Indirect shareholding of Deutsche Telekom AG.

In accordance with § 313 HGB, the full statement of investment holdings, which forms part of the notes to the consolidated financial statements, is published in the electronic Federal Gazette (elektronischer Bundesanzeiger) together with the consolidated financial statements. It is available upon request from Deutsche Telekom AG, Bonn, Investor Relations, and on Deutsche Telekom's website (WWW.TELEKOM.COM) via the following path: INVESTOR RELATIONS/CORPORATE GOVERNANCE/ANNUAL DOCUMENT. Furthermore, the statement of investment holdings includes a full list of all subsidiaries that exercise simplification options in accordance with § 264 (3) HGB or disclosure simplification options in accordance with § 264b HGB.

CONSOLIDATION METHODS.

Under IFRS, all business combinations must be accounted for using the purchase method. The acquirer allocates the cost of a business combination by recognizing the acquiree's identifiable assets, liabilities and contingent liabilities that satisfy the recognition criteria at their fair value at the acquisition date. Non-current assets that are classified as held for sale are recognized at fair value less costs to sell. Any excess of the cost of the business combination over the acquirer's interest in the net fair value of identifiable assets, liabilities and contingent liabilities taken over, regardless of the level of the investment held, is recognized as goodwill. Any excess of the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of a business combination is recognized in profit or loss.

Income and expenses of a subsidiary remain included in the consolidated financial statements from the acquisition date. Income and expenses of a subsidiary are included in the consolidated financial statements until the date on which the parent ceases to control the subsidiary. The difference between the proceeds from the disposal of the subsidiary and its carrying amount, including the cumulative amount of any exchange differences that are recognized in equity and relate to the subsidiary, is recognized in the consolidated income statement as the gain or loss on the disposal of the subsidiary. Intercompany income and expenses, receivables and liabilities, and profits or losses are eliminated.

Investments in joint ventures and associates accounted for using the equity method are carried at the acquirer's interest in the identifiable assets (including any attributable goodwill), liabilities and contingent liabilities which are remeasured to fair value upon acquisition. Goodwill from application of the equity method is not amortized. Unrealized gains and losses from transactions with these companies are eliminated in proportion to the acquirer's interest. The carrying amount of the investment accounted for using the equity method is tested for impairment whenever there are indications of impairment. If the carrying amount of the investment exceeds its recoverable amount, an impairment loss must be recognized in the amount of the difference. The recoverable amount is measured at the higher of fair value less costs to sell and value in use.

CURRENCY TRANSLATION.

Foreign-currency transactions are translated into the functional currency at the exchange rate at the date of transaction. At the reporting date, monetary items are translated at the closing rate, and non-monetary items are translated at the exchange rate at the date of transaction. Exchange rate differences are recognized in profit or loss.

The assets and liabilities of Group entities whose functional currency is not the euro are translated into euros from the local currency using the middle rates at the reporting date. The middle rates are the average of the bid and ask rates at closing on the respective dates. The income statements and corresponding profit or loss of foreign-currency denominated Group entities are translated at average exchange rates for the period. The differences that arise from the use of both rates are recognized directly in equity.

The exchange rates of certain significant currencies changed as follows:

T 058

	Annual average rate			Rate at the reporting date	
	2012 €	2011 €	2010 €	Dec. 31, 2012 €	Dec. 31, 2011 €
100 Czech korunas (CZK)	3.97740	4.06830	3.95536	3.98309	3.87758
1 Pound sterling (GBP)	1.23292	1.15203	1.16553	1.22643	1.19583
100 Croatian kuna (HRK)	13.29600	13.44360	13.72000	13.23580	13.28090
1,000 Hungarian forints (HUF)	3.45820	3.58103	3.63022	3.41775	3.18883
100 Macedonian denars (MKD)	1.62376	1.62472	1.62536	1.60626	1.62320
100 Polish zlotys (PLN)	23.89580	24.27060	25.03330	24.48640	22.39550
1 U.S. dollar (USD)	0.77820	0.71801	0.75398	0.75845	0.77246

NOTES TO THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION.

1 CASH AND CASH EQUIVALENTS.

Cash and cash equivalents have an original maturity of less than three months and mainly comprise fixed-term bank deposits. They also include small amounts of cash-in-hand and checks. Deutsche Telekom obtained cash collateral of EUR 729 million (December 31, 2011: EUR 640 million) on the basis of collateral contracts as surety for potential credit risks arising from derivative transactions.

In the reporting period, cash and cash equivalents increased by EUR 0.3 billion to EUR 4.0 billion. For further details, please refer to the consolidated statement of cash flows in **NOTE 31, PAGES 255 – 256**.

As of December 31, 2012, Deutsche Telekom reported cash and cash equivalents of EUR 7 million held by subsidiaries in the F.Y.R.O. Macedonia (December 31, 2011: EUR 20 million (F.Y.R.O. Macedonia and Montenegro)). These subsidiaries are subject to foreign exchange controls or other legal restrictions. As a result, the cash balances are not fully available for use by the parent or other Group companies.

2 TRADE AND OTHER RECEIVABLES.

T 059

	Dec. 31, 2012 millions of €	Dec. 31, 2011 millions of €
Trade receivables	6,316	6,455
Other receivables	101	102
	6,417	**6,557**

Of the total of trade and other receivables, EUR 6,188 million (December 31, 2011: EUR 6,454 million) is due within one year.

The Group's receivables developed largely in line with its revenue. Factoring in the Systems Solutions operating segment and ongoing process improvement measures regarding credit checking and the recovery of receivables had the effect of reducing the level of receivables. By contrast, more intensive market development, particularly through contracts involving the sale of handsets at full price by installment, which are available to certain customer groups, increased the level of receivables in the United States and Europe segments.

TABLE T 060 shows the maturity structure of the trade receivables that are not impaired at the reporting date:

T 060

Trade receivables	Of which: neither impaired nor past due on the reporting date millions of €	Of which: not impaired on the reporting date and past due in the following periods					
		Less than 30 days millions of €	Between 30 and 60 days millions of €	Between 61 and 90 days millions of €	Between 91 and 180 days millions of €	Between 181 and 360 days millions of €	More than 360 days millions of €
As of Dec. 31, 2012	3,722	597	108	53	138	86	64
As of Dec. 31, 2011	3,190	490	78	47	71	71	20

With respect to the trade receivables that are neither impaired nor past due, there are no indications as of the reporting date that the debtors will not meet their payment obligations.

The allowances on trade receivables developed as follows:

T 061

	2012 millions of €	2011 millions of €
ALLOWANCES AS OF JANUARY 1	**1,232**	**1,323**
Currency translation adjustments	2	(9)
Additions (allowances recognized as expense)	949	830
Use	(754)	(589)
Reversal	(113)	(323)
ALLOWANCES AS OF DECEMBER 31	**1,316**	**1,232**

TABLE T 062 presents expenses for the full write-off of trade receivables as well as income from recoveries on trade receivables written off:

T 062

	2012 millions of €	2011 millions of €	2010 millions of €
Expenses for full write-off of receivables	138	107	138
Income from recoveries on receivables written off	103	28	7

All income and expenses relating to allowances and write-offs of trade receivables are reported under selling expenses.

3 INVENTORIES.

T 063

	Dec. 31, 2012 millions of €	Dec. 31, 2011 millions of €
Raw materials and supplies	96	124
Work in process	59	82
Finished goods and merchandise	950	878
Advance payments	1	–
	1,106	**1,084**

Of the inventories reported as of December 31, 2012, write-downs of EUR 58 million (2011: EUR 69 million, 2010: EUR 50 million) on the net realizable value were recognized in profit or loss.

The carrying amount of inventories recognized as expense amounted to EUR 5,519 million (2011: EUR 5,905 million, 2010: EUR 5,774 million).

The finished goods and merchandise primarily comprise retail products (e.g., telephones and accessories) not manufactured by ourselves, and services rendered but not yet invoiced, primarily to business customers.

4 NON-CURRENT ASSETS AND DISPOSAL GROUPS HELD FOR SALE.

As of December 31, 2012, current assets recognized in the consolidated statement of financial position included EUR 0.1 billion in non-current assets and disposal groups held for sale. The decrease of EUR 0.3 billion year-on-year is primarily a result of the sale of shares in Telekom Srbija.

5 INTANGIBLE ASSETS.

T 064

	Internally generated intangible assets millions of €	Total millions of €	Acquired concessions, industrial and similar rights and assets millions of €
COST			
AT DECEMBER 31, 2010	**2,916**	**43,952**	**1,591**
Currency translation	46	369	(18)
Changes in the composition of the Group	2	8	1
Other changes	0	0	0
Additions	122	845	7
Disposals	282	709	51
Change from non-current assets and disposal groups held for sale	0	(24)	0
Reclassifications	677	648	(696)
AT DECEMBER 31, 2011	**3,481**	**45,089**	**834**
Currency translation	(12)	(231)	13
Changes in the composition of the Group	1	6	5
Other changes	0	0	0
Additions	78	2,102	7
Disposals	476	1,327	57
Change from non-current assets and disposal groups held for sale	0	(160)	0
Reclassifications	530	1,338	37
AT DECEMBER 31, 2012	**3,602**	**46,817**	**839**
ACCUMULATED AMORTIZATION AND IMPAIRMENT LOSSES			
AT DECEMBER 31, 2010	**1,725**	**12,916**	**895**
Currency translation	35	(211)	(18)
Changes in the composition of the Group	1	(2)	0
Additions (amortization)	662	2,662	78
Additions (impairment)	14	7	4
Disposals	278	692	51
Change from non-current assets and disposal groups held for sale	0	0	0
Reclassifications	4	(3)	(272)
AT DECEMBER 31, 2011	**2,163**	**14,677**	**636**
Currency translation	(10)	26	13
Changes in the composition of the Group	0	(3)	0
Additions (amortization)	720	2,451	20
Additions (impairment)	121	6,002	1
Disposals	473	1,225	57
Change from non-current assets and disposal groups held for sale	0	(18)	0
Reclassifications	(169)	167	1
AT DECEMBER 31, 2012	**2,352**	**22,077**	**614**
NET CARRYING AMOUNTS			
At December 31, 2011	1,318	30,412	198
AT DECEMBER 31, 2012	**1,250**	**24,740**	**225**

	Acquired intangible assets					Goodwill	Advance payments and intangible assets under development	Total
	LTE licenses	UMTS licenses	GSM licenses	FCC licenses (T-Mobile USA)	Other acquired intangible assets			
	millions of €	millions of €	millions of €	millions of €	millions of €	millions of €	millions of €	millions of €
	1,323	**10,046**	**1,575**	**18,442**	**10,975**	**27,447**	**1,059**	**75,374**
	0	(40)	(34)	629	(168)	(75)	(5)	335
	0	0	0	0	7	1	0	11
	0	0	0	0	0	0	0	0
	21	17	48	54	698	71	1,000	2,038
	0	0	0	0	658	39	36	1,066
	0	0	0	(24)	0	0	0	(24)
	11	0	119	0	1,214	14	(809)	530
	1,355	**10,023**	**1,708**	**19,101**	**12,068**	**27,419**	**1,209**	**77,198**
	0	26	24	(396)	102	67	5	(171)
	0	0	0	0	1	0	0	7
	0	0	0	0	0	0	0	0
	0	3	45	1,587	460	8	1,206	3,394
	0	2	0	93	1,175	0	29	1,832
	0	0	0	(154)	(6)	0	0	(160)
	0	(2)	0	0	1,303	0	(1,089)	779
	1,355	**10,048**	**1,777**	**20,045**	**12,753**	**27,494**	**1,302**	**79,215**
	0	**3,991**	**954**	**0**	**7,076**	**6,926**	**0**	**21,567**
	0	(14)	(22)	0	(157)	221	0	45
	0	0	0	0	(2)	0	0	(1)
	66	606	129	0	1,783	0	0	3,324
	0	0	0	0	3	3,100	0	3,121
	0	0	0	0	641	0	0	970
	0	0	0	0	0	0	0	0
	0	1	(1)	0	269	14	0	15
	66	**4,584**	**1,060**	**0**	**8,331**	**10,261**	**0**	**27,101**
	0	9	17	(116)	103	(172)	0	(156)
	0	0	0	0	(3)	0	0	(3)
	92	605	134	0	1,600	0	0	3,171
	0	0	0	5,822	179	2,965	0	9,088
	0	2	0	0	1,166	0	0	1,698
	0	0	0	(12)	(6)	0	0	(18)
	0	0	0	0	166	0	0	(2)
	158	**5,196**	**1,211**	**5,694**	**9,204**	**13,054**	**0**	**37,483**
	1,289	5,439	648	19,101	3,737	17,158	1,209	50,097
	1,197	**4,852**	**566**	**14,351**	**3,549**	**14,440**	**1,302**	**41,732**

The net carrying amount of the UMTS licenses of EUR 4.9 billion mainly relates to the Germany operating segment.

Deutsche Telekom had commitments for the acquisition of intangible assets in the amount of EUR 1.7 billion (December 31, 2011: EUR 0.3 billion) as of the reporting date. The increase is mainly attributable to mobile communication licenses amounting to EUR 0.9 billion at T-Mobile Netherlands and EUR 0.4 billion in the United States operating segment in connection with the build-out of the mobile network.

The additions to FCC licenses as of December 31, 2012 included EUR 0.9 billion from the transfer of AWS spectrum licenses that were part of the compensation from AT&T relating to the termination of the agreement to sell T-Mobile USA. Until the approval of the transfer by the Federal Communications Commission (FCC) in the second quarter of 2012, the licenses had been reported under other non-current assets.

In September 2012, T-Mobile USA swapped AWS spectrum licenses with Verizon, Inc., New York/United States. This transaction resulted in additions of EUR 0.5 billion and disposals of EUR 0.1 billion as well as a compensation payment of EUR 0.3 billion to Verizon. A book profit of EUR 0.1 billion attributable to the aforementioned effects was disclosed under other operating income.

The **carrying amounts of goodwill** are allocated to the operating segments, Group Headquarters & Shared Services and cash-generating units as follows:

T 065

	Dec. 31, 2012 millions of €	Dec. 31, 2011 millions of € [a]
GERMANY	**3,974**	**3,967**
EUROPE	**7,241**	**7,379**
Of which:		
Poland	1,600	1,463
Netherlands	1,317	1,317
Hungary	1,071	996
Austria	866	1,163
Czech Republic	666	648
Croatia	488	489
Greece – Mobile communications	422	422
Slovakia	399	399
Romania – Mobile communications	145	149
F.Y.R.O. Macedonia	109	110
Bulgaria	75	138
Other	83	85
UNITED STATES	**0**	**2,600**
SYSTEMS SOLUTIONS	**3,171**	**3,158**
GROUP HEADQUARTERS & SHARED SERVICES	**54**	**54**
	14,440	**17,158**

[a] The changes in the segment structure as of January 1, 2012 in the course of which the tasks and functions of the Digital Services growth business and the Internet service provider STRATO were transferred to Group Headquarters & Shared Services resulted in a change in the composition of the cash-generating units. The figures have been adjusted with retroactive effect.

In the 2012 financial year, the main changes in the carrying amounts of goodwill at cash-generating units were as follows:

United States. The agreement concluded on October 3, 2012 between Deutsche Telekom AG and MetroPCS Communications, Inc., Dallas/United States, (MetroPCS) on the combination of their business activities in the United States (please also refer to “Business combinations and other transactions” in the section “Summary of accounting policies,” PAGES 219 – 220) triggered an impairment test, which resulted in an impairment loss of EUR 10.6 billion recognized as of September 30, 2012 on goodwill, other intangible assets and property, plant and equipment of the United States cash-generating unit. The impairment loss generated a positive tax effect of EUR 3.2 billion. The recoverable amount of the United States cash-generating unit had to be determined according to the agreement on the business combination of T-Mobile USA and MetroPCS. The value of the shares in MetroPCS (market price) that will be attributable to Deutsche Telekom immediately prior to the announcement of the agreement was used as a basis for this valuation. Deutsche Telekom will receive these shares as a consideration for the contribution of T-Mobile USA into MetroPCS. Since the carrying amount of the net assets of the United States cash-generating unit exceeded the recoverable amount determined using this method, an impairment loss had to be recognized in profit or loss to account for the difference. This impairment loss first resulted in the full write-down of the goodwill totaling EUR 2.6 billion. The remaining part was mainly attributable to FCC licenses (EUR 5.8 billion).

Europe. The carrying amounts of goodwill of the cash-generating units **Austria** and **Bulgaria** decreased by EUR 0.4 billion due to impairment losses recognized as a result of the impairment test.

Disclosures on annual impairment tests. Deutsche Telekom performed its annual impairment tests of the goodwill recognized for the cash-generating units at December 31, 2012. The impairment test at the United States cash-generating unit was carried out in view of the indefinite-lived FCC licenses contained therein. On the basis of information available at the reporting date and expectations with respect to the market and competitive environment, the year-end impairment tests indicated a need for impairment at the following cash-generating units, both of which were assigned to the Europe operating segment:

T 066

Goodwill impairments.

	millions of €
Austria	297
Bulgaria	63
IMPAIRMENTS (OTHER OPERATING EXPENSES)	**360**

The impairment loss recognized on goodwill in Austria was largely attributable to a decline in future revenue as a result of intensified competition and unfavorable regulatory decisions. The impairment loss in Bulgaria was in particular a consequence of higher discount rates which were due to planning uncertainties with regard to the future development of the company.

The respective fair value less costs to sell was the recoverable amount used for the impairment test carried out in the 2012 financial year. The value of the shares in MetroPCS that will be held by Deutsche Telekom immediately prior to the announcement of the agreement was used as a measurement basis for the United States cash-generating unit. The market price of an active and liquid market (share price) of Hrvatski Telekom was used to determine the fair value less costs to sell in the case of the Croatia cash-generating unit. The measurements of the other cash-generating units are generally founded on projections that are based on financial plans that have been approved by management and are also used for internal purposes. The planning horizon reflects the assumptions for short- to mid-term market developments. Cash flows beyond the planning horizon are extrapolated using appropriate growth rates. The key assumptions on which management has based its determination of the recoverable amount include the following assumptions that were primarily derived from internal sources and are based on past experience and extended to include internal expectations, and that are underscored by external market data and estimates: development of revenue, customer acquisition and retention costs, churn rates, capital expenditure, market share, and growth rates. Discount rates are determined on the basis of external figures derived from the market, taking account of the risks associated with the cash-generating unit. Any significant future changes in the aforementioned assumptions would have an impact on the fair values of the cash-generating units. Any changes in the assumptions may have a negative impact, in particular in the Europe operating segment, as a result of the future macroeconomic trends, continued intense competition, further possible legislation changes (e.g., as part of national austerity programs) and regulatory intervention.

TABLE T 067 gives an overview of the respective periods used for cash flow projections, the growth rates used as the basis for the cash flow projections, and the discount rates applied to the cash flow projections, broken down by operating segment and major cash-generating units:

T 067

	Projection period (years)	Growth rates %	Discount rates %
Germany	10	1.0	6.16
Europe			
Poland	10	2.0	7.32
Netherlands	10	2.0	6.39
Hungary	10	2.0	7.23
Austria	10	2.0	6.63
Other cash-generating units	10	1.0 – 2.0	5.80 – 10.55
Systems Solutions	10	1.5	8.17

If the discount rates used for impairment testing had been 0.5 percentage points higher, the resulting impairment losses would have increased by EUR 0.2 billion. If, by contrast, the discount rates had been 0.5 percentage points lower, the resulting impairment losses would have been EUR 0.1 billion lower. If the growth rates used as a basis in the impairment tests had been 0.5 percentage points lower, the impairment losses would have been EUR 0.1 billion higher. In turn, impairment losses would have been EUR 0.1 billion lower if the growth rates had been 0.5 percentage points higher.

6 PROPERTY, PLANT AND EQUIPMENT.

T 068

	Land and equivalent rights, and buildings including buildings on land owned by third parties millions of €	Technical equipment and machinery millions of €	Other equipment, operating and office equipment millions of €	Advance payments and construction in progress millions of €	Total millions of €
COST					
AT DECEMBER 31, 2010	**19,420**	**99,823**	**7,483**	**3,023**	**129,749**
Currency translation	(38)	(66)	(17)	2	(119)
Changes in the composition of the Group	0	4	0	0	4
Additions	117	2,493	495	3,410	6,515
Disposals	81	3,460	623	43	4,207
Change from non-current assets and disposal groups held for sale	(285)	(4)	(2)	(1)	(292)
Reclassifications	326	2,693	245	(3,794)	(530)
AT DECEMBER 31, 2011	**19,459**	**101,483**	**7,581**	**2,597**	**131,120**
Currency translation	14	(25)	1	(20)	(30)
Changes in the composition of the Group	0	3	4	0	7
Additions	220	2,404	501	4,030	7,155
Disposals	229	2,936	830	88	4,083
Change from non-current assets and disposal groups held for sale	(612)	(849)	(2)	(33)	(1,496)
Reclassifications	282	2,049	404	(3,514)	(779)
AT DECEMBER 31, 2012	**19,134**	**102,129**	**7,659**	**2,972**	**131,894**
ACCUMULATED DEPRECIATION AND IMPAIRMENT LOSSES					
AT DECEMBER 31, 2010	**9,031**	**71,190**	**5,199**	**31**	**85,451**
Currency translation	(1)	(77)	(12)	0	(90)
Changes in the composition of the Group	0	1	0	0	1
Additions (depreciation)	799	6,146	716	0	7,661
Additions (impairment)	77	247	2	4	330
Disposals	67	3,285	541	6	3,899
Change from non-current assets and disposal groups held for sale	(223)	(3)	(1)	0	(227)
Reclassifications	30	(47)	2	0	(15)
Reversal of impairment losses	(19)	0	0	0	(19)
AT DECEMBER 31, 2011	**9,627**	**74,172**	**5,365**	**29**	**89,193**
Currency translation	(2)	(32)	(3)	0	(37)
Changes in the composition of the Group	0	0	3	0	3
Additions (depreciation)	789	6,152	736	0	7,677
Additions (impairment)	288	1,603	125	4	2,020
Disposals	166	2,767	739	2	3,674
Change from non-current assets and disposal groups held for sale	(408)	(382)	(3)	(4)	(797)
Reclassifications	14	(113)	101	0	2
Reversal of impairment losses	(13)	0	(2)	0	(15)
AT DECEMBER 31, 2012	**10,129**	**78,633**	**5,583**	**27**	**94,372**
NET CARRYING AMOUNTS					
At December 31, 2011	9,832	27,311	2,216	2,568	41,927
AT DECEMBER 31, 2012	**9,005**	**23,496**	**2,076**	**2,945**	**37,522**

For further details on depreciation, amortization and impairment losses, please refer to NOTE 5 "INTANGIBLE ASSETS," PAGE 224 et seq., and NOTE 30 "DEPRECIATION, AMORTIZATION AND IMPAIRMENT LOSSES," PAGES 253 – 254.

Restoration obligations of EUR 0.2 billion were recognized as of December 31, 2012 (December 31, 2011: EUR 0.2 billion). Deutsche Telekom had commitments for the acquisition of property, plant and equipment in the amount of EUR 2.0 billion (December 31, 2011: EUR 0.7 billion) as of the reporting date. The increase is primarily attributable to the build-out of the mobile network in the United States operating segment.

Assets totaling EUR 0.6 billion in the United States operating segment that relate to the framework agreement with Crown Castle International Corp., Houston/United States, on the leasing and use of cell sites are no longer recognized under Deutsche Telekom's property, plant and equipment as of December 31, 2012, since they were reclassified to non-current assets and disposal groups held for sale as of the September 30, 2012. The disposal was recognized under current assets upon closing of the transaction. Of this figure, EUR 0.5 billion relates to technical equipment and machinery and EUR 0.1 billion to land and buildings (please also refer to "Business combinations and other transactions" in the section "Summary of accounting policies," PAGES 219 – 220).

7 INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD.

Significant investments in entities accounted for using the equity method are as follows:

T 069

Name	Dec. 31, 2012 Deutsche Telekom share %	Dec. 31, 2012 Net carrying amounts millions of €	Dec. 31, 2011 Deutsche Telekom share %	Dec. 31, 2011 Net carrying amounts millions of €
Everything Everywhere [a]	50.00	6,352	50.00	6,725
T-Mobile USA Tower [b]	100.00	79	–	–
T-Mobile West Tower [b]	100.00	90	–	–
HT Mostar [c]	39.10	52	39.10	52
Toll Collect [a]	45.00	12	45.00	28
Other		141		68
		6,726		**6,873**

[a] Joint venture.
[b] Indirect shareholding via T-Mobile USA, Inc., United States (Deutsche Telekom AG's share: 100.00 %).
[c] Indirect shareholding via Hrvatski Telekom d.d., Croatia (Deutsche Telekom AG's share: 51.00 %).

Significant investments in entities accounted for using the equity method included two new companies as of December 31, 2012, to which 5,821 cell sites were transferred upon closing of the transaction with Crown Castle (please also refer to "Business combinations and other transactions" in the section "Summary of accounting policies," PAGES 219 – 220).

Aggregated key financial figures for the associates accounted for using the equity method are shown in TABLE T 070. The data is not based on the portions attributable to the Deutsche Telekom Group, but represents the shareholdings on a 100-percent basis.

T 070

Aggregated key financial figures for the associates accounted for using the equity method.

	Dec. 31, 2012 billions of €	Dec. 31, 2011 billions of €
Total assets	0.5	0.2
Total liabilities	0.1	0.1
	2012 billions of €	**2011 billions of €**
Net revenue	0.1	0.1
Profit (loss)	(0.1)	0.0

TABLE T 071 is a summary presentation of aggregated key financial figures – pro-rated according to the relevant percentage of shares held – for the joint ventures of Deutsche Telekom accounted for using the equity method:

T 071

Aggregated key financial figures for the joint ventures accounted for using the equity method.

	Everything Everywhere billions of €	Other billions of €	Total Dec. 31, 2012 billions of €	Total Dec. 31, 2011 billions of €
TOTAL ASSETS	**9.3**	**0.4**	**9.7**	**9.5**
Current	1.3	0.4	1.7	1.3
Non-current	8.0	0.0	8.0	8.2
TOTAL LIABILITIES	**3.0**	**0.3**	**3.3**	**2.8**
Current	1.4	0.2	1.6	1.9
Non-current	1.6	0.1	1.7	0.9
	Everything Everywhere billions of €	**Other billions of €**	**Total 2012 billions of €**	**Total 2011 billions of €**
Net revenue	4.1	0.3	4.4	4.2
Profit (loss)	(0.1)	0.0	(0.1)	(0.1)

8 OTHER FINANCIAL ASSETS.

T 072

	Dec. 31, 2012		Dec. 31, 2011	
	Total millions of €	Of which: current millions of €	Total millions of €	Of which: current millions of €
Originated loans and receivables	2,123	1,718	2,030	1,504
Available-for-sale financial assets	380	25	729	403
Derivative financial assets	1,287	201	1,533	346
Held-to-maturity investments	131	76	177	120
	3,921	**2,020**	**4,469**	**2,373**

T 073

Originated loans and receivables	Of which: neither impaired nor past due on the reporting date millions of €	Of which: not impaired on the reporting date and past due in the following periods					
		Less than 30 days millions of €	Between 30 and 60 days millions of €	Between 61 and 90 days millions of €	Between 91 and 180 days millions of €	Between 181 and 360 days millions of €	More than 360 days millions of €
As of Dec. 31, 2012							
Due within one year	1,937	3	10	15	29	2	1
Due after more than one year	500	–	–	–	–	–	4
As of Dec. 31, 2011							
Due within one year	1,435	11	7	5	14	4	1
Due after more than one year	516	–	–	–	–	–	2

With respect to the originated loans and receivables that are neither impaired nor past due, there are no indications as of the reporting date that the debtors will not meet their payment obligations.

Receivables of EUR 246 million (December 31, 2011: EUR 302 million) were used in connection with collateral agreements as surety for potential credit risks arising from derivative transactions.

The available-for-sale financial assets include, among other assets, unquoted equity instruments whose fair values could not be reliably measured, and which were therefore recognized at cost in the amount of EUR 230 million as of December 31, 2012 (December 31, 2011: EUR 270 million). No plans existed as of the reporting date to sell these instruments.

Factors responsible for the decrease include funds received back from expired investments in securities amounting to EUR 0.3 billion that were recorded under available-for-sale financial assets at December 31, 2011.

In the 2012 financial year, EUR 16 million (2011: EUR 15 million) in impairment losses on available-for-sale financial assets were recognized in profit or loss because the impairment was permanent or significant.

9 OTHER ASSETS.

The decrease of EUR 1.2 billion in other assets to EUR 1.6 billion was attributable in particular to the reclassification of AWS spectrum licenses valued at EUR 0.9 billion to intangible assets following the approval of the transfer by the Federal Communications Commission (FCC). They were part of the compensation from AT&T relating to the termination of the agreement to sell T-Mobile USA. Other assets otherwise mainly include deferred expenses of EUR 1.1 billion (December 31, 2011: EUR 1.3 billion).

10 FINANCIAL LIABILITIES.

T 074

	Dec. 31, 2012				Dec. 31, 2011			
	Total millions of €	Due within 1 year millions of €	Due >1 year ≤ 5 years millions of €	Due > 5 years millions of €	Total millions of €	Due within 1 year millions of €	Due >1 year ≤ 5 years millions of €	Due > 5 years millions of €
Bonds and other securitized liabilities	**33,674**	**5,120**	**14,651**	**13,903**	**36,228**	**5,266**	**17,005**	**13,957**
Of which: non-convertible bonds	19,950	3,377	8,497	8,076	20,649	1,997	9,279	9,373
Of which: commercial paper, medium-term notes and similar liabilities	13,724	1,743	6,154	5,827	15,579	3,269	7,726	4,584
Liabilities to banks	**3,912**	**499**	**3,284**	**129**	**4,916**	**1,562**	**3,225**	**129**
Of which: promissory notes	1,986	299	1,558	129	2,060	79	1,852	129
Of which: loans from the European Investment Bank	1,631	64	1,567	–	1,825	518	1,307	–
Of which: other loans	295	136	159	–	1,031	965	66	–
	37,586	**5,619**	**17,935**	**14,032**	**41,144**	**6,828**	**20,230**	**14,086**
Lease liabilities	1,780	652	475	653	1,885	159	987	739
Liabilities to non-banks from promissory notes	1,167	40	606	521	1,188	10	587	591
Other interest-bearing liabilities	1,551	1,296	175	80	1,179	941	122	116
Other non-interest-bearing liabilities	1,611	1,534	76	1	1,528	1,489	36	3
Derivative financial liabilities	919	119	721	79	1,394	792	453	149
	7,028	**3,641**	**2,053**	**1,334**	**7,174**	**3,391**	**2,185**	**1,598**
FINANCIAL LIABILITIES	**44,614**	**9,260**	**19,988**	**15,366**	**48,318**	**10,219**	**22,415**	**15,684**

Deutsche Telekom has established ongoing liquidity management. To ensure the Group's and Deutsche Telekom AG's solvency and financial flexibility at all times, Deutsche Telekom maintains a liquidity reserve in the form of credit lines and cash. This liquidity reserve is to cover the maturities of the next 24 months at any time.

In addition to the reported liabilities to banks, Deutsche Telekom had standardized bilateral credit agreements with 22 banks for a total of EUR 13.2 billion at December 31, 2012. None of the credit lines had been utilized by December 31, 2012. Pursuant to the credit agreements, the terms and conditions depend on Deutsche Telekom's rating. The bilateral credit agreements have an original maturity of 36 months and can, after each period of 12 months, be extended by a further 12 months to renew the maturity of 36 months. From today's perspective, access to the international debt capital markets is not jeopardized. Deutsche Telekom issued a bond amounting to USD 2 billion (approximately EUR 1.5 billion) in 2012. In addition, medium-term notes with a total value of EUR 1.6 billion were issued. In the prior year, debt capital raised on the capital market totaled EUR 1.4 billion.

TABLES T 075 and T 076 show Deutsche Telekom's contractually agreed (undiscounted) interest payments and repayments of the non-derivative financial liabilities and the derivatives with positive and negative fair values:

T 075

	Carrying amounts Dec. 31, 2012 millions of €	Cash flows in 2013		
		Fixed interest rate millions of €	Variable interest rate millions of €	Repayment millions of €
NON-DERIVATIVE FINANCIAL LIABILITIES				
Bonds, other securitized liabilities, liabilities to banks and liabilities to non-banks from promissory notes and similar liabilities	(38,753)	(1,911)	(83)	(6,084)
Finance lease liabilities	(1,246)	(92)		(158)
Other interest-bearing liabilities	(2,085)	(4)		(1,803)
Other non-interest-bearing liabilities	(1,611)			(1,534)
DERIVATIVE FINANCIAL LIABILITIES AND ASSETS				
Derivative financial liabilities:				
Currency derivatives without a hedging relationship	(38)			(44)
Currency derivatives in connection with cash flow hedges	(9)			(7)
Currency derivatives in connection with net investment hedges	–			
Interest rate derivatives without a hedging relationship	(289)	(85)	20	(58)
Interest rate derivatives in connection with fair value hedges	–			
Interest rate derivatives in connection with cash flow hedges	(575)	(122)	21	
Derivative financial assets:				
Currency derivatives without a hedging relationship	12			10
Currency derivatives in connection with cash flow hedges	22			14
Interest rate derivatives without a hedging relationship	519	37	(23)	139
Interest rate derivatives in connection with fair value hedges	498	299	(79)	
Interest rate derivatives in connection with cash flow hedges	236	12		
FINANCIAL GUARANTEES AND LOAN COMMITMENTS [a]	(1)			(381)

[a] For more detailed information, please refer to NOTE 38 "RISK MANAGEMENT, FINANCIAL DERIVATIVES, AND OTHER DISCLOSURES ON CAPITAL MANAGEMENT," PAGE 272 et seq.
In each case, the maximum payment at the earliest possible date of utilization is shown.

Cash flows in 2014			Cash flows in 2015 – 2017			Cash flows in 2018 – 2022			Cash flows in 2023 and thereafter		
Fixed interest rate millions of €	Variable interest rate millions of €	Repayment millions of €	Fixed interest rate millions of €	Variable interest rate millions of €	Repayment millions of €	Fixed interest rate millions of €	Variable interest rate millions of €	Repayment millions of €	Fixed interest rate millions of €	Variable interest rate millions of €	Repayment millions of €
(1,573)	(44)	(5,411)	(3,547)	(35)	(13,052)	(3,410)		(7,751)	(4,119)		(7,163)
(87)		(118)	(201)		(343)	(199)		(277)	(144)		(350)
(5)		(96)	(29)		(78)	(83)		(107)			
		(59)			(16)			(2)			
(85)	18		(62)	19	(29)		10			38	13
(118)	23		(448)	61		(29)	4				
		1									
		9									
25	(20)	143	17	(24)	80	19	(37)	39	105	(72)	42
260	(65)		302	(110)	(2)	225	(97)		766	(356)	
12			39		40	61		121	27		49
								(2,418)			

T 076

	Carrying amounts Dec. 31, 2011 millions of €	Cash flows in 2012 millions of €	2013 millions of €	2014 – 2016 millions of €	2017 – 2021 millions of €	2022 and thereafter millions of €
NON-DERIVATIVE FINANCIAL LIABILITIES						
Bonds, other securitized liabilities, liabilities to banks and liabilities to non-banks from promissory notes and similar liabilities	(42,332)	(9,014)	(8,088)	(18,169)	(10,467)	(11,687)
Finance lease liabilities	(1,351)	(279)	(199)	(546)	(589)	(548)
Other interest-bearing liabilities	(1,713)	(1,033)	(518)	(94)	(213)	(60)
Other non-interest-bearing liabilities	(1,528)	(1,489)	(18)	(18)	(3)	
DERIVATIVE FINANCIAL LIABILITIES AND ASSETS						
Derivative financial liabilities:						
Currency derivatives without a hedging relationship	(581)	(603)	(3)			
Currency derivatives in connection with cash flow hedges	(13)	(9)				
Currency derivatives in connection with net investment hedges	(78)	(83)				
Interest rate derivatives without a hedging relationship	(245)	(113)	(89)	(47)	(31)	6
Interest rate derivatives in connection with fair value hedges						
Interest rate derivatives in connection with cash flow hedges	(470)	(54)	(94)	(298)	(89)	
Derivative financial assets:						
Currency derivatives without a hedging relationship	259	271	2	1		
Currency derivatives in connection with cash flow hedges	21	16	3	3		
Interest rate derivatives without a hedging relationship	574	41	214	157	(4)	65
Interest rate derivatives in connection with fair value hedges	431	120	135	184	26	35
Interest rate derivatives in connection with cash flow hedges	248	36	9	66	77	132
FINANCIAL GUARANTEES AND LOAN COMMITMENTS [a]	n.a.	(369)				

[a] For more detailed information, please refer to NOTE 38 "RISK MANAGEMENT, FINANCIAL DERIVATIVES, AND OTHER DISCLOSURES ON CAPITAL MANAGEMENT," PAGE 272 et seq.
In each case, the maximum payment at the earliest possible date of utilization is shown.

All instruments held at December 31, 2012 and for which payments were already contractually agreed were included. Planning data for future, new liabilities were not included. Amounts in foreign currency were each translated at the closing rate at the reporting date. The variable interest payments arising from the financial instruments were calculated using the last interest rates fixed before December 31, 2012. Financial liabilities that can be repaid at any time are always assigned to the earliest possible time period. In accordance with § 2 (4) of the German Act on the Transformation of the Deutsche Bundespost Enterprises into the Legal Structure of Stock Corporation (Stock Corporation Transformation Act – Postumwandlungsgesetz), the Federal Republic is guarantor of all Deutsche Telekom AG's liabilities which were already outstanding as at January 1, 1995. At December 31, 2012, this figure was a nominal EUR 2.1 billion (December 31, 2011: EUR 2.0 billion).

11 TRADE AND OTHER PAYABLES.

T 077

	Dec. 31, 2012 millions of €	Dec. 31, 2011 millions of €
Trade payables	6,415	6,409
Other liabilities	30	27
	6,445	**6,436**

Of the total of trade and other payables, EUR 6,439 million (December 31, 2011: EUR 6,430 million) is due within one year.

12 PROVISIONS FOR PENSIONS AND OTHER EMPLOYEE BENEFITS.

Defined benefit plans.

The Group's pension obligations are based on funded and unfunded pension commitments in Germany, Greece and Switzerland.
In addition, there are further obligations under Article 131 of the Basic Law (Grundgesetz – GG).

Deutsche Telekom's pension obligations are as follows:

T 078

	Dec. 31, 2012 millions of €	Dec. 31, 2011 millions of €
DEFINED BENEFIT LIABILITY	**7,280**	**6,095**
Defined benefit asset	(16)	(14)
NET DEFINED BENEFIT LIABILITY	**7,264**	**6,081**
Pension obligations		
Unfunded	6,677	5,710
Funded	585	369
Obligations in accordance with Article 131 GG	2	2

The defined benefit asset is recognized under other non-current assets in the consolidated statement of financial position.

Calculation of net defined benefit liabilities (defined benefit assets):

T 079

	Dec. 31, 2012 millions of €	Dec. 31, 2011 millions of €
Present value of wholly or partially funded obligations	6,445	5,009
Plan assets at fair value	(1,680)	(860)
DEFINED BENEFIT OBLIGATIONS IN EXCESS OF PLAN ASSETS	**4,765**	**4,149**
Present value of unfunded obligations	2,533	1,960
Unrecognized past service cost	(36)	(31)
DEFINED BENEFIT LIABILITY (DEFINED BENEFIT ASSET) ACCORDING TO IAS 19.54	**7,262**	**6,078**
Adjustment due to asset ceiling (according to IAS 19.58)	2	3
NET DEFINED BENEFIT LIABILITY	**7,264**	**6,081**

Effective from the 2011 financial year, direct commitments in Germany financed on the basis of a Contractual Trust Agreement (CTA) are shown as funded obligations.

Assumptions for the measurement of defined benefit obligations at present value as of December 31:

T 080

		2012		2011	
		%	years	%	years
Discount rate and duration	Germany	3.26	14.8	5.31	13.3
	Schweiz (T-Systems Schweiz AG)	1.78	17.5	2.57	16.1
	Greece (OTE S.A.)	2.86 [a]/2.26 [b]	11.2 [a]/7.1 [b]	4.72 [a]/4.18 [b]	8.6 [a]/6.6 [b]
Projected salary increase	Germany (pay-scale employees)	2.75		2.75	
	Germany (non-pay-scale employees)	2.75		2.75	
	Schweiz (T-Systems Schweiz AG)	1.50		1.50	
	Greece (OTE S.A.)	1.00 [c]		1.50 [d]	
Projected pension increase	Germany (general)	1.50		1.50	
	Germany (according to articles of association)	1.00		1.00	
	Schweiz (T-Systems Schweiz AG)	0.30		0.30	
	Greece (OTE S.A.)	n.a.		n.a.	

[a] Discount rate and duration relate to the plans for staff retirement indemnities and for phone credits (please refer to the plan description PAGE 237).
[b] Discount rate and duration relate to the plan for youth accounts (please refer to the plan description PAGE 237).
[c] The following assumptions were made in 2012 concerning the development of salaries in subsequent years: 2013: 0.97 percent, 2014: 0.97 percent, 2015: 9.69 percent, 2016: 0.00 percent. An increase of 1.00 percent is assumed for the years from 2017 onward.
[d] The following assumptions were made in 2011 concerning the development of salaries in subsequent years: 2012: –10.06 percent, 2013: –7.04 percent, 2014: –3.93 percent, 2015: 9.09 percent. An increase of 1.50 percent was assumed for the years from 2016 onward. In accordance with an agreement reached with the trade union in 2011, the development of salaries for the years 2012 through 2014 was downward and from 2015 upward again.

Pension obligations at German entities of the Group are measured using the biometrical assumptions of the 2005G tables published by Prof. Klaus Heubeck. Local actuarial tables are used in the other countries.

The aforementioned discount rates were used as of December 31, 2012 when calculating the present value of defined benefit obligation, taking into account future salary increases. These discount rates were set in line with the average weighted duration of the respective obligation. In the eurozone, the discount rate is determined on the basis of the yield on high-quality European corporate bonds with AA rating, mapped in a yield curve using spot rates. In Switzerland, the discount rate was determined on the basis of swap yields plus risk premiums.

Assumptions for determining the pension expense for years ending December 31:

T 081

		2012 %	2011 %	2010 %
Discount rate	Germany	5.31	5.16	5.25
	Schweiz (T-Systems Schweiz AG)	2.57	3.05	3.15
	Greece (OTE S.A.)	4.72/4.18	4.56/3.71	4.56/3.89
Projected salary increase	Germany (pay-scale employees)	2.75	3.25	3.25
	Germany (non-pay-scale employees)	2.75	3.50	3.50
	Schweiz (T-Systems Schweiz AG)	1.50	1.50	1.50
	Greece (OTE S.A.)	(10.06)[a]	2.20	4.50
Return on plan assets	Germany (CTA)	4.80	–	–
	Germany (other)	2.50	3.00	3.90
	Schweiz (T-Systems Schweiz AG)	4.50	4.50	4.50
Projected pension increase	Germany (general)	1.50	1.50	1.50
	Germany (according to articles of association)	1.00	1.00	1.00
	Schweiz (T-Systems Schweiz AG)	0.30	0.30	0.30
	Greece (OTE S.A.)	n.a.	n.a.	n.a.

[a] In accordance with an agreement reached with the trade union, the development of salaries as projected in 2011 slows progressively in the year 2012.

Development of the present value of projected benefit obligations in the reporting year:

T 082

	2012 millions of €	2011 millions of €
PRESENT VALUE OF THE DEFINED BENEFIT OBLIGATIONS AS OF JANUARY 1	**6,969**	**7,017**
Changes attributable to business combinations/ transfers of operation/acquisitions and disposals	3	6
Current service cost	185	192
Interest cost	353	342
Contributions by plan participants	4	4
Actuarial losses (gains)	1,870	(185)
Total benefits actually paid	(420)	(419)
Curtailments	(6)	(2)
Settlements	2	11
Past service cost to be recognized in the financial year	16	(3)
Exchange rate fluctuations for foreign-currency plans	2	6
PRESENT VALUE OF THE DEFINED BENEFIT OBLIGATIONS AS OF DECEMBER 31	**8,978**	**6,969**

Taking the plan assets into consideration, the pension obligations were accounted for in full.

Sensitivity of defined benefit obligations:

T 083

	Present value of the defined benefit obligations millions of €
Increase of discount rate by 100 basis points	7,956
DECEMBER 31, 2012	**8,978**
Decrease of discount rate by 100 basis points	10,230
Increase of projected salary by 50 basis points	9,000
DECEMBER 31, 2012	**8,978**
Decrease of projected salary by 50 basis points	8,957
Increase of projected pension by 25 basis points	8,989
DECEMBER 31, 2012	**8,978**
Decrease of projected pension by 25 basis points	8,968

A change in the three parameters within the scope described with otherwise unchanged assumptions would have impacted the present value of the defined benefit obligation as of December 31, 2012 as shown in TABLE T 083.

In order to ensure that it remains possible to calculate the risks of defined benefit plans worldwide, Deutsche Telekom manages them, in addition to local measures, by means of a Global Pension Policy, which defines minimum standards for the introduction, revision, management and financing of defined benefit plans. Defined benefit plans based on final salaries in the Group have largely been replaced by plans with contribution-based promises. In addition, a corporate CTA (Deutsche Telekom Trust e.V.) has been used in Germany since 2011 to further cover pension obligations. A CTA is a legally structured trust agreement to provide capital to cover unfunded pension commitments with separate plan assets, and to provide greater protection against insolvency for these obligations.

The global obligations as well as the existing plan assets are regularly reviewed to be able to take risk-reducing measures. This is done, for example, with the help of asset/liability studies and regular benefit audits.

In **Germany** there is primarily a flexible, market-based plan with a contribution-based promise (so-called capital account plan). In contrast to conventional final-salary defined benefit plans, the capital account plan reflects the employee's working life. A one-time capital payment is generally made upon retirement. Based on the payment guidelines, the structure of the plan and the management modules of the capital account plan, the employer can plan for this, and the remuneration dynamics are hence not subject to severe fluctuations and risks.

Within the scope of the realignment of the company pension plan in 1997, existing commitments were transferred from the overall pension scheme of Versorgungsanstalt der Deutschen Bundespost, a supplementary retirement pensions institution, to the capital account plan. As such, the overall pension scheme only continued to apply to people who were already retired in 1997 and for those with vested claims at that time.

To the extent that defined benefit plans grant pensions, the percentage rate of the adjustment for these pensions, except for insignificant exceptions, is bindingly defined in the existing benefit regulations. A change in the general pension trend in Germany therefore only has an immaterial impact on the present value of the obligations.

As part of the obligatory company pension scheme in Switzerland, at **T-Systems Schweiz AG** there is a plan with a contribution-based promise financed through employer and employee contributions, which is managed by the legally independent T-Systems pension fund and which goes beyond the minimum benefits required by law, which is not uncommon practice in Switzerland. The minimum return defined by the government is 1.5 percent. With regard to payment of the benefits, there is the option of converting the capital payment into a life-long pension using fixed annuity conversion factors.

The plan assets are invested in a portfolio of diverse asset classes. If the assets exceed the obligations, these surpluses must be retained in the plan and T-Systems Schweiz AG cannot use them. The plan includes defined minimum amounts that can only be reduced with the approval of the Stiftungsrat (foundation board).

In **Greece,** mandatory staff retirement indemnities are due in cases of premature termination by the employer and, to a lesser extent, upon retirement by the employee. These are paid out as a capital sum and can amount to several times the employee's last monthly pay, depending on the employee's length of service. A change in the law in 2012 capped the capital payment at a maximum of twelve monthly salaries. The company also makes a voluntary top-up payment.

OTE S.A. is also obliged to make a capital payment into what are known as youth accounts for the employees' children when they reach the age of 25. Having previously been based on the level of the employee's final monthly salary, the benefit plan was changed in November 2011 to a plan with a contribution-based promise financed by contributions by the employee and limited matching contributions by the employer.

Employees and retired employees are also entitled to phone credits. OTE S.A.'s payment obligation depends therefore on the price of the telephone unit and the level of credit utilization by those entitled to them. The volume of the obligation (credit) is capped.

Development of plan assets at fair value in the respective reporting year:

T 084

	2012 millions of €	2011 millions of €
PLAN ASSETS AT FAIR VALUE AS OF JANUARY 1	**860**	**629**
Changes attributable to business combinations/ transfers of operation/acquisitions and disposals	5	(11)
Expected return on plan assets	34	23
Actuarial (losses) gains	51	(5)
Contributions by employer	768	267
Contributions by plan participants	4	4
Benefits actually paid through pension funds	(45)	(52)
Settlements	0	(1)
Exchange rate fluctuations for foreign-currency plans	3	6
PLAN ASSETS AT FAIR VALUE AS OF DECEMBER 31	**1,680**	**860**

Contributions by employer as of December 31, 2012 include a payment of EUR 750 million (December 31, 2011: EUR 250 million) allocated to a corporate CTA in Germany which is usually made at the end of the year.

Breakdown of plan assets at fair value by investment category:

T 085

	Dec. 31, 2012 %	Dec. 31, 2011 %
Equity securities	20	20
Debt securities	67	66
Real estate	3	5
Other	10	9

The investment structure is defined, managed and regularly reviewed using asset/liability studies. The resulting target allocations for the plan assets of the respective pension plans therefore reflect the duration of the obligations, the defined benefit obligation, the minimum requirements for the policy reserve, and other factors.

At the reporting date, the plan assets include shares issued by Deutsche Telekom AG amounting to EUR 0.8 million (December 31, 2011: shares totaling EUR 1.0 million). No other own financial instruments were included in the years shown.

Determination of the expected return on essential plan assets:

The expected return indicated is primarily based on consensus forecasts for each asset class. The forecasts are based on historical figures, economic data, interest rate forecasts, and anticipated stock market developments.

The pension expense for each period is composed of the following items and reported in the indicated accounts of the income statement:

T 086

	Presentation in the income statement	2012 millions of €	2011 millions of €	2010 millions of €
Current service cost	Functional costs [a]	185	192	193
Interest cost	Other financial income (expense)	353	342	344
Expected return on plan assets	Other financial income (expense)	(34)	(23)	(27)
Past service cost	Functional costs [a]	11	9	9
PENSION EXPENSE BEFORE CURTAILMENTS/SETTLEMENTS		**515**	**520**	**519**
Curtailments	Functional costs [a]	(6)	(2)	(2)
Settlements	Functional costs [a]	2	12	(3)
PENSION EXPENSE		**511**	**530**	**514**
Actual return on plan assets		85	18	34

[a] Including other operating expenses.

The year-on-year increase in the actual return on plan assets in 2012 is largely attributable to the investment strategy in Germany and the higher investment volume of the domestic CTA.

The consolidated statement of comprehensive income contains the following amounts:

T 087

	2012 millions of €	2011 millions of €	2010 millions of €
LOSSES (GAINS) RECOGNIZED IN EQUITY IN THE FINANCIAL YEAR	**1,818**	**(177)**	**32**
Of which: actuarial losses (gains)	1,819	(180)	32
Of which: adjustment due to asset ceiling (according to IAS 19.58)	(1)	3	–
CUMULATIVE LOSSES (GAINS) RECOGNIZED DIRECTLY IN EQUITY AS OF DECEMBER 31	**2,194**	**376**	**553**
Of which: actuarial losses (gains)	2,192	373	553
Of which: adjustment due to asset ceiling (according to IAS 19.58)	2	3	–

Total benefits expected:

T 088

	2013 millions of €	2014 millions of €	2015 millions of €	2016 millions of €	2017 millions of €
Benefits from pension provisions	313	336	355	385	350
Benefits from plan assets	47	49	51	51	52
TOTAL BENEFITS EXPECTED	**360**	**385**	**406**	**436**	**402**

Benefits paid directly by the employer, for which the assets accumulated as part of a CTA can generally be utilized, are usually reimbursed to the employer from the CTA assets soon after payment. Such reimbursements are currently not yet made as this would have a detrimental effect on the build-up of assets within the CTA in its first years.

An amount of EUR 250 million (2012: EUR 750 million) will be additionally allocated to the CTA in 2013 to build up a certain level of plan assets within the Group. Groupwide, EUR 269 million is expected to be allocated for 2013 (2012: EUR 768 million).

Amounts for the current year and four preceding years of defined benefit obligations, plan assets, defined benefit obligations in excess of plan assets, and experience-based adjustments:

T 089

	2012 millions of €	2011 millions of €	2010 millions of €	2009 millions of €	2008 millions of €
Defined benefit obligations (present value)	8,978	6,969	7,017	6,833	6,101
Plan assets at fair value	(1,680)	(860)	(629)	(618)	(952)
DEFINED BENEFIT OBLIGATIONS IN EXCESS OF PLAN ASSETS	**7,298**	**6,109**	**6,388**	**6,215**	**5,149**

T 090

Adjustment	2012 %	2011 %	2010 %	2009 %	2008 %
Experience-based increase (decrease) of pension obligations	(0.2)	(0.3)	0.1	(0.7)	(0.1)
Experience-based increase (decrease) of plan assets	3.0	(0.6)	1.1	(9.9)	(0.2)

Defined contribution plans.

In the 2012 financial year, current contributions for defined contribution plans, which are reported as an expense in the consolidated income statement of the respective year, amounted to EUR 99 million (2011: EUR 118 million, 2010: EUR 114 million).

Civil-servant retirement arrangements at Deutsche Telekom.

An expense of EUR 592 million was recognized in the 2012 financial year (2011: EUR 610 million, 2010: EUR 676 million) for the annual contribution to the BPS-PT special pension fund amounting to 33 percent of the pensionable gross emoluments of active civil servants and the notional pensionable gross emoluments of civil servants on leave of absence. The present value to the total obligation arising from payment obligations to this special pension fund was EUR 5.6 billion as of the reporting date (December 31, 2011: EUR 5.2 billion).

13 OTHER PROVISIONS.

T 091

	Provisions for termination benefits millions of €	Other provisions for personnel costs millions of €	Provisions for restoration obligations millions of €	Provisions for litigation risks millions of €	Provisions for sales and procurement support millions of €	Miscellaneous other provisions millions of €	Total millions of €
AT DECEMBER 31, 2010	**437**	**1,639**	**874**	**457**	**454**	**960**	**4,821**
Of which: current	260	1,360	32	427	454	660	3,193
Changes in the composition of the Group	0	0	0	0	0	0	0
Currency translation adjustments	(1)	13	(6)	0	0	0	6
Addition	312	1,592	113	132	305	572	3,026
Use	(304)	(1,369)	(44)	(55)	(341)	(320)	(2,433)
Reversal	(87)	(122)	(38)	(83)	(82)	(205)	(617)
Interest effect	0	5	28	1	0	8	42
Other changes	(1)	5	(2)	0	0	59	61
AT DECEMBER 31, 2011	**356**	**1,763**	**925**	**452**	**336**	**1,074**	**4,906**
Of which: current	219	1,424	32	425	336	781	3,217
Changes in the composition of the Group	0	2	0	0	0	(1)	1
Currency translation adjustments	2	(7)	5	(2)	(1)	5	2
Addition	185	1,572	122	135	406	386	2,806
Use	(273)	(1,445)	(34)	(168)	(283)	(265)	(2,468)
Reversal	(89)	(92)	(39)	(77)	(10)	(233)	(540)
Interest effect	9	15	56	2	0	7	89
Other changes	9	(40)	0	0	0	(4)	(35)
AT DECEMBER 31, 2012	**199**	**1,768**	**1,035**	**342**	**448**	**969**	**4,761**
Of which: current	118	1,333	44	320	448	636	2,899

Provisions for termination benefits include provisions for staff restructuring. These provisions developed as follows in the financial year:

T 092

	Jan. 1, 2012 millions of €	Additions millions of €	Use millions of €	Reversal millions of €	Other changes millions of €	Dec. 31, 2012 millions of €
Early retirement	0	12	0	0	0	12
Severance and voluntary redundancy models	191	100	(124)	(89)	1	79
Partial retirement	165	73	(149)	0	19	108
	356	**185**	**(273)**	**(89)**	**20**	**199**
Of which: current	219					118

Some of the staff restructuring measures listed here are covered by law such as, for instance, early retirement for civil servants as defined by the Act on the Staff Structure at the Residual Special Asset of the Federal Railways and the Successor Companies of the Former Deutsche Bundespost. For civil servants employed at Deutsche Telekom, the law provides the opportunity under certain conditions to retire early from the age of 55. When the Act on the Reorganization of the Civil-Service Pension Fund (Gesetz zur Neuordnung der Postbeamtenversorgungskasse) came into effect, the provisions for early retirement for civil servants were extended until December 31, 2016. The Board of Management resolved to make use of these provisions for the year 2012.

Other provisions for personnel costs include a variety of individual issues such as provisions for deferred compensation and allowances, as well as for anniversary gifts. The expenses are allocated to functional costs or to other operating expenses based on actual cost generation.

Provisions for restoration obligations include the estimated costs for dismantling and removing an asset, and restoring the site on which it is located. The estimated costs are included in the costs of the relevant asset.

The provisions for litigation risks primarily relate to possible settlements attributable to pending lawsuits.

Provisions for sales and procurement support include dealer commissions, subsidies for advertising expenses and reimbursements.

Miscellaneous other provisions include a large number of individual items accounting for marginal amounts such as provisions related to executory contracts, the disposal of businesses and site closures in particular in prior financial years, and warranty provisions.

14 OTHER LIABILITIES.

T 093

	Dec. 31, 2012 millions of €	Of which: current millions of €	Dec. 31, 2011 millions of €	Of which: current millions of €
Deferred revenue	1,829	1,311	1,838	1,330
Early retirement	2,435	802	2,437	823
Liabilities from other taxes	1,141	1,135	1,076	1,070
Liabilities from straight-line leases	1,326	–	1,292	–
Other deferred revenue	445	253	468	241
Miscellaneous other liabilities	684	454	666	425
	7,860	**3,955**	**7,777**	**3,889**

Under other liabilities, liabilities of EUR 0.1 billion from straight-line leases which had a positive effect on profit were released. The liabilities released constitute deferrals for the straight-line recognition of the lease expense for the land on which the cell towers are built. T-Mobile USA will no longer lease the land for 6,654 cell sites. On the other hand, EUR 0.1 billion was recorded under other deferred revenue to reflect the payment received for the 833 cell sites disposed of. Both effects are directly related to the agreement signed with Crown Castle (please also refer to “Business combinations and other transactions” in the section “Summary of accounting policies,” PAGES 219 – 220).

15 SHAREHOLDERS’ EQUITY.

Issued capital.

As of December 31, 2012, the share capital of Deutsche Telekom totaled EUR 11,063 million. The share capital is divided into 4,321,319,206 no par value registered shares.

T 094

	2012 thousands	2012 %
Federal Republic of Germany	646,575	15.0
KfW Bankengruppe	735,662	17.0
Free float	2,939,082	68.0
Of which: BlackRock	129,899	3.0
	4,321,319	**100.0**

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

The shares are to 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 are also to be used for purposes for which an exclusion of subscription rights is intended, but can also be withdrawn or sold through the stock market or by way of an offer to all shareholders. The shares are to be available 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.

Voting rights. Each share entitles the holder to one vote. These voting rights are nevertheless restricted in relation to treasury shares (around 2 million as of December 31, 2012) and trust shares (around 19 million as of December 31, 2012). The trust shares are connected with the acquisition of VoiceStream and Powertel (now T-Mobile USA) in 2001.

As part of these acquisitions, Deutsche Telekom AG issued new shares from authorized capital to trustees for the benefit of holders of warrants, options, and conversion rights, among others. As regards the shares issued to trusts, the trustees in question waived voting rights and subscription rights and, in general, dividend rights for the duration of the trusts' existence. The shares issued to the trusts can be sold on the stock exchange on the instruction of Deutsche Telekom AG if the beneficiaries do not exercise their options or conversion rights or if these expire. The proceeds from the sale accrue to Deutsche Telekom AG.

Authorized capital and contingent capital. Authorized capital and contingent capital comprised the following components as of December 31, 2012:

T 095

	Amount millions of €	No par value shares thousands	Purpose
2009 Authorized capital I [a]	2,176	850,000	Increase in share capital (until April 29, 2014)
2009 Authorized capital II [a]	38	15,000	Employee shares (until April 29, 2014)
Contingent capital II	32	12,427	Meeting subscription rights to shares from stock options under the 2001 Stock Option Plan
2010 Contingent capital	1,100	429,688	Servicing guaranteed convertible bonds or bonds with warrants issued on or before May 2, 2015

[a] The Supervisory Board's approval is required.

Capital reserves.

The capital reserves of the Group primarily encompass the capital reserves of Deutsche Telekom AG. Differences to the capital reserves of Deutsche Telekom AG result from the recognition at fair value of the Deutsche Telekom AG shares newly issued in the course of the acquisition of T-Mobile USA, Inc., Bellevue (United States)/Powertel, Inc., Bellevue (United States), instead of at their par value and from the related treatment of the issuing costs, which are deducted from capital reserves.

Total other comprehensive income.

EUR 0.2 billion of total other comprehensive income was reclassified to other financial income/expense following the sale of the stake in Telekom Srbija. The amount had been recognized directly in equity as of December 31, 2011 due to the increase of carrying amounts to fair value. Of this figure, EUR 0.1 billion was attributable to non-controlling interests.

NOTES TO THE CONSOLIDATED INCOME STATEMENT.

For detailed information on special factors, please refer to the combined management report in the section "Development of business in the Group," PAGE 94.

16 NET REVENUE.

Net revenue breaks down into the following revenue categories:

T 096

	2012 millions of €	2011 millions of €	2010 millions of €
Revenue from the rendering of services	53,734	54,812	58,159
Revenue from the sale of goods and merchandise	3,859	3,650	4,067
Revenue from the use of entity assets by others	576	191	195
	58,169	**58,653**	**62,421**

For details of changes in net revenue, please refer to the section "Development of business in the Group" in the combined management report on PAGE 90 et seq.

17 COST OF SALES.

Cost of sales incurred in connection with fixed-network and mobile communications relate to all costs arising from the operation and maintenance of the telecommunications network. They include depreciation and amortization of network-related assets, personnel costs for employees assigned to the operation and maintenance of the network, other repair costs, rent and incidental costs for network sites as well as interconnection and roaming costs. Costs for the purchase of terminal equipment are also shown under this item.

Cost of sales attributable to the Systems Solutions operating segment primarily relate to software development and maintenance, the operation of computing centers and workstations as well as the construction and operation of customer networks. They include in particular depreciation of technical equipment, personnel costs for information technology and telecommunications development and support services, and costs for upstream services as well as material.

T 097

	2012 millions of €	2011 millions of €	2010 millions of €
Cost of sales from fixed-network and mobile communications	27,954	27,819	29,657
Cost of sales from the Systems Solutions operating segment	5,457	5,558	5,341
Other cost of sales	791	508	727
	34,202	**33,885**	**35,725**

Cost of sales increased by EUR 0.3 billion year-on-year. Negative exchange rate effects of EUR 0.6 billion impacted cost of sales, in particular in the United States operating segment, in the reporting year. In addition, the change in the estimates of the useful lives of property, plant and equipment in the United States operating segment resulted in an increase in depreciation of EUR 0.2 billion.

The prior-year figures have been adjusted for better comparability following the segment structure changes. For more information, please refer to the explanations in NOTE 32 "SEGMENT REPORTING," PAGE 256 et seq.

18 SELLING EXPENSES.

Selling expenses comprise all costs of activities that do not directly increase the value of the Group's products and services, but serve to secure sales. In addition to material and personnel costs incurred in the area of sales and depreciation and amortization, these include any sales-specific costs such as allowances for write-downs of customer receivables, receivables written off, freight out, and transport insurance.

T 098

	2012 millions of €	2011 millions of €	2010 millions of €
Costs of operational sales	9,322	9,553	9,880
Marketing costs	2,373	2,143	2,183
Order management costs	254	258	243
Costs of accounts receivable management	1,010	1,078	1,202
Other selling expenses	1,038	1,028	1,112
	13,997	**14,060**	**14,620**

At EUR 14.0 billion, selling expenses were only slightly down against the previous year. Negative exchange rate effects of EUR 0.3 billion also impacted selling expenses, in particular in the United States operating segment.

19 GENERAL AND ADMINISTRATIVE EXPENSES.

General and administrative expenses comprise all expenses attributable to the core administrative functions that cannot be allocated directly to the production or selling process. As such, general and administrative expenses include all expenses incurred in conjunction with the activities of administrative functions at units such as Finance, Human Resources, Group Strategy and Organization, Internal Audit as well as Data Privacy, Legal Affairs and Compliance. These generally comprise costs for goods and services purchased, personnel costs, depreciation and amortization, as well as other costs that can be specifically allocated to the functional areas, such as expenses for shareholders' meetings.

T 099

	2012 millions of €	2011 millions of €	2010 millions of €
General and administrative expenses incurred by the operating segments	3,233	3,297	3,449
General and administrative expenses incurred at Group Headquarters & Shared Services	1,619	1,987	1,803
	4,852	**5,284**	**5,252**

General and administrative expenses were EUR 0.4 billion lower than in the prior year. Expenses of EUR 0.1 billion were included in the previous year attributable to settlements agreed with U.S. authorities to bring the investigations in the F.Y.R.O. Macedonia and Montenegro regarding external companies and consultants to an end.

The prior-year figures have been adjusted for better comparability following the segment structure changes. For more information, please refer to the explanations in NOTE 32 "SEGMENT REPORTING," PAGE 256 et seq.

20 OTHER OPERATING INCOME.

T 100

	2012 millions of €	2011 millions of €	2010 millions of €
Income from reimbursements	408	409	381
Income from the reversal of impairment losses on non-current financial assets in accordance with IFRS 5	15	19	47
Income from the disposal of non-current assets	1,702	121	70
Income from insurance compensation	55	47	42
Income from divestitures	6	4	3
Income from the compensation from AT&T	–	3,000	–
Miscellaneous other operating income	782	762	955
	2,968	**4,362**	**1,498**

Other operating income decreased by EUR 1.4 billion year-on-year. Income from the disposal of non-current assets includes a book profit of around EUR 1.4 billion from the cell-site transaction between T-Mobile USA and Crown Castle, which from an accounting perspective is income from the disposal of property, plant and equipment. EUR 0.2 billion of this are due to the measurement at fair value of the two deconsolidated companies now accounted for using the equity method. For further details, please refer to "Business combinations and other transactions" in the section "Summary of accounting policies," PAGES 219 – 220). A further book profit of around EUR 0.1 billion is included which is attributable to a transaction between T-Mobile USA and Verizon to swap AWS spectrum licenses. In addition to a large number of individual items, miscellaneous other operating income includes income of around EUR 0.1 billion resulting from litigation with Kreditanstalt für Wiederaufbau concluded in the first quarter of 2012.

In the prior year, operating income was primarily affected by the compensation from AT&T as a result of the termination of the agreement on the sale of T-Mobile USA.

21 OTHER OPERATING EXPENSES.

T 101

	2012 millions of €	2011 millions of €	2010 millions of €
Impairment losses from the year-end impairment test	360	3,337	680
Impairment loss in connection with the agreed business combination of T-Mobile USA and MetroPCS	10,589	–	–
Expenses in connection with the agreement with Vivendi (France) and Elektrim (Poland) concerning the stake in PTC	–	–	400
Losses from divestitures	–	–	350
Losses on disposal of non-current assets	177	137	159
Miscellaneous other operating expenses	770	726	1,228
	11,896	**4,200**	**2,817**

Other operating expenses increased year-on-year by EUR 7.7 billion, primarily due to an impairment loss of EUR 10.6 billion recognized in the third quarter of 2012 on goodwill, other intangible assets and property, plant and equipment of the United States cash-generating unit. For further details, please refer to NOTE 30 "DEPRECIATION, AMORTIZATION AND IMPAIRMENT LOSSES," PAGES 253 – 254, and NOTE 5 "INTANGIBLE ASSETS," PAGE 224 et seq.

The impairment losses recognized in 2011 related to the United States and Europe operating segments.

Miscellaneous other operating expenses include expenses of EUR 0.1 billion incurred in connection with existing financial factoring agreements and a large number of individual items accounting for marginal amounts.

22 FINANCE COSTS.

T 102

	2012 millions of €	2011 millions of €	2010 millions of €
Interest income	306	268	349
Interest expense	(2,339)	(2,593)	(2,849)
	(2,033)	**(2,325)**	**(2,500)**
Of which: from financial instruments relating to categories in accordance with IAS 39			
Loans and receivables (LaR)	51	67	77
Held-to-maturity investments (HtM)	2	4	2
Available-for-sale financial assets (AfS)	48	14	15
Financial liabilities measured at amortized cost (FLAC) [a]	(2,036)	(2,315)	(2,490)

[a] Interest expense calculated according to the effective interest method and adjusted for accrued interest from derivatives recognized in the reporting period that were used as hedging instruments against interest rate-based changes in the fair values of financial liabilities measured at amortized cost in the reporting period for hedge accounting in accordance with IAS 39 (2012: interest income of EUR 156 million and interest expense of EUR 36 million, 2011: interest income of EUR 126 million, 2010: interest income of EUR 155 million).

EUR 27 million (2011: EUR 80 million, 2010: EUR 69 million) was recognized as part of acquisition costs in the financial year. The amount was calculated on the basis of an interest rate in the average range between 5.0 and 5.2 percent (2010 through 2011: between 5.2 and 5.9 percent) applied across the Group.

Interest payments (including capitalized interest) of EUR 3.1 billion (2011: EUR 3.5 billion, 2010: EUR 3.3 billion) were made in the financial year.

Accrued interest payments from derivatives (interest rate swaps) that were designated as hedging instruments in a fair value hedge in accordance with IAS 39 are netted per swap contract and recognized as interest income or interest expense depending on the net amount. Finance costs are assigned to the categories on the basis of the hedged item; only financial liabilities were hedged in the reporting period.

The decrease in finance costs of EUR 0.3 billion was primarily attributable to lower interest expense from bonds and other securitized liabilities.

23 SHARE OF PROFIT/LOSS OF ASSOCIATES AND JOINT VENTURES ACCOUNTED FOR USING THE EQUITY METHOD.

T 103

	2012 millions of €	2011 millions of €	2010 millions of €
Share of profit (loss) of joint ventures	(129)	(67)	(59)
Share of profit (loss) of associates	(25)	(6)	2
	(154)	**(73)**	**(57)**

The share of profit/loss of associates and joint ventures accounted for using the equity method decreased by EUR 0.1 billion in the financial year due to the proportion of profit/loss attributable to the Everything Everywhere joint venture of EUR –118 million (2011: EUR –61 million, 2010: EUR –49 million). It is included in the share of profit/loss of joint ventures.

24 OTHER FINANCIAL INCOME/EXPENSE.

T 104

	2012 millions of €	2011 millions of €	2010 millions of €
Income from investments	16	29	30
Gains (losses) from financial instruments	251	216	133
Interest component from measurement of provisions and liabilities	(500)	(414)	(416)
	(233)	**(169)**	**(253)**

All income/expense components including interest income and expense from financial instruments classified as held for trading in accordance with IAS 39 are reported under other financial income/expense.

Gains/losses from financial instruments include currency translation effects amounting to EUR 86 million (2011: EUR –249 million, 2010: EUR –424 million) and gains from financial instruments of EUR 165 million (2011: EUR 465 million, 2010: EUR 557 million) that were used mainly to hedge against currency translation effects. Gains/losses from financial instruments also include proceeds of EUR 0.2 billion from the sale of the shares in Telekom Srbija as of January 25, 2012. Of this figure, EUR 0.1 billion was attributable to non-controlling interests.

25 INCOME TAXES.

Income taxes in the consolidated income statement.

Income taxes are broken down into current taxes paid or payable in the individual countries and into deferred taxes.

TABLE T 105 provides a breakdown of income taxes in Germany and internationally:

T 105

	2012 millions of €	2011 millions of €	2010 millions of €
CURRENT TAXES	**596**	**956**	**768**
Germany	172	498	87
International	424	458	681
DEFERRED TAXES	**(2,069)**	**1,393**	**167**
Germany	121	790	197
International	(2,190)	603	(30)
	(1,473)	**2,349**	**935**

Deutsche Telekom's combined income tax rate for 2012 amounted to 30.7 percent. It consists of corporate income tax at a rate of 15.0 percent, the solidarity surcharge of 5.5 percent on corporate income tax, and trade tax at an average multiplier of 425 percent (2011: 425 percent, 2010: 419 percent). The combined income tax rate amounted to 30.7 percent for 2011 and to 30.5 percent for 2010.

Reconciliation of the effective tax rate. Income taxes of EUR 1,473 million (as benefit) in the reporting year (2011: EUR –2,349 million (as expense), 2010: EUR –935 million (as expense)) are derived as follows from the expected income tax expense (benefit) that would have arisen had the statutory income tax rate of the parent company (combined income tax rate) been applied to profit/loss before income taxes:

T 106

	2012 millions of €	2011 millions of €	2010 millions of €
PROFIT (LOSS) BEFORE INCOME TAXES	**(6,230)**	**3,019**	**2,695**
Expected income tax expense (benefit) (income tax rate applicable to Deutsche Telekom AG: 2012: 30.7 %, 2011: 30.7 %, 2010: 30.5 %)	(1,913)	927	822
ADJUSTMENTS TO EXPECTED TAX EXPENSE (BENEFIT)			
Effect of changes in statutory tax rates	8	83	(113)
Tax effects from prior years	(11)	54	112
Tax effects from other income taxes	45	37	68
Non-taxable income	(29)	(30)	(85)
Tax effects from equity investments	39	(21)	16
Non-deductible expenses	101	115	130
Permanent differences	(62)	45	123
Goodwill impairment losses	856	913	106
Tax effects from loss carryforwards	76	304	(385)
Tax effects from additions to and reductions of local taxes	55	64	91
Adjustment of taxes to different foreign tax rates	(642)	(137)	52
Other tax effects	4	(5)	(2)
INCOME TAX EXPENSE (BENEFIT) ACCORDING TO THE CONSOLIDATED INCOME STATEMENT	**(1,473)**	**2,349**	**935**
Effective income tax rate %	24	78	35

Current income taxes in the consolidated income statement.
TABLE T 107 provides a breakdown of current income taxes:

T 107

	2012 millions of €	2011 millions of €	2010 millions of €
CURRENT INCOME TAXES	**596**	**956**	**768**
Of which:			
Current tax expense	594	902	560
Prior-period tax expense	2	54	208

Deferred taxes in the consolidated income statement. Deferred taxes developed as follows:

T 108

	2012 millions of €	2011 millions of €	2010 millions of €
DEFERRED TAX EXPENSE (BENEFIT)	**(2,069)**	**1,393**	**167**
Of which:			
From temporary differences	(2,608)	632	21
From loss carryforwards	543	735	165
From tax credits	(4)	26	(19)

In the 2012 financial year, a tax benefit of EUR 1.5 billion was recorded which primarily relates to income from the reversal of deferred tax liabilities of EUR 3.2 billion which resulted from impairment losses recognized on T-Mobile USA's assets following the agreed business combination with MetroPCS. This deferred tax benefit more than offset the tax expense on the otherwise positive profit before taxes. The impairment losses recognized on T-Mobile USA's goodwill, by contrast, only had a minor tax impact, and those recognized on goodwill in Europe had none at all.

Income taxes in the consolidated statement of financial position.

Current income taxes in the consolidated statement of financial position:

T 109

	Dec. 31, 2012 millions of €	Dec. 31, 2011 millions of €
Recoverable taxes	95	129
Tax liabilities	(440)	(577)
Current taxes recognized in equity:		
Hedging instruments	54	54

Deferred taxes in the consolidated statement of financial position:

T 110

	Dec. 31, 2012 millions of €	Dec. 31, 2011 millions of €
Deferred tax assets	4,714	4,449
Deferred tax liabilities	(5,990)	(8,492)
	(1,276)	**(4,043)**
Of which: recognized in equity		
Actuarial gains and losses	689	136
Revaluation surplus	–	(6)
Hedging instruments	(158)	(222)
Financial assets available for sale	–	–
RECOGNIZED IN EQUITY BEFORE NON-CONTROLLING INTERESTS	**531**	**(92)**
Non-controlling interests	(10)	(18)
	521	**(110)**

Development of deferred taxes:

T 111

	Dec. 31, 2012 millions of €	Dec. 31, 2011 millions of €
Deferred taxes recognized in the statement of financial position	(1,276)	(4,043)
Difference to prior year	2,767	(1,537)
Of which:		
Recognized in income statement	2,069	(1,393)
Recognized in equity	631	48
Acquisitions/disposals	15	(1)
Currency translation adjustments	52	(191)

Development of deferred taxes on loss carryforwards:

T 112

	Dec. 31, 2012 millions of €	Dec. 31, 2011 millions of €
Deferred taxes recognized in the statement of financial position	3,139	3,654
Difference to prior year	(515)	(319)
Of which:		
Recognition/derecognition	(489)	(394)
Acquisitions/disposals	5	(2)
Currency translation adjustments	(31)	77

Deferred taxes relate to the following key items in the statement of financial position, loss carryforwards, and tax credits:

T 113

	Dec. 31, 2012		Dec. 31, 2011	
	Deferred tax assets millions of €	Deferred tax liabilities millions of €	Deferred tax assets millions of €	Deferred tax liabilities millions of €
CURRENT ASSETS	**1,110**	**(498)**	**1,141**	**(438)**
Trade and other receivables	317	(94)	1,029	(346)
Inventories	132	(22)	58	(27)
Other assets	661	(382)	54	(65)
NON-CURRENT ASSETS	**2,350**	**(9,834)**	**2,392**	**(12,759)**
Intangible assets	827	(5,115)	1,010	(7,553)
Property, plant and equipment	676	(3,228)	734	(3,511)
Other financial assets	847	(1,491)	648	(1,695)
CURRENT LIABILITIES	**750**	**(537)**	**857**	**(771)**
Financial liabilities	406	(283)	493	(353)
Trade and other payables	54	(23)	59	(22)
Other provisions	122	(77)	120	(257)
Other liabilities	168	(154)	185	(139)
NON-CURRENT LIABILITIES	**4,233**	**(1,192)**	**3,294**	**(645)**
Financial liabilities	2,413	(332)	1,752	(302)
Provisions for pensions and other employee benefits	1,098	(700)	454	(238)
Other provisions	348	(84)	307	(101)
Other liabilities	374	(76)	781	(4)
TAX CREDITS	**224**	**–**	**198**	**–**
LOSS CARRYFORWARDS	**3,139**	**–**	**3,654**	**–**
INTEREST CARRYFORWARDS	**34**	**–**	**27**	**–**
TOTAL	**11,840**	**(12,061)**	**11,563**	**(14,613)**
Of which: non-current	9,742	(11,027)	9,091	13,404
Allowance	(1,055)	–	(993)	–
Netting	(6,071)	6,071	(6,121)	6,121
RECOGNITION	**4,714**	**(5,990)**	**4,449**	**(8,492)**

The allowances relate primarily to loss carryforwards.

The loss carryforwards amount to:

T 114

	Dec. 31, 2012 millions of €	Dec. 31, 2011 millions of €
LOSS CARRYFORWARDS FOR CORPORATE INCOME TAX PURPOSES	**9,209**	**10,785**
Expiry within		
1 year	77	117
2 years	31	71
3 years	7	21
4 years	9	30
5 years	97	46
After 5 years	4,187	4,690
Unlimited carryforward period	4,801	5,810

Loss carryforwards and temporary differences for which no deferred taxes were recorded amount to:

T 115

	Dec. 31, 2012 millions of €	Dec. 31, 2011 millions of €
LOSS CARRYFORWARDS FOR CORPORATE INCOME TAX PURPOSES	**2,161**	**2,055**
Expiry within		
1 year	77	97
2 years	31	63
3 years	9	7
4 years	9	5
5 years	40	11
After 5 years	246	148
Unlimited carryforward period	1,749	1,724
TEMPORARY DIFFERENCES IN CORPORATE INCOME TAX	**484**	**543**

In addition, no deferred taxes are recognized on trade tax loss carryforwards of EUR 136 million (December 31, 2011: EUR 95 million) and on temporary differences for trade tax purposes in the amount of EUR 3 million (December 31, 2011: EUR 3 million). Apart from corporate income tax loss carryforwards, no deferred taxes amounting to EUR 350 million (December 31, 2011: EUR 342 million) were recognized for other foreign income tax loss carryforwards.

No deferred tax assets were recognized on the aforementioned tax loss carryforwards and temporary differences as it is not probable that taxable profit will be available in the foreseeable future against which these tax loss carryforwards can be utilized.

A positive tax effect in the amount of EUR 7 million (2011: EUR 6 million, 2010: EUR 301 million) attributable to the utilization of tax loss carryforwards on which deferred tax assets had not yet been recognized, was recorded in the reporting year.

No deferred tax liabilities were recognized on temporary differences in connection with equity interests in subsidiaries amounting to EUR 394 million (December 31, 2011: EUR 705 million) as it is unlikely that these differences will be reversed in the near future.

T 116

Disclosure of tax effects relating to each component of other comprehensive income.

	2012			2011			2010		
	Before tax amount millions of €	Tax (expense) benefit millions of €	Net of tax amount millions of €	Before tax amount millions of €	Tax (expense) benefit millions of €	Net of tax amount millions of €	Before tax amount millions of €	Tax (expense) benefit millions of €	Net of tax amount millions of €
Gains and losses from defined benefit pension plans recognized in equity	(1,818)	554	(1,264)	177	(53)	124	(32)	12	(20)
Revaluation due to business combinations	0	0	0	0	0	0	(2)	0	(2)
Exchange differences on translating foreign operations	322	0	322	10	0	10	3,698	0	3,698
Of which: recognized in income statement	4	0	4	0	0	0	2,151	0	2,151
Available-for-sale financial assets	(194)	14	(180)	242	(9)	233	(3)	1	(2)
Of which: recognized in income statement	(227)	14	(213)	0	0	0	0	0	0
Gains (losses) from hedging instruments	(188)	63	(125)	(565)	164	(401)	58	(18)	40
Of which: recognized in income statement	9	(3)	6	200	(61)	139	0	0	0
Share of profit (loss) of investments accounted for using the equity method	0	0	0	0	0	0	28	0	28
Other income and expense recognized directly in equity	0	0	0	0	0	0	0	0	0
OTHER COMPREHENSIVE INCOME	**(1,878)**	**631**	**(1,247)**	**(136)**	**102**	**(34)**	**3,747**	**(5)**	**3,742**
Profit (loss)			(4,757)			670			1,760
TOTAL COMPREHENSIVE INCOME			**(6,004)**			**636**			**5,502**

26 PROFIT/LOSS ATTRIBUTABLE TO NON-CONTROLLING INTERESTS.

Profit attributable to non-controlling interests of EUR 498 million (2011: EUR 113 million, 2010: EUR 65 million) comprises gains of EUR 564 million (2011: EUR 472 million, 2010: EUR 484 million) and losses of EUR 66 million (2011: EUR 359 million, 2010: EUR 419 million).

The share in profit attributable to non-controlling interests in 2012 primarily relates to the companies of the OTE group, T-Mobile Czech Republic, Hrvatski Telekom, Makedonski Telekom and Slovak Telekom.

27 EARNINGS PER SHARE.

Basic and diluted earnings per share are calculated in accordance with IAS 33 as follows:

Basic earnings per share.

T 117

		2012	2011	2010
Profit (loss) attributable to the owners of the parent (net profit (loss))	millions of €	(5,255)	557	1,695
Adjustment	millions of €	–	–	–
ADJUSTED BASIC NET PROFIT (LOSS)	millions of €	**(5,255)**	**557**	**1,695**
Number of ordinary shares issued	millions	4,321	4,321	4,358
Treasury shares	millions	(2)	(2)	(5)
Shares reserved for outstanding options (T-Mobile USA/Powertel)	millions	(19)	(19)	(19)
ADJUSTED WEIGHTED AVERAGE NUMBER OF ORDINARY SHARES OUTSTANDING (BASIC)	millions	**4,300**	**4,300**	**4,334**
BASIC EARNINGS PER SHARE	€	**(1.22)**	**0.13**	**0.39**

The calculation of basic earnings per share is based on the time-weighted number of all ordinary shares outstanding. Furthermore, the weighted average number of ordinary shares outstanding is determined by deducting the weighted average number of treasury shares held by Deutsche Telekom AG as well as the shares that, as part of the issue of new shares in the course of the acquisition of T-Mobile USA/Powertel, are held in a trust deposit account for later issue and later trading as registered shares.

Diluted earnings per share.

T 118

		2012	2011	2010
Adjusted basic profit (loss) attributable to the owners of the parent (net profit (loss))	millions of €	(5,255)	557	1,695
Dilutive effects on profit (loss) from stock options (after taxes)	millions of €	–	0	0
DILUTED NET PROFIT (LOSS)	millions of €	**(5,255)**	**557**	**1,695**
Adjusted weighted average number of ordinary shares outstanding (basic)	millions	4,300	4,300	4,334
Dilutive potential ordinary shares from stock options and warrants	millions	–	0	0
WEIGHTED AVERAGE NUMBER OF ORDINARY SHARES OUTSTANDING (DILUTED)	millions	**4,300**	**4,300**	**4,334**
DILUTED EARNINGS PER SHARE	€	**(1.22)**	**0.13**	**0.39**

The calculation of diluted earnings per share generally corresponds to the method for calculating basic earnings per share. However, the calculation must be adjusted for all dilutive effects arising from potential ordinary shares. Equity instruments may dilute basic earnings per share in the future and – to the extent that a potential dilution already occurred in the respective reporting period – have been included in the calculation of diluted earnings per share. No major dilutive effects were recorded in the 2012 financial year. For further details on the equity instruments currently applicable, please refer to NOTE 15 "SHAREHOLDERS' EQUITY," PAGES 242 – 243, and NOTE 36 "SHARE MATCHING PLAN/ MID-TERM AND LONG-TERM INCENTIVE PLANS (MTIP, LTIP)/STOCK OPTION PLANS," PAGES 266 – 267.

28 DIVIDEND PER SHARE.

For the 2012 financial year, the Board of Management proposes a dividend of EUR 0.70 for each no par value share carrying dividend rights. On the basis of this payout volume, total dividends in the amount of EUR 3,010 million (2011: EUR 3,010 million) will be appropriated to the no par value shares carrying dividend rights at February 12, 2013. In 2012, the Board of Management again paid out a dividend of EUR 0.70 for the 2011 financial year for each no par value share carrying dividend rights.

The final amount of the total dividend payment depends on the number of no par value shares carrying dividend rights as of the date of the resolution on the appropriation of net income as adopted on the day of the shareholders' meeting.

29 AVERAGE NUMBER OF EMPLOYEES AND PERSONNEL COSTS.

T 119

Average number of employees.

		2012	2011	2010
GROUP (TOTAL)		**232,342**	**240,369**	**252,494**
Domestic		120,614	122,925	126,952
International		111,728	117,444	125,542
Non-civil servants		209,422	215,559	224,428
Civil servants (domestic, active service relationship)		22,920	24,810	28,066
Trainees and students on cooperative degree courses		8,402	8,889	9,217
PERSONNEL COSTS	millions of €	**14,582**	**14,743**	**15,071**

Average headcount decreased by 3.3 percent compared with the prior-year reporting period. This trend is largely attributable to international headcount, which was down by 4.9 percent partly as a result of downsizing and restructuring measures in the Europe and United States operating segments. The overall decrease was partially offset by increased staff levels in the Systems Solutions operating segment, attributable in part to an increase in the in-house provision of services previously rendered by third parties and to newly established production capacities abroad.

Average headcount in Germany decreased by 1.9 percent, mainly due to socially responsible staff restructuring and reduction in the Germany operating segment and a reduction in Vivento's headcount at Group Headquarters & Shared Services.

Personnel costs decreased by 1.1 percent year-on-year. This reduction resulted in particular from the aforementioned effects of a lower average headcount. Higher personnel costs in the Germany and Systems Solutions operating segment and at Group Headquarters & Shared Services attributable to collectively agreed salary increases had an offsetting effect.

30 DEPRECIATION, AMORTIZATION AND IMPAIRMENT LOSSES.

Depreciation, amortization and impairment losses included in the functional costs and in other operating expenses break down as follows:

T 120

	2012 millions of €	2011 millions of €	2010 millions of €
AMORTIZATION AND IMPAIRMENT OF INTANGIBLE ASSETS	**12,259**	**6,445**	**3,743**
Of which:			
Goodwill impairment losses	2,965	3,100	395
Amortization of mobile licenses	831	801	743
Impairment losses on mobile licenses	5,822	–	1
DEPRECIATION AND IMPAIRMENT OF PROPERTY, PLANT AND EQUIPMENT	**9,698**	**7,991**	**8,065**
Of which:			
Impairment losses recognized on property, plant and equipment	2,020	330	450
	21,957	**14,436**	**11,808**

Impairment losses break down as follows:

T 121

	2012 millions of €	2011 millions of €	2010 millions of €
INTANGIBLE ASSETS	**9,088**	**3,121**	**399**
Of which:			
Goodwill from the year-end impairment test	360	803	395
Goodwill in connection with the agreed business combination of T-Mobile USA and MetroPCS	2,605	–	–
Goodwill in connection with the reclassification of T-Mobile USA	–	2,297	–
Intangible assets (excluding goodwill) in connection with the agreed business combination of T-Mobile USA and MetroPCS	6,094	–	–
PROPERTY, PLANT AND EQUIPMENT	**2,020**	**330**	**450**
Of which:			
From the year-end impairment test	–	237	285
In connection with the agreed business combination of T-Mobile USA and MetroPCS	1,890	–	–
	11,108	**3,451**	**849**

Depreciation, amortization and impairment losses increased by EUR 7.5 billion year-on-year, with depreciation and amortization remaining at prior-year level.

This increase was primarily due to an impairment loss of EUR 10.6 billion recognized in the third quarter of 2012 on goodwill, other intangible assets and property, plant and equipment of the United States cash-generating unit. This impairment loss first resulted in the full write-down of the goodwill totaling EUR 2.6 billion. The remaining part was attributable to intangible assets (excluding goodwill) accounting for EUR 6.1 billion (primarily to mobile licenses accounting for EUR 5.8 billion) and property, plant and equipment accounting for EUR 1.9 billion. ❑ For more details on the agreed transaction to combine the business operations of T-Mobile USA and MetroPCS, please refer to "Business combinations and other transactions" in the section "Summary of accounting policies," PAGES 219 – 220, and NOTE 5 "INTANGIBLE ASSETS," PAGE 224 et seq.

Of the remaining impairment losses recognized on property, plant and equipment, EUR 0.1 billion related to land and buildings.

In the reporting year, impairment losses of EUR 0.4 billion were also recognized on goodwill following regular impairment testing at the cash-generating units. ❑ For further details, please refer to NOTE 5 "INTANGIBLE ASSETS," PAGE 224 et seq. Goodwill impairment losses of EUR 3.1 billion were recognized in the prior year. EUR 2.3 billion of this related to the United States operating segment and EUR 0.8 billion to the Europe operating segment.

In the second quarter of 2012, Deutsche Telekom changed its estimates of the useful lives of property, plant and equipment in the United States operating segment. The useful lives of legacy mobile assets that have not yet been fully depreciated have been reduced in connection with the roll-out of high-bit-rate mobile technology. This increased depreciation by EUR 0.2 billion as of December 31, 2012.

OTHER DISCLOSURES.

31 NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS.

In the fourth quarter of 2012, Deutsche Telekom received a payment of EUR 1.9 billion under the terms of the agreement concerning the leasing and use of cell sites in the United States. EUR 1.8 billion of this amount is recorded under net cash used in investing activities and EUR 0.1 billion under changes in other liabilities carried as working capital under net cash from operating activities.

Deutsche Telekom paid EUR 1.4 billion to Elektrim and Vivendi in the first quarter of 2011. This gave Deutsche Telekom full, undisputed ownership of PTC (PTC transaction). This total consisted of the following: EUR 0.4 billion net cash from operating activities, EUR 0.8 billion net cash used in investing activities, and EUR 0.2 billion net cash used in financing activities.

A compensation of EUR 3.0 billion was made by AT&T to Deutsche Telekom in the 2011 financial year. Of this amount EUR 2.3 billion was recognized in net cash from operating activities as of December 31, 2011 while EUR 0.7 billion had no effect on cash flows. This includes in particular a right to the transfer of Advanced Wireless Service (AWS) spectrum licenses worth EUR 0.9 billion, offset by a negative amount of EUR 0.2 billion relating to a cash flow hedge.

Net cash from operating activities. Net cash from operating activities in the 2012 financial year decreased by EUR 2.6 billion year-on-year to EUR 13.6 billion. The development is primarily impacted by cash inflows and outflows in connection with the termination of the agreement concluded with AT&T on the sale of T-Mobile USA: In 2011 Deutsche Telekom received a compensation payment of EUR 2.3 billion; in 2012 the transaction resulted in cash outflows of EUR 0.5 billion. Cash outflows relating to the investigations by the U.S. authorities into contracts signed in the F.Y.R.O. Macedonia and Montenegro totaling EUR 0.1 billion and effects from the development of operations had a negative impact on net cash from operating activities in 2012. This was offset in the 2012 financial year by lower net interest payments of EUR 0.4 billion, cash inflows of EUR 0.1 billion from the agreement on the leasing and use of cell sites in the United States, and by cash inflows of EUR 0.1 billion from the canceling of interest rate swaps, as well as by the non-recurrence of cash outflows of EUR 0.4 billion for the PTC transaction recorded in the prior year.

Net cash used in investing activities.

T 122

	2012 millions of €	2011 millions of €	2010 millions of €
Cash capex			
Germany operating segment	(3,418)	(3,506)	(4,781)
Europe operating segment	(1,698)	(1,870)	(2,012)
United States operating segment	(2,560)	(1,963)	(2,121)
Systems Solutions operating segment	(1,187)	(1,413)	(1,501)
Group Headquarters & Shared Services	(404)	(352)	(258)
Reconciliation	835	698	822
Allocation under the Contractual Trust Agreement for pension commitments	(750)	(250)	–
Net cash flows for collateral deposited for hedging transactions	(339)	49	313
Disposal of cell sites in the United States	1,769	–	–
Sale of Telekom Srbija	380	–	–
Acquisition/sale of government bonds (net)	319	(332)	(60)
Cash flows from the bond issued by the Everything Everywhere joint venture	218	505	(764)
Proceeds from the disposal of property, plant and equipment	187	336	318
PTC transaction	–	(820)	–
OTE Put Option II	–	(392)	–
Deconsolidated funds of the Everything Everywhere joint venture (T-Mobile UK)	–	–	(418)
Acquisition of STRATO	–	–	(266)
Acquisition of Firstgate (ClickandBuy)	–	–	(81)
Collateral for STRATO	–	–	290
Other	(23)	35	(192)
	(6,671)	**(9,275)**	**(10,711)**

Net cash used in financing activities.

T 123

	2012 millions of €	2011 millions of €	2010 millions of €
Dividends (including to non-controlling interests)	(3,400)	(3,521)	(4,003)
Repayment of euro bonds	(1,978)	(3,461)	(1,237)
Commercial paper (net)	(1,657)	1,586	48
Repayment of medium-term notes (current)	(1,619)	(1,446)	(398)
OTE credit line (net)	(757)	1,223	(23)
Repayment of EIB loans	(532)	(35)	(580)
Repayment of lease liabilities	(169)	(163)	(139)
Issuance of U.S. dollar bonds	1,502	862	–
Issuance of medium-term notes (non-current)	1,574	–	1,786
Loans taken out with the EIB	300	701	104
Net repayment of cash deposits from the Everything Everywhere joint venture	280	(141)	291
Net cash flows for collateral deposited for hedging transactions	90	132	500
Repayment of euro bonds issued by OTE	–	(1,429)	–
Repayment of U.S. dollar bonds (2010 Global Bond)	–	(351)	(3,178)
PTC transaction	–	(187)	–
Share buy-back	–	(3)	(400)
Issuance of euro bonds by OTE	–	500	–
Issuance of euro bonds	–	–	1,237
Repayment of KfW loan	–	–	(176)
T-Online appraisal rights proceedings	–	–	(172)
Other	(235)	(225)	(29)
	(6,601)	**(5,958)**	**(6,369)**

32 SEGMENT REPORTING.

Deutsche Telekom reports on four operating segments, as well as on Group Headquarters & Shared Services. In three operating segments, business activities are assigned by region, whereas one segment allocates its activities by product and/or customer.

The **Germany** operating segment comprises all fixed-network and mobile activities in Germany. In addition, the operating segment provides wholesale telecommunications services for the Group's other operating segments. The **Europe** operating segment encompasses all fixed-network and mobile operations of the national companies in Greece, Romania, Hungary, Poland, the Czech Republic, Croatia, the Netherlands, Slovakia, Austria, Bulgaria, Albania, the F.Y.R.O. Macedonia, and Montenegro, as well as the UK joint venture. It also includes the International Carrier Sales & Solutions unit, which mainly provides wholesale telecommunications services for the Group's other operating segments. The Europe operating segment also offers ICT services to business customers in individual national companies. The **United States** operating segment combines all mobile activities in the U.S. market.

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

The mobile communications business offers mobile voice and data services to consumers and business customers. Mobile terminals and other hardware are sold in connection with the services offered. In addition, mobile services are sold to resellers and to companies that buy network services and market them independently to third parties (MVNOs).

The **Systems Solutions** operating segment bundles business with ICT products and solutions for large multinational corporations under the T-Systems brand. It offers its customers information and communication technology from a single source and develops and operates infrastructure and industry solutions for multinational corporations and public institutions. The products and services it offers range from standard products and IP-based high-performance networks through to complete ICT solutions.

Group Headquarters & Shared Services comprises Service Headquarters and those subsidiaries of Deutsche Telekom AG that are not allocated to the operating segments.

Deutsche Telekom changed two areas of its segment structure in 2012:

Since January 1, 2012, Deutsche Telekom has pooled the tasks and functions of the Digital Services growth business as well as the Internet service provider STRATO, which as of December 31, 2011 were still largely part of the Germany operating segment, in the Digital Business Unit (DBU) under Group Headquarters & Shared Services. The unit's responsibilities include research & development, innovation management and marketing, product development and management, and management of the digital product portfolio. The growth business now focuses on six business areas that develop products and services for consumers and business customers: communication services, media/entertainment, cloud services, portal/advertising, classifieds/ e-commerce, and payment services. The aim of the change in organization is to ensure that Deutsche Telekom generates more growth in the digital markets and thus underlines the strategic aim of tapping into new fields of revenue beyond the core telecommunications business. Comparative figures have been adjusted accordingly.

Effective July 1, 2012, Deutsche Telekom reorganized the Group's IT infrastructure and transferred all internal IT units from the Germany and Systems Solutions operating segments as well as Group Headquarters & Shared Services into the new Telekom IT unit within the Systems Solutions operating segment. The reorganization aims to establish an IT unit of clearly improved quality and stability which will be in a position to develop new high-quality products and services and shorten production times through enhanced efficiency. This organizational change is a significant step to support and further expand the core business within Deutsche Telekom's operating segments. Comparative prior-year figures have been adjusted accordingly.

The measurement principles for Deutsche Telekom's segment reporting structure are based on the IFRSs adopted in the consolidated financial statements. Deutsche Telekom evaluates the segments' performance based on revenue and profit or loss from operations (EBIT), among other factors. Revenue generated and goods and services exchanged between segments are calculated on the basis of market prices. The settlement of services provided by Telekom IT does not generate a profit margin. Segment assets and liabilities include all assets and liabilities that are accounted for on the basis of the financial statements prepared by the segments and included in the consolidated financial statements. Segment investments include additions to intangible assets and property, plant and equipment. Where entities accounted for using the equity method are directly allocable to a segment, their shares of profit or loss after income taxes and their carrying amounts are reported in this segment's accounts. The performance indicators are exclusively presented from the segments' perspective: For the disclosure of the Group figures, the effects of intersegment transactions are eliminated and presented in aggregate form in the reconciliation line. **TABLES T 124, T 125** and **T 126** show the performance indicators used by Deutsche Telekom to evaluate the operating segments' performance as well as additional segment-related indicators:

T 124

		Net revenue millions of €	Intersegment revenue millions of €	Total revenue millions of €	Profit (loss) from operations (EBIT) millions of €	Interest income millions of €	Interest expense millions of €	Share of profit (loss) of associates and joint ventures accounted for using the equity method millions of €	Income taxes millions of €
Germany	2012	21,384	1,352	22,736	4,345	38	(501)	1	(7)
	2011	21,783	1,423	23,206	4,520	89	(605)	2	(6)
	2010	22,570	1,638	24,208	5,100	22	(587)	2	5
Europe	2012	13,733	675	14,408	1,484	64	(419)	(113)	(401)
	2011	14,431	693	15,124	780	141	(478)	(54)	(522)
	2010	16,183	657	16,840	985	147	(840)	(52)	(319)
United States	2012	15,365	6	15,371	(7,547)	86	(661)	(26)	2,191
	2011	14,801	10	14,811	(710)	86	(628)	(11)	(562)
	2010	16,075	12	16,087	2,092	24	(514)	(1)	(595)
Systems Solutions	2012	6,609	3,407	10,016	(299)	37	(23)	(14)	15
	2011	6,567	3,386	9,953	(290)	31	(31)	(10)	(11)
	2010	6,411	3,526	9,937	(193)	23	(31)	(4)	(12)
Group Headquarters & Shared Services	2012	1,078	1,900	2,978	(1,786)	1,458	(2,057)	(2)	(333)
	2011	1,071	1,906	2,977	1,274	1,545	(2,419)	–	(1,271)
	2010	1,182	1,937	3,119	(2,476)	1,881	(3,089)	(2)	139
TOTAL	**2012**	**58,169**	**7,340**	**65,509**	**(3,803)**	**1,683**	**(3,661)**	**(154)**	**1,465**
	2011	**58,653**	**7,418**	**66,071**	**5,574**	**1,892**	**(4,161)**	**(73)**	**(2,372)**
	2010	**62,421**	**7,770**	**70,191**	**5,508**	**2,097**	**(5,061)**	**(57)**	**(782)**
Reconciliation	2012	–	(7,340)	(7,340)	(7)	(1,377)	1,322	–	8
	2011	–	(7,418)	(7,418)	12	(1,624)	1,568	–	23
	2010	–	(7,770)	(7,770)	(3)	(1,748)	2,212	–	(153)
GROUP	**2012**	**58,169**	**–**	**58,169**	**(3,810)**	**306**	**(2,339)**	**(154)**	**1,473**
	2011	**58,653**	**–**	**58,653**	**5,586**	**268**	**(2,593)**	**(73)**	**(2,349)**
	2010	**62,421**	**–**	**62,421**	**5,505**	**349**	**(2,849)**	**(57)**	**(935)**

T 125

		Segment assets [a] millions of €	Segment liabilities millions of €	Segment investments millions of €	Investments accounted for using the equity method millions of €	Depreciation and amortization millions of €	Impairment losses millions of €	Average number of employees
Germany	2012	31,224	22,988	3,559	16	(4,389)	(4)	68,653
	2011	32,578	23,013	3,572	17	(4,340)	(4)	70,525
	2010	34,471	24,648	4,946	16	(4,082)	(15)	76,912
Europe	2012	36,348	11,910	1,919	6,410	(2,845)	(388)	57,955
	2011	37,815	12,990	1,998	6,781	(3,159)	(1,056)	60,105
	2010	46,040	20,334	2,127	7,143	(3,453)	(704)	65,435
United States	2012	27,436	21,254	4,217	215	(2,265)	(10,601)	30,184
	2011	38,075	24,110	1,787	27	(2,110)	(2,297)	34,518
	2010	38,316	23,056	2,118	24	(2,063)	(1)	37,795
Systems Solutions	2012	9,044	5,873	3,966	23	(632)	(17)	52,742
	2011	9,308	6,024	1,475	38	(654)	(15)	52,241
	2010	9,208	6,149	1,604	49	(652)	(4)	47,924
Group Headquarters & Shared Services	2012	95,360	53,609	305	62	(711)	(100)	22,808
	2011	100,168	56,853	488	10	(722)	(85)	22,980
	2010	106,711	60,883	467	10	(710)	(125)	24,428
TOTAL	**2012**	**199,412**	**115,634**	**13,966**	**6,726**	**(10,842)**	**(11,110)**	**232,342**
	2011	**217,944**	**122,990**	**9,320**	**6,873**	**(10,985)**	**(3,457)**	**240,369**
	2010	**234,746**	**135,070**	**11,262**	**7,242**	**(10,960)**	**(849)**	**252,494**
Reconciliation	2012	(91,470)	(38,235)	(3,417)	–	(6)	1	–
	2011	(95,402)	(40,389)	(767)	–	–	6	–
	2010	(106,934)	(50,286)	(923)	–	1	–	–
GROUP	**2012**	**107,942**	**77,399**	**10,549**	**6,726**	**(10,848)**	**(11,109)**	**232,342**
	2011	**122,542**	**82,601**	**8,553**	**6,873**	**(10,985)**	**(3,451)**	**240,369**
	2010	**127,812**	**84,784**	**10,339**	**7,242**	**(10,959)**	**(849)**	**252,494**

[a] As of December 31, 2012, the segment assets of the United States operating segment include AWS spectrum licenses worth EUR 0.9 billion transferred as part of the compensation from AT&T relating to the termination of the agreement to sell T-Mobile USA (non-cash transaction).

T 126

		Net cash from operating activities millions of €	Net cash (used in) from investing activities millions of €	Of which: cash capex[a] millions of €	Net cash (used in) from financing activities millions of €
Germany	2012	8,489	(3,509)	(3,418)	(7,174)
	2011	8,315	(3,454)	(3,506)	(6,469)
	2010	8,922	(4,624)	(4,781)	(10,101)
Europe	2012	4,324	(862)	(1,698)	(2,838)
	2011	4,837	(493)	(1,870)	(1,895)
	2010	4,481	(3,045)	(2,012)	(2,839)
United States	2012	3,164	(785)	(2,560)	(2,301)
	2011	3,523	(3,013)	(1,963)	(364)
	2010	3,691	(1,870)	(2,121)	(1,920)
Systems Solutions	2012	272	(463)	(1,187)	367
	2011	433	(794)	(1,413)	224
	2010	422	(729)	(1,501)	(136)
Group Headquarters & Shared Services	2012	3,084	3,681	(404)	(5,135)
	2011	6,103	(666)	(352)	(5,479)
	2010	7,400	3,376	(258)	(5,576)
TOTAL	**2012**	**19,333**	**(1,938)**	**(9,267)**	**(17,081)**
	2011	**23,211**	**(8,420)**	**(9,104)**	**(13,983)**
	2010	**24,916**	**(6,892)**	**(10,673)**	**(20,572)**
Reconciliation	2012	(5,756)	(4,733)	835	10,480
	2011	(6,997)	(855)	698	8,025
	2010	(10,185)	(3,819)	822	14,203
GROUP	**2012**	**13,577**	**(6,671)**	**(8,432)**	**(6,601)**
	2011	**16,214**	**(9,275)**	**(8,406)**	**(5,958)**
	2010	**14,731**	**(10,711)**	**(9,851)**	**(6,369)**

[a] Cash outflows for investments in intangible assets (excluding goodwill) and property, plant and equipment, as shown in the statement of cash flows.

Information on geographic areas. The Group's non-current assets and net revenue are shown by region: Germany, Europe (excluding Germany), North America and other countries. The Europe (excluding Germany) region covers the entire European Union (excluding Germany) and the other countries in Europe. The North America region comprises the United States and Canada. Other countries include all countries that are not Germany or in Europe (excluding Germany) or North America. Non-current assets are allocated to the regions according to the location of the assets in question. Non-current assets encompass intangible assets; property, plant and equipment; investments accounted for using the equity method as well as other non-current assets. Net revenue is allocated according to the location of the respective customers' operations.

Information on products and services. Revenue generated with external customers for groups of comparable products and services developed as follows:

T 128

	Net revenue		
	2012 millions of €	2011 millions of €	2010 millions of €
Telecommunications	50,952	51,496	55,425
ICT solutions	6,988	6,924	6,767
Other	229	233	229
	58,169	**58,653**	**62,421**

T 127

	Non-current assets			Net revenue		
	Dec. 31, 2012 millions of €	Dec. 31, 2011 millions of €	Dec. 31, 2010 millions of €	2012 millions of €	2011 millions of €	2010 millions of €
Germany	36,497	40,145	41,138	25,775	26,361	27,268
International	49,811	59,987	64,607	32,394	32,292	35,153
Of which:						
Europe (excluding Germany)	28,001	28,419	31,385	15,966	16,577	18,217
North America	21,696	31,457	33,104	15,593	14,945	16,192
Other countries	114	111	118	835	770	744
GROUP	**86,308**	**100,132**	**105,745**	**58,169**	**58,653**	**62,421**

33 CONTINGENCIES.

As part of its ordinary business activities, Deutsche Telekom is involved in various proceedings both in and out of court with government agencies, competitors, and other parties, the outcome of which often cannot be reliably anticipated. As of the reporting date, the Group was exposed to contingent liabilities amounting to EUR 0.3 billion (December 31, 2011: EUR 0.8 billion) and to contingent assets amounting to EUR 0.2 billion (December 31, 2011: EUR 0.1 billion) that, on the basis of the information and estimates available, do not fulfill the requirements for recognition as liabilities or assets in the statement of financial position. Litigation provisions include the costs of legal counsel services and any probable losses. Deutsche Telekom does not believe that any additional costs arising from legal counsel services or the results of proceedings will have a material adverse effect on the results of operations and financial position of the Group. In addition to individual cases that do not have any significant impact on their own, the aforementioned total contingent liabilities include the following items, the sequence of which does not imply an evaluation of their probability of occurrence or potential damage.

Contingent liabilities.

Proceedings by Anti-Monopoly Commission in Poland. On November 23, 2011, the Anti-Monopoly Commission in Poland (UOKiK) concluded investigations started in 2010. It accuses Polska Telefonia Cyfrowa (PTC) and other Polish telecommunications companies of price fixing in breach of anti-trust law and imposed a fine of PLN 34 million (approximately EUR 8 million). PTC continues to believe these allegations are unfounded and filed action against the ruling. As a result, the fine is not yet due. The same applies to another fine of PLN 21 million (approximately EUR 5 million) imposed by UOKiK on PTC on January 2, 2012 for an alleged breach of consumer protection law.

Claim for compensation against Slovak Telekom. In 1999, a lawsuit was filed against Slovak Telekom based on the accusation that the legal predecessor of Slovak Telekom had ceased broadcast of an international radio program contrary to the underlying contract. The claimant originally demanded approximately EUR 100 million plus interest for damages and lost profit. On November 9, 2011, the Bratislava Regional Court ruled partly in favor of the plaintiff and ordered Slovak Telekom to pay approximately EUR 32 million plus interest. On December 27, 2011, Slovak Telekom appealed to the Supreme Court against this judgment. In case of a final and legally binding court ruling against Slovak Telekom, Deutsche Telekom AG can assert recourse claims against third parties for a part of the sum demanded.

Likewise, on the basis of the information and estimates available, the following issues do not fulfill the requirements for recognition as liabilities in the statement of financial position. As, however, the Group is unable to estimate the amount of the contingent liabilities or group of contingent liabilities in each case due to the uncertainties described below, they have not been included in the aforementioned total contingent liabilities.

Breaches of anti-trust and consumer protection law. Like many other companies, our Group is subject to the regulations of anti-trust law. In individual countries, Deutsche Telekom and its subsidiaries, associates and joint ventures are subject to various proceedings under anti-trust or competition law. Looking at each of the proceedings individually, none has a material impact. Deutsche Telekom believes the respective allegations are unfounded. The outcome of the proceedings cannot be foreseen at this point in time.

European Commission proceedings against Slovak Telekom and Deutsche Telekom. The European Commission decided on May 8, 2012 to send a statement of objections to Slovak Telekom and Deutsche Telekom. In this statement of objections, it communicates its preliminary opinion that Slovak Telekom, in which Deutsche Telekom holds a 51-percent stake, has breached European anti-trust law on the Slovakian broadband market. The European Commission intends to hold also the parent company, Deutsche Telekom, liable. The European Commission had initiated proceedings against Slovak Telekom in April 2009 and against Deutsche Telekom in December 2010. We continue to see no basis for holding Deutsche Telekom liable for the alleged breach of anti-trust law by Slovak Telekom. Furthermore, we are convinced that Slovak Telekom complies with applicable law. Intense competition and the ongoing price erosion on the Slovak broadband market argue against any obstruction of competitors by Slovak Telekom. The statement of objections does not constitute a final decision. Should the Commission uphold its allegations in the course of the proceedings, it may impose a fine on Slovak Telekom and Deutsche Telekom.

Toll Collect arbitration proceedings. The principal members of the Toll Collect consortium are Daimler Financial Services AG and Deutsche Telekom. 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 new 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.

The Chairman of the arbitral tribunal stood down as of March 31, 2012. At the end of October 2012, following administrative proceedings, Dr. Wolfgang Nitsche was named as his successor. The proceedings will thus continue in the near future.

- **Bank loans guarantee.** Deutsche Telekom guarantees to third parties bank loans of up to a maximum amount of EUR 110 million granted to Toll Collect GmbH. These guarantees for bank loans will expire on October 15, 2015.

- **Equity maintenance undertaking.** The consortium partners have the obligation, on a joint and several basis, to provide Toll Collect GmbH with additional equity in order to ensure a minimum equity ratio of 15 percent (in the single-entity financial statements prepared in accordance with German GAAP) (equity maintenance undertaking). This obligation ends when the operating agreement expires on August 31, 2015, or earlier if the operating agreement is terminated prematurely.

In June 2006, the Federal Republic of Germany began to partially offset its monthly advance payments for operating fees to Toll Collect GmbH of EUR 8 million against the contractual penalty claims that are already subject of the aforementioned arbitration proceedings. As a result, it may become necessary for the consortium members to provide Toll Collect GmbH with further liquidity.

The risks and obligations of Compagnie Financière et Industrielle des Autoroutes S.A., Sèvres Cedex (Cofiroute, which holds a 10-percent stake in Toll Collect) are limited to EUR 70 million. Deutsche Telekom AG and Daimler Financial Services AG have the obligation, on a joint and several basis, to indemnify Cofiroute against further claims. Deutsche Telekom believes the claims of the Federal Republic of Germany are unfounded. Furthermore, the amount of a possible settlement attributable to the equity maintenance undertaking or the arbitration proceedings described, which may be material, cannot be estimated because of the aforementioned uncertainties.

Claims relating to charges for shared use of cable ducts. With an action filed on June 14, 2012, Kabel Deutschland Vertrieb und Service GmbH (KDG) is asserting two claims: first, Telekom Deutschland GmbH is to reduce the annual charge for the rights to use cable duct capacities in the future; second, it is to partially refund payments made in this connection since 2004, which KDG puts at approximately EUR 273 million plus interest. On January 23, 2013, Telekom Deutschland GmbH also received a claim filed by Unitymedia Hessen GmbH & Co. KG, Unitymedia NRW GmbH, and Kabel BW GmbH, demanding that Telekom Deutschland GmbH cease charging the complainants more than a specific and precisely stated amount for the shared use of cable ducts. Unitymedia Hessen GmbH & Co. KG is also demanding payment of approximately EUR 36.5 million plus interest, Unitymedia NRW GmbH EUR 90.8 million plus interest, and Kabel BW GmbH EUR 61.5 million plus interest for allegedly excessive charges paid since 2009 for the shared use of cable ducts.

Claim for compensation against OTE. In May 2009, Lannet Communications S.A. filed a lawsuit claiming compensation for damages of EUR 176 million arising from an allegedly unlawful termination of services by OTE – mainly interconnection services, unbundling of local loops, and leasing of dedicated lines. The hearing was set by the competent court for February 17, 2011, but was postponed until May 30, 2013.

Patent risks. Like many other large telecommunications and Internet providers, Deutsche Telekom is exposed to a growing number of intellectual property rights (IPR) disputes. For Deutsche Telekom, there is a risk that it may have to pay license fees and/or compensation. Some disputes may result in cease-and-desist orders.

Mobile communications patent litigation. The patent management company IPCom GmbH & Co. KG filed an action against Deutsche Telekom AG and various members of the Board of Management of Deutsche Telekom as well as Telekom Deutschland GmbH for alleged infringement of patents that are supposedly essential to certain standards in the field of mobile communications. In addition to damages, IPCom is seeking abstention from the use of patents in connection with important mobile services, which could lead to their deactivation. Seven infringement proceedings relating to five different patents are currently pending. On April 24, 2012, the Düsseldorf Regional Court ruled in favor of the claim by IPCom GmbH & Co. KG against Telekom Deutschland GmbH concerning a patent infringement in connection with the sale of UMTS-enabled devices manufactured by HTC and Nokia. On April 25, 2012, the European Patent Office in Munich fully revoked the disputed patent. Both decisions are not final and legally binding yet. We have appealed against the ruling of the Düsseldorf Regional Court and expect that it will not be enforced. IPCom filed an appeal against the ruling of the European Patent Office. The hearing is to be held on March 7, 2013. In further proceedings concerning a patent for a voice encoding technique, an agreement was reached with IPCom on July 18, 2012: IPCom has waived all claims against the Deutsche Telekom Group arising from this patent and withdrawn its patent infringement suit. In return, Deutsche Telekom has withdrawn its rescission suit against the patent. Further legal disputes with IPCom are still pending. Several nullity suits and opposition proceedings are running in parallel to the infringement proceedings to review the validity of the patents that IPCom alleges have been infringed.

Contingent assets.

German Main Customs Office. Deutsche Telekom reports a contingent asset of EUR 0.2 billion for a receivable from the German Main Customs Office.

34 DISCLOSURES ON LEASES.

Deutsche Telekom as lessee.

Finance leases. When a lease transfers substantially all risks and rewards to Deutsche Telekom as lessee, Deutsche Telekom initially recognizes the leased assets in the statement of financial position at the lower of fair value or present value of the future minimum lease payments. Most of the leased assets carried in the statement of financial position as part of a finance lease relate to long-term rental and lease agreements for office buildings. The average lease term is 17 years. The agreements include extension and purchase options. TABLE T 129 shows the net carrying amounts of leased assets capitalized in connection with a finance lease as of the reporting date:

T 129

	Dec. 31, 2012 millions of €	Of which: sale and leaseback transactions millions of €	Dec. 31, 2011 millions of €	Of which: sale and leaseback transactions millions of €
Land and buildings	792	443	883	493
Technical equipment and machinery	80	0	104	0
Other	7	0	11	0
NET CARRYING AMOUNTS OF LEASED ASSETS CAPITALIZED	**879**	**443**	**998**	**493**

At the inception of the lease term, Deutsche Telekom recognizes a lease liability equal to the carrying amount of the leased asset. In subsequent periods, the liability decreases by the amount of lease payments made to the lessors using the effective interest method. The interest component of the lease payments is recognized in the income statement.

TABLE T 130 provides a breakdown of these amounts:

T 130

	Minimum lease payments		Interest component		Present values	
	Total millions of €	Of which: sale and leaseback millions of €	Total millions of €	Of which: sale and leaseback millions of €	Total millions of €	Of which: sale and leaseback millions of €
Dec. 31, 2012						
MATURITY						
Within 1 year	231	109	95	57	136	52
In 1 to 3 years	408	215	158	99	250	116
In 3 to 5 years	361	202	126	79	235	123
After 5 years	969	566	344	219	625	347
	1,969	**1,092**	**723**	**454**	**1,246**	**638**
Dec. 31, 2011						
MATURITY						
Within 1 year	257	108	100	60	157	48
In 1 to 3 years	413	218	177	109	236	109
In 3 to 5 years	363	209	142	90	221	119
After 5 years	1,136	666	399	257	737	409
	2,169	**1,201**	**818**	**516**	**1,351**	**685**

Operating leases. Beneficial ownership of a lease is attributed to the lessor if this is the party to which all the substantial risks and rewards incidental to ownership of the asset are transferred. The lessor recognizes the leased asset in its statement of financial position. Deutsche Telekom recognizes the lease payments made during the term of the operating lease in profit or loss. Deutsche Telekom's obligations arising from operating leases are mainly related to long-term rental or lease agreements for network infrastructure, cell towers, and real estate.

Some leases include extension options and provide for stepped rents. Most of these leases relate to cell towers in the United States.

The operating lease expenses recognized in profit or loss amounted to EUR 2.8 billion in the 2012 financial year (2011: EUR 2.8 billion, 2010: EUR 2.9 billion). TABLE T 131 provides a breakdown of future obligations arising from operating leases:

T 131

	Dec. 31, 2012 millions of €	Dec. 31, 2011 millions of €
MATURITY		
Within 1 year	2,385	2,369
In 1 to 3 years	4,096	3,845
In 3 to 5 years	3,492	3,085
After 5 years	7,529	5,982
	17,502	**15,281**

Future obligations arising from operating leases no longer include capacity contracts on data connections for cell towers in the United States operating segment totaling EUR 2.0 billion (2011: EUR 2.1 billion) from the 2012 financial year onward. Prior-period comparatives have been adjusted with retroactive effect. These obligations are included in other financial obligations (please also refer to NOTE 35, PAGE 266).

T-Mobile USA signed an agreement with Crown Castle concerning the leasing and use of cell sites (please also refer to "Business combinations and other transactions" in the section "Summary of accounting policies," PAGES 219 – 220). T-Mobile USA will continue to operate its mobile communications systems at these cell sites and, to this end, lease back the required infrastructure from Crown Castle through operating leases. In return, the owners of the land on which the cell towers are built will no longer receive lease payments from T-Mobile USA for those cell towers which were contributed to the two associates and those that were disposed of.

T-Mobile USA concluded contract extensions and amendments with several cell-site operators in 2012 for the lease of mobile transmission capacity on cell towers. This resulted in an increase of EUR 1.6 billion in operating lease obligations as of December 31, 2012.

Deutsche Telekom as lessor.

Finance leases. Deutsche Telekom is a lessor in connection with finance leases. Essentially, these relate to the leasing of routers and other hardware which Deutsche Telekom provides to its customers for data and telephone network solutions. Deutsche Telekom recognizes a receivable in the amount of the net investment in the lease. The lease payments made by the lessees are split into an interest component and a principal component using the effective interest method. The lease receivable is reduced by the principal received. The interest component of the payments is recognized as finance income in the income statement. The amount of the net investment in a finance lease is determined as follows:

T 132

	Dec. 31, 2012 millions of €	Dec. 31, 2011 millions of €
Minimum lease payments	262	348
Unguaranteed residual value	13	3
Gross investment	275	351
Unearned finance income	(27)	(33)
NET INVESTMENT (PRESENT VALUE OF THE MINIMUM LEASE PAYMENTS)	**248**	**318**

The gross investment amounts and the present value of payable minimum lease payments are as follows:

T 133

	Dec. 31, 2012		Dec. 31, 2011	
	Gross investment millions of €	Present value of minimum lease payments millions of €	Gross investment millions of €	Present value of minimum lease payments millions of €
MATURITY				
Within 1 year	131	106	139	124
In 1 to 3 years	116	110	168	153
In 3 to 5 years	16	20	41	38
After 5 years	12	12	3	3
	275	**248**	**351**	**318**

According to the framework agreement signed between T-Mobile USA and Crown Castle (❏ please also refer to "Business combinations and other transactions" in the section "Summary of accounting policies," PAGES 219 – 220), 451 cell sites will be leased out to Crown Castle as part of a finance lease.

Operating leases. If Deutsche Telekom is a lessor in connection with operating leases, it continues to recognize the leased assets in its statement of financial position. The lease payments received are recognized in profit or loss. The leases mainly relate to the rental of cell towers and building space and have an average term of 13 years. The future minimum lease payments arising from non-cancelable operating leases are as follows:

T 134

	Dec. 31, 2012 millions of €	Dec. 31, 2011 millions of €
MATURITY		
Within 1 year	266	374
In 1 to 3 years	371	476
In 3 to 5 years	310	349
After 5 years	676	737
	1,623	**1,936**

The decrease of EUR 0.3 billion is attributable to the agreement concluded with Crown Castle concerning leasing and use of cell sites in the United States (❏ please also refer to "Business combinations and other transactions" in the section "Summary of accounting policies," PAGES 219 – 220).

35 DISCLOSURE OF OTHER FINANCIAL OBLIGATIONS.

TABLE T 135 provides an overview of Deutsche Telekom's other financial obligations:

T 135

	Dec. 31, 2012 millions of €
Purchase commitments regarding property, plant and equipment	2,025
Purchase commitments regarding intangible assets	1,723
Firm purchase commitments for inventories	3,411
Other purchase commitments and similar obligations	5,620
Liabilities to special pension fund	5,565
Purchase commitments for interests in other companies	116
Miscellaneous other obligations	1,578
	20,038

Since December 31, 2012, other purchase commitments and similar obligations include EUR 2.0 billion for capacity contracts on data connections for cell towers in the United States operating segment.

36 SHARE MATCHING PLAN/MID-TERM AND LONG-TERM INCENTIVE PLANS (MTIP, LTIP)/STOCK OPTION PLANS.

The Group has a variety of programs for the share matching plan, mid-term and long-term incentive plans, and stock option plans that together do not have a material impact on the presentation of the Group's results of operations, financial position or cash flows. The expense incurred for these programs totaled EUR 89 million in the reporting year (2011: EUR 59 million, 2010: EUR 47 million). Provisions total EUR 132 million as of the reporting date (December 31, 2011: EUR 83 million).

❏ Please also refer to NOTE 40, PAGE 281 et seq., for information on the compensation system of the Board of Management.

Share matching plan.

In the 2011 financial year, specific executives were contractually obliged to invest a minimum of 10 percent and a maximum of 33.3 percent of their variable short-term remuneration component, which is based on the achievement of targets set for each person for the financial year (Variable I), in Deutsche Telekom AG shares. Deutsche Telekom AG will award one additional share for every share acquired as part of this executive's aforementioned personal investment (share matching plan). These shares will be allotted to the beneficiaries of this plan on expiration of the four-year lock-up period.

Mid-term incentive plan (MTIP).

Deutsche Telekom AG's MTIP is a cash-based plan pegged to two equally weighted, share-based performance parameters – one absolute and one relative. If both performance targets are achieved, then the total amount earmarked as an award to the beneficiaries by the respective employers is paid out; if one performance target is achieved, 50 percent of the amount is paid out, and if neither performance target is achieved, no payment is made.

The absolute performance target is achieved if, at the end of the individual plans, Deutsche Telekom's share price has risen by at least 30 percent compared with its share price at the beginning of the plan. The benchmark for the assessment is the non-weighted average prices of the T-Share (on the basis of the T-Share closing price in Xetra trading) at the Frankfurt Stock Exchange (Deutsche Börse AG) during the last 20 trading days prior to the beginning and end of the plan.

The relative performance target is achieved if the total return of the T-Share has outperformed the Dow Jones EURO STOXX® Total Return Index on a percentage basis during the term of the individual plan. The benchmark is the non-weighted average price of the T-Share (on the basis of the T-Share closing price in Xetra trading) plus the value of dividends paid and reinvested in Deutsche Telekom shares, bonus shares etc., and the non-weighted average of the Dow Jones EURO STOXX® Total Return Index during the last 20 trading days prior to the beginning and end of the plan.

With the exception of Board of Management members who did not switch to the new compensation system for the Board of Management, the MTIP was issued for the last time in 2010 and replaced by Variable II.

Since the relative and absolute plan targets for the MTIP 2009 and 2010 tranches were not met, no payment was or will be made.

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MTIP plan year	Maximum budget millions of €	Term of plan years	Share price at start of plan €	Absolute performance target €	Starting value of the index
2010	57	3	10.29	13.38	417.62
2011	1	3	9.79	12.73	441.12

The proportionate amount to be expensed is calculated based on a Monte Carlo simulation.

Long-term incentive plans (LTIP).

Deutsche Telekom AG's MTIP was replaced by Variable II in 2010. The exclusively long-term-oriented Variable II is measured based on the fulfillment of four equally weighted performance parameters (adjusted operational return on capital employed (ROCE), adjusted earnings per share (EPS), 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 long-term incentive plan (LTIP) of **T-Mobile USA** is based on the long-term strategy with regard to the company's EBITDA performance and customer satisfaction. Executives and employees in key positions participate in the plan. 50 percent of LTIP target achievement is measured on an annual basis pro rata temporis over the entire term of the plan and the other 50 percent at the end of the plan.

Stock option plans.

Upon expiry of the terms of Deutsche Telekom AG's stock options issued in 2001 on August 12, 2011 and of those issued in 2002 on July 14, 2012, all stock options not exercised by the end of the respective term were forfeited without replacement or compensation.

No other major stock option plans with material impact exist at Deutsche Telekom.

37 DISCLOSURES ON FINANCIAL INSTRUMENTS.

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Carrying amounts, amounts recognized, and fair values by classes and measurement category.

	Category in accordance with IAS 39	Carrying amounts Dec. 31, 2012	Amounts recognized in the statement of financial position according to IAS 39			
			Amortized cost	Cost	Fair value recognized in equity	Fair value recognized in profit or loss
		millions of €	millions of €	millions of €	millions of €	millions of €
ASSETS						
Cash and cash equivalents	LaR	4,026	4,026			
Trade receivables	LaR	6,316	6,316			
Originated loans and receivables	LaR/n.a.	2,123	1,875			
Other non-derivative financial assets						
Held-to-maturity investments	HtM	131	131			
Financial assets available for sale [a]	AfS	380		230	150	
Derivative financial assets [b]						
Derivatives without a hedging relationship	FAHfT	531				531
Derivatives with a hedging relationship	n.a.	756			257	499
Non-current assets and disposal groups held for sale [c]	AfS	–				
LIABILITIES AND SHAREHOLDERS' EQUITY [d]						
Trade payables	FLAC	6,415	6,415			
Bonds and other securitized liabilities	FLAC	33,674	33,674			
Liabilities to banks	FLAC	3,912	3,912			
Liabilities to non-banks from promissory notes	FLAC	1,167	1,167			
Other interest-bearing liabilities	FLAC	2,085	2,085			
Other non-interest-bearing liabilities	FLAC	1,611	1,611			
Finance lease liabilities	n.a.	1,246				
Derivative financial liabilities [b]						
Derivatives without a hedging relationship	FLHfT	335				335
Derivatives with a hedging relationship	n.a.	584			584	
Of which: aggregated by category in accordance with IAS 39						
Loans and receivables	LaR	12,217	12,217			
Held-to-maturity investments	HtM	131	131			
Available-for-sale financial assets [a]	AfS	380		230	150	
Financial assets held for trading	FAHfT	531				531
Financial liabilities measured at amortized cost	FLAC	48,864	48,864			
Financial liabilities held for trading	FLHfT	335				335

[a] For details, please refer to **NOTE 8 "OTHER FINANCIAL ASSETS," PAGE 230.**
[b] For more information, please refer to the detailed table on derivatives in **NOTE 38 "RISK MANAGEMENT, FINANCIAL DERIVATIVES, AND OTHER DISCLOSURES ON CAPITAL MANAGEMENT," PAGE 272 et seq.**
[c] The stake in Telekom Srbija is shown under non-current assets and disposal groups held for sale in the previous year, for which a separate class of financial instruments was created as of December 31, 2011.
[d] For financial guarantees and loan commitments existing at the reporting date, please refer to **NOTE 38 "RISK MANAGEMENT, FINANCIAL DERIVATIVES, AND OTHER DISCLOSURES ON CAPITAL MANAGEMENT," PAGE 272 et seq.**

	Amounts recognized in the statement of financial position according to IAS 17 millions of €	Fair value Dec. 31, 2012 millions of €	Category in accordance with IAS 39	Carrying amounts Dec. 31, 2011 millions of €	Amounts recognized in the statement of financial position according to IAS 39: Amortized cost millions of €	Cost millions of €	Fair value recognized in equity millions of €	Fair value recognized in profit or loss millions of €	Amounts recognized in the statement of financial position according to IAS 17 millions of €	Fair value Dec. 31, 2011 millions of €
		4,026	LaR	3,749	3,749					3,749
		6,316	LaR	6,455	6,455					6,455
	248	2,123	LaR/n.a.	2,030	1,712				318	2,030
		131	HtM	177	177					177
		150	AfS	729		270	459			459
		531	FAHfT	833				833		833
		756	n.a.	700			269	431		700
		–	AfS	380			380			380
		6,415	FLAC	6,409	6,409					6,409
		38,544	FLAC	36,228	36,228					38,539
		4,082	FLAC	4,916	4,916					5,037
		1,383	FLAC	1,188	1,188					1,321
		2,085	FLAC	1,713	1,713					1,713
		1,611	FLAC	1,528	1,528					1,528
	1,246	1,635	n.a.	1,351					1,351	1,637
		335	FLHfT	833				833		833
		584	n.a.	561				561		561
		12,217	LaR	11,916	11,916					11,916
		131	HtM	177	177					177
		150	AfS	1,109		270	839			839
		531	FAHfT	833				833		833
		54,120	FLAC	51,982	51,982					54,548
		335	FLHfT	833				833		833

Fair value hierarchy according to IFRS 7.27 et seq.

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	Dec. 31, 2012				Dec. 31, 2011			
	Level 1 millions of €	Level 2 millions of €	Level 3 millions of €	**Total millions of €**	Level 1 millions of €	Level 2 millions of €	Level 3 millions of €	**Total** millions of €
ASSETS								
Available-for-sale financial assets (AfS)	107	43		150	341	118		459
Financial assets held for trading (FAHfT)		531		531		833		833
Derivative financial assets with a hedging relationship		756		756		700		700
Non-current assets and disposal groups held for sale						380		380
LIABILITIES AND SHAREHOLDERS' EQUITY								
Financial liabilities held for trading (FLHfT)		335		335		833		833
Derivative financial liabilities with a hedging relationship		584		584		561		561

Cash and cash equivalents and trade and other receivables mainly have short-term maturities. For this reason, their carrying amounts at the reporting date approximate their fair values.

The fair values of other non-current receivables and held-to-maturity financial investments due after more than one year correspond to the present values of the payments related to the assets, taking into account the current interest rate parameters that reflect market- and partner-based changes to terms and conditions, and expectations.

Trade and other payables, as well as other liabilities, generally have short times to maturity; the values reported approximate the fair values.

The fair values of the quoted bonds and other securitized liabilities equal the nominal amounts multiplied by the price quotations at the reporting date.

The fair values of unquoted bonds, liabilities to banks, liabilities to non-banks from promissory notes, and other financial liabilities are calculated as the present values of the payments associated with the debts, based on the applicable yield curve and Deutsche Telekom's credit spread curve for specific currencies.

The stake in Telekom Srbija was shown under non-current assets and disposal groups held for sale as of December 31, 2011. The fair value of this stake was equivalent to the contractually agreed selling price.

Net gain/loss by measurement category.

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	Recognized in profit or loss from interest, dividends	Recognized in profit or loss from subsequent measurement			Recognized directly in equity from subsequent measurement	Recognized in profit or loss from derecognition	Net gain (loss)	
		At fair value	Currency translation	Impairment/ reversal of impairment	At fair value		2012	2011
	millions of €	millions of €	millions of €	millions of €	millions of €	millions of €	millions of €	millions of €
Loans and receivables (LaR)	51		(73)	(825)			(847)	(307)
Held-to-maturity investments (HtM)	2						2	(8)
Available-for-sale financial assets (AfS)	63			(66)	33	276	306	274
Financial instruments held for trading (FAHfT and FLHfT)	n.a.	(165)					(165)	576
Financial liabilities measured at amortized cost (FLAC)	(2,157)		152				(2,005)	(3,056)
	(2,041)	**(165)**	**79**	**(891)**	**33**	**276**	**(2,709)**	**(2,521)**

Interest from financial instruments is recognized in finance costs, dividends in other financial income/expense (please also refer to **NOTE 22, PAGE 246,** and **NOTE 24, PAGES 246 – 247**). Deutsche Telekom recognizes the other components of net gain/loss in other financial income/expense, except for impairments/reversal of impairments of trade receivables (please also refer to **NOTE 2, PAGES 222 – 223**) that are classified as loans and receivables which are reported under selling expenses. The net loss from the subsequent measurement for financial instruments held for trading (EUR 165 million) also includes interest and currency translation effects. The net currency translation losses on financial assets classified as loans and receivables (EUR 73 million) are primarily attributable to the Group-internal transfer of foreign-currency loans taken out by Deutsche Telekom's financing company, Deutsche Telekom International Finance B.V., on the capital market. These were offset by corresponding currency translation gains on capital market liabilities of EUR 152 million. Finance costs from financial liabilities measured at amortized cost (net expense of EUR 2,157 million) primarily consist of interest expense on bonds and other (securitized) financial liabilities. The item also includes interest expenses from interest added back and interest income from interest discounted from trade payables. However, it does not include the interest expense and interest income from interest rate derivatives Deutsche Telekom used in the reporting period to hedge the fair value risk of financial liabilities (please also refer to **NOTE 22 "FINANCE COSTS," PAGE 246**).

38 RISK MANAGEMENT, FINANCIAL DERIVATIVES, AND OTHER DISCLOSURES ON CAPITAL MANAGEMENT.

Principles of risk management. Deutsche Telekom is exposed in particular to risks from movements in exchange rates, interest rates, and market prices that affect its assets, liabilities, and forecast transactions. Financial risk management aims to limit these market risks through ongoing operational and finance activities. Selected derivative and non-derivative hedging instruments (hedging transactions) are used for this purpose, depending on the risk assessment. However, Deutsche Telekom only hedges the risks that affect the Group's cash flow. Derivatives are exclusively used as hedging instruments, i.e., not for trading or other speculative purposes. To reduce the credit risk, hedging instruments are generally only concluded with leading financial institutions whose credit rating is at least BBB+/Baa1. In addition, the credit risk of financial instruments with a positive fair value is minimized by way of limit management, which sets individualized relative and absolute figures for risk exposure depending on the counterparty's rating, share price development, and credit default swap level.

The fundamentals of Deutsche Telekom's financial policy are established by the Board of Management and overseen by the Supervisory Board. Group Treasury is responsible for implementing the finance policy and for ongoing risk management. Certain transactions require the prior approval of the Board of Management, which is also regularly briefed on the severity and amount of the current risk exposure.

Treasury regards effective management of the market risk as one of its main tasks. The department performs simulation calculations using different worst-case and market scenarios so that it can estimate the effects of different conditions on the market.

Currency risks. Deutsche Telekom is exposed to currency risks from its investing, financing, and operating activities. Risks from foreign currencies are hedged to the extent that they influence the Group's cash flows. Foreign-currency risks that do not influence the Group's cash flows (i.e., the risks resulting from the translation of statements of assets and liabilities of foreign operations into the Group's reporting currency) are generally not hedged, however. Deutsche Telekom may nevertheless also hedge this foreign-currency risk under certain circumstances.

Foreign-currency risks in the area of investment result, for example, from the acquisition and disposal of investments in foreign companies. Deutsche Telekom hedges these risks. If the risk position exceeds EUR 100 million, the Board of Management must make a special decision on how the risk shall be hedged. If the risk position is below EUR 100 million, Group Treasury performs the currency hedging itself. At the reporting date, Deutsche Telekom was not exposed to any significant risks from foreign-currency transactions in the field of investments.

Foreign-currency risks in the financing area are caused by financial liabilities in foreign currency and loans in foreign currency that are extended to Group entities for financing purposes. Treasury hedges these risks in full. Cross-currency swaps and currency derivatives are used to convert financial obligations and intragroup loans denominated in foreign currencies into the Group entities' functional currencies.

At the reporting date, the foreign-currency liabilities for which currency risks were hedged mainly consisted of bonds and medium-term notes in Australian dollars, pound sterling, Japanese yen, Norwegian kroner, Swiss francs, Czech koruna, and U.S. dollars. On account of these hedging activities, Deutsche Telekom was not exposed to any significant currency risks in the area of financing at the reporting date.

The Group entities predominantly execute their operating activities in their respective functional currencies. Payments made in a currency other than the respective functional currency result in foreign-currency risks in the Group. These relate in particular to payments for the procurement of network equipment and mobile handsets as well as payments to international telecommunications companies for the provision of access services. Deutsche Telekom uses currency derivatives and, in individual cases, currency options for hedging purposes. On account of these hedging activities, Deutsche Telekom was not exposed to any significant exchange rate risks from its operating activities at the reporting date.

For the presentation of market risks, IFRS 7 requires sensitivity analyses that show the effects of hypothetical changes of relevant risk variables on profit or loss and shareholders' equity. In addition to currency risks, Deutsche Telekom is exposed to interest rate risks and price risks in its investments. The periodic effects are determined by relating the hypothetical changes in the risk variables to the balance of financial instruments at the reporting date. It is assumed that the balance at the reporting date is representative for the year as a whole.

Currency risks as defined by IFRS 7 arise on account of financial instruments being denominated in a currency that is not the functional currency and being of a monetary nature; differences resulting from the translation of financial statements into the Group's presentation currency are not taken into consideration. Relevant risk variables are generally all non-functional currencies in which Deutsche Telekom has contracted financial instruments.

The currency sensitivity analysis is based on the following assumptions:

Major non-derivative monetary financial instruments (liquid assets, receivables, interest-bearing securities and/or debt instruments held, interest-bearing liabilities, finance lease liabilities, non-interest-bearing liabilities) are either directly denominated in the functional currency or are transferred to the functional currency through the use of derivatives. Exchange rate fluctuations therefore have no effects on profit or loss, or shareholders' equity.

Non-interest-bearing securities or equity instruments held are of a non-monetary nature and therefore are not exposed to currency risk as defined by IFRS 7.

Interest income and interest expense from financial instruments are also either recorded directly in the functional currency or transferred to the functional currency by using derivatives. For this reason, there can be no effects on the variables considered in this connection.

In the case of fair value hedges designed to hedge currency risks, the changes in the fair values of the hedged item and the hedging transaction attributable to exchange rate movements balance out almost completely in the income statement in the same period. As a consequence, these financial instruments are not exposed to currency risks with an effect on profit or loss, or shareholders' equity, either.

In the case of net investment hedges designed to hedge currency risks, the changes in the fair values of the hedged item and the hedging instrument attributable to exchange rate movements balance out completely in shareholders' equity in the same period. As a consequence, these financial instruments are not exposed to currency risks with an effect on profit or loss, or shareholders' equity, either.

Cross-currency swaps are always assigned to non-derivative hedged items, so these instruments do not have any currency effects, either.

Deutsche Telekom is therefore only exposed to currency risks from specific currency derivatives. Some of these are currency derivatives that are part of an effective cash flow hedge for hedging payment fluctuations resulting from exchange rate movements in accordance with IAS 39. Exchange rate fluctuations of the currencies on which these transactions are based affect the hedging reserve in shareholders' equity and the fair value of these hedging instruments. Others are currency derivatives that are neither part of one of the hedges defined in IAS 39 nor part of a natural hedge. These derivatives are used to hedge planned transactions. Exchange rate fluctuations of the currencies on which such financial instruments are based affect other financial income or expense (net gain/loss from remeasurement of financial assets and liabilities to fair value).

If the euro had gained (lost) 10 percent against the pound sterling and the Indian rupee at December 31, 2012, the hedging reserve in shareholders' equity and the fair values of the hedging instruments before taxes would have been EUR 49 million higher (lower) (December 31, 2011: EUR 50 million lower (higher)). The hypothetical effect of EUR 49 million on profit or loss primarily results from the currency sensitivities EUR/USD: EUR 64 million; EUR/GBP: EUR –14 million.

If the euro had gained (lost) 10 percent against all currencies at December 31, 2012, other financial income and the fair value of the hedging instruments before taxes would have been EUR 20 million higher (lower) (December 31, 2011: EUR 4 million higher (lower)). The hypothetical effect on profit or loss of EUR 20 million primarily results from the currency sensitivities EUR/USD: EUR –47 million, EUR/PLN: EUR 46 million, EUR/HUF: EUR 15 million, EUR/CZK: EUR 8 million and EUR/GBP: EUR –2 million.

Interest rate risks. Deutsche Telekom is exposed to interest rate risks, mainly in the euro zone and in the United States of America. To minimize the effects of interest rate fluctuations in these regions, Deutsche Telekom manages the interest rate risk for net debt denominated in euros and U.S. dollars separately. Once a year, the Board of Management stipulates the desired mix of fixed- and variable-interest net debt for a planning period of at least three years. Taking account of the Group's existing and planned debt structure, Treasury uses interest rate derivatives to adjust the interest structure for the net debt of the composition specified by the Board of Management.

Due to the derivative hedging instruments, an average of 65 percent (2011: 63 percent) of the net debt in 2012 denominated in euros and 56 percent (2011: 60 percent) of those denominated in U.S. dollars had a fixed rate of interest. The average value is representative for the year as a whole.

Interest rate risks are presented by way of sensitivity analyses in accordance with IFRS 7. These show the effects of changes in market interest rates on interest payments, interest income and expense, other income components and, if appropriate, shareholders' equity. The interest rate sensitivity analyses are based on the following assumptions:

Changes in the market interest rates of non-derivative financial instruments with fixed interest rates only affect income if these are measured at their fair value. As such, all financial instruments with fixed interest rates that are carried at amortized cost are not subject to interest rate risk as defined in IFRS 7.

In the case of fair value hedges designed for hedging interest rate risks, the changes in the fair values of the hedged item and the hedging instrument attributable to interest rate movements balance out almost completely in the income statement in the same period. This means that interest-rate-based changes in the measurement of the hedged item and the hedging instrument do not affect income and are therefore not subject to interest rate risk.

In the case of interest rate derivatives in fair value hedges, however, changes in market interest rates affect the amount of interest payments. As a consequence, they have an effect on interest income and are therefore included in the calculation of income-related sensitivities.

Changes in the market interest rate regarding financial instruments that were designated as hedging instruments in a cash flow hedge to hedge payment fluctuations resulting from interest rate movements affect the hedging reserve in shareholders' equity and are therefore taken into consideration in the equity-related sensitivity calculations.

Changes in market interest rates affect the interest income or expense of non-derivative variable-interest financial instruments, the interest payments of which are not designated as hedged items of cash flow hedges against interest rate risks. As a consequence, they are included in the calculation of income-related sensitivities.

Changes in the market interest rate regarding interest rate derivatives (interest rate swaps, cross-currency swaps) that are not part of a hedging relationship as set out in IAS 39 affect other financial income or expense and are therefore taken into consideration in the income-related sensitivity calculations. Currency derivatives are not exposed to interest rate risks and therefore do not affect the interest rate sensitivities.

If the market interest rates had been 100 basis points higher (lower) at December 31, 2012, profit or loss before taxes would have been EUR 212 million (December 31, 2011: EUR 223 million) lower (higher). The hypothetical effect of EUR –212 million on income results from the potential effects of EUR –191 million from interest rate derivatives and EUR –21 million from non-derivative, variable-interest financial liabilities. Potential effects from interest rate derivatives are partially balanced out by the contrasting performance of non-derivative financial instruments which cannot, however, be shown as a result of applicable accounting standards. If the market interest rates had been 100 basis points higher (lower) at December 31, 2012, the hedging reserve would have been EUR 179 million (December 31, 2011: EUR 208 million) higher (lower).

Other price risks. As part of the presentation of market risks, IFRS 7 also requires disclosures on how hypothetical changes in risk variables affect the price of financial instruments. Important risk variables are stock exchange prices or indexes.

As in the prior year, no major price risks existed as of December 31, 2012.

Credit risks. Deutsche Telekom is exposed to a credit risk from its operating activities and certain financing activities. With regard to financing activities, transactions are only concluded with counterparties that have at least a credit rating of BBB+/Baa1, in connection with an operational credit management system. At the level of operations, the outstanding debts are continuously monitored in each area, i.e., locally. Credit risks are taken into account through individual and collective allowances.

The solvency of the business with corporate customers, especially international carriers, is monitored separately. In terms of the overall risk exposure from the credit risk, however, the receivables from these counterparties are not so extensive as to justify extraordinary concentrations of risk.

In line with the contractual provisions, in the event of insolvency all derivatives with a positive or negative fair value that exist with the respective counterparty are offset against each other, leaving a net receivable or liability. When the netting of the positive and negative fair values of all derivatives was positive from Deutsche Telekom's perspective, the counterparty provided Deutsche Telekom with cash pursuant to the collateral contracts mentioned in **NOTE 1 "CASH AND CASH EQUIVALENTS," PAGE 222**. The credit risk was thus further reduced (for details on the fair value of the cash reported under cash and cash equivalents, please refer to **NOTE 37 "DISCLOSURES ON FINANCIAL INSTRUMENTS," PAGE 268 et seq.**). On the basis of these contracts, derivatives with a positive fair value and a total carrying amount of EUR 1,287 million (December 31, 2011: EUR 1,533 million) have a maximum credit risk of EUR 60 million (December 31, 2011: EUR 45 million) as of the reporting date. When the netting of the positive and negative fair values of all derivatives was negative from Deutsche Telekom's perspective, Deutsche Telekom provided cash collateral to counterparties pursuant to collateral contracts. The corresponding receivables of EUR 246 million (December 31, 2011: EUR 302 million) were thus not exposed to any credit risks as of the reporting date (please also refer to **NOTE 8 "OTHER FINANCIAL ASSETS," PAGE 230**). No other significant agreements reducing the maximum exposure to the credit risks of financial assets existed. The maximum exposure to credit risk of the other financial assets thus corresponds to their carrying amounts.

In addition, Deutsche Telekom is exposed to a credit risk through the granting of financial guarantees. Guarantees amounting to a nominal total of EUR 2,523 million had been pledged as of the reporting date (December 31, 2011: EUR 100 million), which also represent the maximum exposure to credit risk. This maximum exposure also includes the following item as of December 31, 2012:

Under the framework agreement signed with Crown Castle concerning the leasing and use of cell sites in the United States, T-Mobile USA established two companies that are included in Deutsche Telekom's consolidated group as associates and two companies that were disposed of (please also refer to "Business combinations and other transactions" in the section "Summary of accounting policies," **PAGES 219 – 220**). For 6,654 cell sites T-Mobile USA has transferred the leases for the land on which the cell towers are built to these companies. Under certain conditions, T-Mobile USA will continue to be held liable for any default in the lease payment by Crown Castle to the owners of the land. In such a case, T-Mobile USA would be entitled to compensation from Crown Castle. In the event that Crown Castle were to file for bankruptcy and an insolvency court were to prohibit continuation of the framework agreement with T-Mobile USA, Deutsche Telekom expects that T-Mobile USA would be able to take over the continued usage of the relevant cell sites. It is unlikely that a payment default would occur or that an insolvency court would prohibit the framework agreement, as Deutsche Telekom expects that the transaction will allow Crown Castle to generate sufficient profits and cash flows to be able to meet its contractual obligations arising from the transaction.

Besides the entitlement to compensation, there are no further agreements that reduce the maximum risk of default. In the worst case scenario, the maximum default risk is EUR 2.4 billion. The carrying amount and the fair value of this financial guarantee at December 31, 2012 were both EUR 1 million.

There were no indications as of the reporting date that Deutsche Telekom will incur a loss from a financial guarantee.

Risks from financing and loan commitments. Deutsche Telekom again granted the Everything Everywhere joint venture an irrevocable loan commitment of a maximum of GBP 225 million at arm's length market conditions in the reporting period which has not yet been utilized. The credit facility can be utilized at any time and will expire on November 14, 2013. The credit facility will be extended each time by a further twelve months, unless terminated three months prior to the end of the term. The nominal amount of GBP 225 million is the maximum default risk associated with this loan commitment.

No significant agreements reducing the maximum default risk of financing and loan commitments exist. There were no indications as of the reporting date that Deutsche Telekom will incur a loss.

Liquidity risks. Please refer to **NOTE 10 "FINANCIAL LIABILITIES," PAGE 231 et seq.**

Hedge accounting.

Fair value hedges. To hedge the fair value risk of fixed-interest liabilities, Deutsche Telekom primarily used interest rate swaps and forward interest rate swaps ("pay variable, receive fixed") denominated in CHF, EUR, GBP, NOK, and USD. Fixed-income bonds/MTNs denominated in CHF, EUR, GBP, NOK, and USD were designated as hedged items. The changes in the fair values of the hedged items resulting from changes in the CHFLibor, Euribor, GBPLibor, NOK-OIBOR, or USDLibor swap rate are offset against the changes in the value of the interest rate swaps. The aim of this hedging is to transform the fixed-income bonds into variable-interest debt, thus hedging the fair value of the financial liabilities. Credit risks are not part of the hedging. In 2012, Deutsche Telekom for the first time designated a cross-currency swap totaling AUD 125 million as fair value hedge which converts a fixed-interest MTN into a variable interest-bearing security.

The effectiveness of the hedging relationship is tested prospectively and retrospectively at each reporting date using statistical methods in the form of a regression analysis. All hedging relationships were sufficiently effective as of the reporting date.

As the list of the fair values of derivatives shows (please refer to TABLE T 141 under "Derivatives," PAGE 277), Deutsche Telekom had interest rate derivatives with a net fair value of EUR +0.5 billion (December 31, 2011: EUR +0.4 billion) designated as fair value hedges at December 31, 2012. The remeasurement of the hedged items resulted in losses of EUR 0.0 billion being recorded in other financial income/expense in the 2012 financial year (2011: losses of EUR 0.3 billion); the changes in the fair values of the hedging transactions resulted in gains of EUR 0.1 billion (2011: gains of EUR 0.2 billion) being recorded in other financial income/expense.

Cash flow hedges – interest rate risks. Deutsche Telekom entered into payer interest rate swaps and forward payer interest rate swaps ("pay fixed, receive variable") to hedge the cash flow risk of variable-interest debt. The interest payments to be made in the hedging period are the hedged items and are recognized in profit or loss in the same period. The changes in the cash flows of the hedged items resulting from changes in the Euribor and Libor rates are offset against the changes in the cash flows of the interest rate swaps. The aim of this hedging is to transform the variable-interest bonds into fixed-income debt, thus hedging the cash flows of the financial liabilities. The terms of the hedging relationships will end in the years 2013 through 2018. Credit risks are not part of the hedging.

The effectiveness of the hedging relationship is tested prospectively and retrospectively using statistical methods in the form of a regression analysis.

Ineffectiveness of EUR –2 million was recognized in profit or loss under other financial income/expense in the reporting year (2011: EUR –25 million).

All designated hedging relationships were sufficiently effective as of the reporting date.

In 2012, Deutsche Telekom entered into forward payer interest rate swaps totaling EUR 1.2 billion for transactions expected in 2015. TABLE T 140 shows the contractual maturities newly incorporated into a hedging relationship in 2012 relating to the payments for the forward payer interest rate swaps.

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Start	End	Nominal volume	Reference rate
February 2, 2015	February 2, 2018	EUR 1,200 million	6-month Euribor

As the list of the fair values of derivatives shows (please refer to TABLE T 141 under "Derivatives," PAGE 277), Deutsche Telekom had interest rate derivatives with a fair value of EUR –0.6 billion (2011: EUR –0.5 billion) amounting to a nominal total of EUR 7.8 billion (2011: EUR 8.8 billion) designated as hedging instruments for the hedging of interest rate risks as part of cash flow hedges at December 31, 2012.

The recognition directly in equity of the change in the fair value of the hedging instruments resulted in losses (before taxes) of EUR 0.3 billion (2011: losses of EUR 0.3 billion) in shareholders' equity in the 2012 financial year. Losses amounting to EUR 68 million (2011: losses of EUR 53 million) recognized directly in equity were reclassified to other financial income/expense in the income statement in the 2012 financial year.

Cash flow hedges – currency risks. Deutsche Telekom entered into currency derivative and cross-currency swap agreements to hedge cash flows not denominated in a functional currency. The payments in foreign currency to be made in the hedging period are the hedged items and are recognized in profit or loss in the same period. The terms of the hedging relationships will end in the years 2013 through 2030. The effectiveness of the hedging relationship is tested prospectively and retrospectively using statistical methods in the form of a regression analysis. All designated hedging relationships were sufficiently effective as of the reporting date.

No new cash flow hedges of this kind were designated in the reporting period.

In the 2012 financial year, gains (before taxes) totaling EUR 36 million (2011: losses of EUR 58 million) resulting from the change in the fair values of currency derivatives were taken directly to equity (hedging reserve). These changes constitute the effective portion of the hedging relationship. In the 2012 financial year, gains totaling EUR 58 million recognized directly in equity were reclassified to other financial income/ expense (2011: gains of EUR 61 million to other financial income/ expense and losses of EUR 188 million to other operating income). There was no material ineffectiveness of these hedges recorded as of the reporting date.

As the list of the fair values of derivatives shows (please refer to TABLE T 141), Deutsche Telekom had currency forwards of a net fair value of EUR 13 million (December 31, 2011: EUR 8 million), that are the result of foreign currency purchases totaling EUR 0.6 billion and foreign currency sales totaling EUR 1.2 billion (December 31, 2011: foreign currency purchases of EUR 0.6 billion and foreign currency sales of EUR 0.1 billion), as well as cross-currency swaps of a net fair value of EUR +0.2 billion (December 31, 2011: EUR +0.2 billion) and a total volume of EUR 1.8 billion (December 31, 2011: EUR 2.1 billion) designated as hedging instruments for cash flow hedges as of December 31, 2012.

Hedging of a net investment. In April 2011 Deutsche Telekom designated a net investment hedge for a nominal amount of USD 7 billion to hedge the net investment in T-Mobile USA against fluctuations in the U.S. dollar spot exchange rate. Currency forwards were used as hedging instruments ("sell USD – receive EUR") with a change in the U.S. dollar spot exchange rate being designated as the hedged risk. Any changes in value of the hedged item resulting from changes in the U.S. dollar spot exchange rate are offset by changes in the value of the currency forwards. After the hedged amount had been reduced, currency forwards with a nominal volume of USD 1.2 billion and a fair value of EUR –0.1 billion (before taxes) remained designated as hedge instruments at December 31, 2011 and were due in full in the 2012 financial year. Gains totaling EUR 6 million (2011: losses of EUR 444 million) (before taxes) from the hedging relationship were recognized directly in equity (total other comprehensive income) in the 2012 financial year. The effectiveness of the hedging relationship was tested prospectively and retrospectively at each reporting date by comparing the cumulative value changes of hedging instruments and hedged item. The hedging relationship was fully effective for the total hedging period.

Derivatives. TABLE T 141 shows the fair values of the various derivatives carried. A distinction is made depending on whether these are part of an effective hedging relationship as set out in IAS 39 (fair value hedge, cash flow hedge, net investment hedge) or not. Other derivatives can also be embedded, i.e., a component of a composite instrument that contains a non-derivative host contract.

T 141

	Net carrying amounts Dec. 31, 2012 millions of €	Net carrying amounts Dec. 31, 2011 millions of €
ASSETS		
Interest rate swaps		
Held for trading	46	56
In connection with fair value hedges	490	431
In connection with cash flow hedges	–	–
Currency forwards/currency swaps		
Held for trading	12	259
In connection with cash flow hedges	22	21
Cross-currency swaps		
Held for trading	473	518
In connection with fair value hedges	8	–
In connection with cash flow hedges	236	248
Other derivatives in connection with cash flow hedges	–	–
LIABILITIES AND SHAREHOLDERS' EQUITY		
Interest rate swaps		
Held for trading	164	74
In connection with fair value hedges	–	–
In connection with cash flow hedges	575	470
Currency forwards/currency swaps		
Held for trading	38	581
In connection with cash flow hedges	9	13
In connection with net investment hedges	–	78
Cross-currency swaps		
Held for trading	125	171
In connection with cash flow hedges	–	–
Other derivatives in connection with cash flow hedges	–	–
Embedded derivatives	8	7

Transfer of financial assets.

Factoring. In 2009, Deutsche Telekom entered into a factoring agreement under which a bank is required to purchase trade receivables in a monthly revolving nominal volume of EUR 300 million. This agreement, which runs until 2015, gives Deutsche Telekom the freedom to decide whether receivables will be sold and in which volume. The assessment of the risk associated with the sold receivables is based on the credit risk and, of lesser significance, the risk of late payments (late-payment risk). The maximum credit risk-related loss to be borne by Deutsche Telekom is limited to the variable purchase price discount retained by the bank on the sale of receivables and refunded in the amount of the unused portion. The remaining credit risk-related losses represent substantially all the risks and rewards of ownership of the receivables and are borne by the bank. The late-payment risk continues to be borne in full by Deutsche Telekom. The maximum exposure to loss resulting from credit risk and late-payment risk relating to the receivables sold and derecognized as of December 31, 2012 (nominal volume EUR 253 million) is EUR 8 million. At the derecognition date, the fair value of the expected refund of the variable purchase price discount less the fair value of the expected loss from the late-payment risk was capitalized under other financial assets and the remaining difference was expensed. As of December 31, 2012, the carrying amount of the other financial asset representing Deutsche Telekom's entire continuing involvement was EUR 3 million and its fair value was EUR 3 million. Deutsche Telekom expensed EUR 42 million in the 2012 financial year from its continuing involvement including program fees, and has expensed a total amount of EUR 213 million since 2009. The bank has the right to sell overdue receivables back to Deutsche Telekom. However, this does not affect the allocation of the credit risk-related losses in any way because the purchase price equals the actual proceeds from collection. The buy-back does not entail any liquidity risks for Deutsche Telekom whatsoever, as payment of the purchase price to the bank is only due after the proceeds from collection have been received. As in previous years, the volume of receivables sold was not subject to major fluctuations during the financial year. As of December 31, 2012, a provision of EUR 4 million was recognized for the receivables management to be performed by Deutsche Telekom.

In 2009, Deutsche Telekom entered into another factoring agreement under which a bank is required to purchase trade receivables in a monthly revolving nominal volume of EUR 740 million. This agreement, which runs until 2015, gives Deutsche Telekom the freedom to decide whether receivables will be sold and in which volume. The assessment of the risk associated with the sold receivables is based on the credit risk and, of lesser significance, the risk of late payments (late-payment risk). The maximum credit risk-related loss to be borne by Deutsche Telekom is limited to the variable purchase price discount retained by the bank on the sale of receivables and refunded in the amount of the unused portion. The remaining credit risk-related losses represent substantially all the risks and rewards of ownership of the receivables and are borne by the bank. The existing loan insurance reimburses losses relating to certain receivables to a maximum amount of EUR 65 million and thus reduces the exposure to loss. The late-payment risk continues to be borne in full by Deutsche Telekom. The maximum exposure to loss resulting from credit risk and late-payment risk relating to the receivables sold and derecognized as of December 31, 2012 (nominal volume EUR 740 million), excluding loan insurance coverage, is EUR 26 million. At the derecognition date, the fair value of the expected refund of the variable purchase price discount less the fair value of the expected loss from the late-payment risk was capitalized under other financial assets and the remaining difference was expensed. As of December 31, 2012, the carrying amount of the other financial asset representing Deutsche Telekom's entire continuing involvement was EUR 16 million and its fair value was EUR 16 million. Deutsche Telekom expensed EUR 82 million in the 2012 financial year from its continuing involvement including program fees, and has expensed a total amount of EUR 386 million since 2009. The bank has the right to sell overdue receivables back to Deutsche Telekom. However, this does not affect the allocation of the credit risk-related losses in any way because the purchase price equals the actual proceeds from collection. The buy-back does not entail any liquidity risks for Deutsche Telekom whatsoever, as payment of the purchase price to the bank is only due after the proceeds from collection have been received. As in previous years, the volume of receivables sold was not subject to major fluctuations during the financial year. As of December 31, 2012, a provision of EUR 4 million was recognized for the receivables management to be performed by Deutsche Telekom.

In October 2012, Deutsche Telekom entered into another factoring agreement under which a bank is required to purchase trade receivables in a monthly revolving nominal volume of EUR 280 million. This three-year agreement gives Deutsche Telekom the freedom to decide whether receivables will be sold and in which volume. The assessment of the risk associated with the sold receivables is based on the credit risk and, of lesser significance, the risk of late payments (late-payment risk). The purchase price corresponds to the nominal amount. 70 percent of the first EUR 15 million of credit risk-related losses will be borne by Deutsche Telekom and 30 percent by the bank, pro rata for each loss. Deutsche Telekom will bear the first EUR 56 million of any other credit risk-related losses in full. All other credit risk-related losses are borne by the bank. The existing loan insurance reimburses losses relating to certain receivables to a maximum amount of EUR 115 million and thus reduces the exposure to loss. The late-payment risk continues to be borne in full by Deutsche Telekom. The maximum exposure to loss resulting from credit risk and late-payment risk relating to the receivables sold as of December 31, 2012 (nominal volume EUR 280 million), excluding loan insurance coverage, is EUR 72 million. Substantially all the risks and rewards of ownership of the receivables were neither transferred nor retained (allocation of the material risks between Deutsche Telekom and the bank) and control of the receivables was transferred to the bank. All receivables sold as of December 31, 2012 have been derecognized. At the derecognition date, the fair value of the expected losses was expensed as financial liabilities. As of December 31, 2012, the carrying amount of the financial liability representing Deutsche Telekom's entire continuing involvement was EUR 4 million, the fair value of which was EUR 4 million. Deutsche Telekom expensed EUR 6 million in the financial year from its continuing involvement including program fees. The bank has the right to sell all receivables overdue by more than 90 days back to Deutsche Telekom at the nominal amount. This would not affect the allocation of the credit risk-related losses, as the latter would be passed back to the bank in line with the agreed risk allocation. The cash outflows caused by the buy-backs would occur in the short term, i.e., in 2013. The volume of receivables sold was not subject to major fluctuations since the beginning of the transaction. As of December 31, 2012, a provision of EUR 0.1 million was recognized for the receivables management to be performed by Deutsche Telekom.

Disclosures on capital management. The overriding aim of Deutsche Telekom's capital management is to strike a balance between the contrasting expectations of the four stakeholders:

- Shareholders
- Providers of debt capital
- Employees
- "Entrepreneurs within the enterprise"

For further information, please refer to the section "Management of the Group" in the combined management report, **PAGE 80 et seq.**

An important key performance indicator for the capital market communication with investors, analysts and rating agencies is relative debt, i.e., net debt to adjusted EBITDA. The ratio remained at the prior-level of 2.1 as of December 31, 2012. The target corridor for relative debt is between 2.0 and 2.5. Net debt is a non-GAAP figure not governed by International Financial Reporting Standards and its definition and calculation may vary from one company to another. A further essential key performance indicator is the equity ratio, i.e., the ratio of shareholders' equity to total assets as shown in the consolidated statement of financial position. The equity ratio was 28.3 percent as of December 31, 2012 (December 31, 2011: 32.6 percent). The target corridor is between 25 and 35 percent. In addition, Deutsche Telekom maintains a liquidity reserve covering all maturities of the next 24 months. The gearing was 1.2 as of December 31, 2012 (December 31, 2011: 1.0).

T 142

Calculation of net debt; shareholders' equity.

	Dec. 31, 2012 millions of €	Dec. 31, 2011 millions of €
Financial liabilities (current)	9,260	10,219
Financial liabilities (non-current)	35,354	38,099
FINANCIAL LIABILITIES	**44,614**	**48,318**
Accrued interest	(903)	(966)
Liabilities from corporate transactions	–	–
Other	(754)	(615)
GROSS DEBT	**42,957**	**46,737**
Cash and cash equivalents	4,026	3,749
Available-for-sale/held-for-trading financial assets	27	402
Derivative financial assets	1,287	1,533
Other financial assets	757	932
NET DEBT	**36,860**	**40,121**
SHAREHOLDERS' EQUITY	**30,543**	**39,941**

39 RELATED PARTY DISCLOSURES.

Federal Republic of Germany and other related parties. The Federal Republic of Germany is both a direct and an indirect shareholder (via KfW Bankengruppe) and holds approximately 32.0 percent (December 31, 2011: 32.0 percent) of the share capital of Deutsche Telekom AG. The Federal Republic usually represents a solid majority at the shareholders' meeting due to its high attendance rate, giving the Federal Republic control over Deutsche Telekom. Therefore, the Federal Republic and the companies controlled by the Federal Republic or companies over which the Federal Republic can exercise a significant influence are classified as related parties of Deutsche Telekom. Charges for services provided to the Federal Republic and its departments and agencies, and the individual companies are based on Deutsche Telekom's commercial pricing policies. Deutsche Telekom participates in the spectrum auctions of the Federal Network Agency. The acquisition of mobile communications spectrum through licenses may result in build-out requirements stipulated by the Agency.

The Federal Posts and Telecommunications Agency (Federal Agency) has been assigned certain tasks by law that affect cross-company issues at Deutsche Telekom AG, Deutsche Post AG, and Deutsche Postbank AG. The Federal Agency's responsibilities include the continuation of the Civil Service Health Insurance Fund (Postbeamtenkrankenkasse), the recreation service (Erholungswerk), the supplementary retirement pensions institution (Versorgungsanstalt der Deutschen Bundespost), and the welfare service (Betreuungswerk) for Deutsche Telekom AG, Deutsche Post AG, and Deutsche Postbank AG. The coordination and administrative tasks are performed on the basis of agency agreements. For the 2012 financial year, Deutsche Telekom made payments in the amount of EUR 61 million (2011: EUR 58 million, 2010: EUR 59 million). Payments are made to the special pension fund according to the provisions of the Posts and Telecommunications Reorganization Act (please also refer to NOTE 12 "PROVISIONS FOR PENSIONS AND OTHER EMPLOYEE BENEFITS," PAGE 235 et seq.).

The Federal Republic and the companies controlled by the Federal Republic and companies over which the Federal Republic can exercise a significant influence are customers or suppliers of Deutsche Telekom and as such have mutual contractual relationships. Deutsche Telekom did not execute any individually material transactions in the 2012 financial year at off-market terms and conditions or outside of its normal business activities.

Joint ventures. In the 2012 financial year, Deutsche Telekom generated revenue and other operating income totaling EUR 315 million from the Everything Everywhere joint venture established on April 1, 2010 and EUR 61 million from Toll Collect.

The Everything Everywhere joint venture repaid an issued bond that had a nominal amount of GBP 187 million at December 31, 2011 to Deutsche Telekom in the first quarter of 2012. There were receivables vis-à-vis the Everything Everywhere joint venture in the amount of EUR 96 million, liabilities of EUR 453 million, and loan commitments of EUR 0.3 billion at the end of the year. Loan guarantees and guarantee statements of EUR 0.6 billion given by the Company to third parties existed.

Loan guarantees and an equity maintenance undertaking had been granted to banks with regard to Toll Collect as of December 31, 2012. For further details, please refer to NOTE 33 "CONTINGENCIES," PAGE 261 et seq.

Related individuals. For information on the compensation of the Board of Management and Supervisory Board, please refer to NOTE 40, PAGE 281 et seq.

Employee representatives elected to the Supervisory Board of Deutsche Telekom continue to be entitled to a regular salary as part of their employment contract. The amount of the salary is the adequate compensation for their job or activity within the Company.

Besides this, no major transactions took place with related individuals.

40 COMPENSATION OF THE BOARD OF MANAGEMENT AND THE SUPERVISORY BOARD.

Compensation of the Board of Management.

The following information concerning the compensation of the Board of Management comprises the notes pursuant to § 314 of the German Commercial Code and the German Accounting Standard No. 17 (GAS 17), as well as the information specified in the guidelines set out in the German Corporate Governance Code.

Changes in the composition of the Board of Management and contract extensions. Thomas Sattelberger's appointment came to an end after five years effective midnight on May 2, 2012. As Labor Director Prof. Marion Schick has been in charge of the Human Resources department since May 3, 2012. She has been appointed until December 31, 2016. Effective midnight on May 31, 2012, Dr. Manfred Balz's appointment came to an end as a result of his resignation. At its meeting on February 22, 2012, the Supervisory Board appointed Dr. Thomas Kremer as member of the Board of Management responsible for Data Privacy, Legal Affairs and Compliance for a term of five years effective June 1, 2012.

René Obermann asked the Supervisory Board to release him from his duties as Chairman of the Board of Management effective midnight on December 31, 2013. The Supervisory Board agreed to this request at its meeting on December 20, 2012. At the same meeting, the Supervisory Board resolved to appoint Timotheus Höttges as Deputy Chairman of the Board of Management effective January 1, 2013, in addition to his existing duties. He is to be appointed Chairman of the Board of Management in the course of 2013, effective from January 1, 2014.

Change in 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. Pursuant to the VorstAG explanatory memorandum (document 16/13433), the contracts of the Board of Management members that were in existence before the Act entered into force enjoy vested rights protection. These Board of Management members nevertheless have the option of voluntarily changing over to the new compensation system. As at December 31, 2012 all current members of the Board of Management were covered by the new Board of Management compensation system. The two Board of Management members, Dr. Manfred Balz and Thomas Sattelberger, who left in the course of the year, are still subject to the provisions of the old compensation system which already complied with the requirements of VorstAG to a large extent. The new and old systems are explained on the following pages.

Basis of Board of Management compensation. The compensation of Board of Management members comprises various components. Under the terms of their service contracts, members of the Board of Management are entitled to an annual fixed remuneration and annual variable performance-based remuneration, a long-term variable remuneration component, as well as fringe benefits and deferred benefits based on a company pension entitlement. The Supervisory Board defines the structure of the compensation system for the Board of Management and reviews this structure and the appropriateness of compensation at regular intervals.

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

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

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

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

In the event of temporary incapacity for work caused by illness, accident, or any other reason for which the respective Board of Management member is not responsible, the fixed basic remuneration continues to be paid for a maximum of three months following the end of the month in which the Board of Management member's permanent inability to work is established.

Variable performance-based remuneration (old system).

The annual short-term variable performance-based 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 prior to commencement of the financial year. The set of targets is composed of corporate targets and personal targets for the individual members of the Board of Management, based on the parameters of revenue, revenue from growth areas, EBITDA adjusted for special factors, and free cash flow. The personal targets consist of targets oriented toward the sustained success of the Company concerning the implementation of strategy (30 percent) and adherence to the Guiding Principles, which accounts for 20 percent. The target agreement and the level of target achievement are determined by the Supervisory Board for the respective financial year.

In addition, the Board of Management members who remained within the old system participate in Deutsche Telekom AG's mid-term incentive plan (MTIP) launched for the first time in the 2004 financial year (please also refer to **NOTE 36, PAGES 266 – 267**), which was issued for the last time for eligible Board of Management members with the 2011 tranche.

The reversal of provisions recognized for the 2010 and 2011 MTIP tranches resulted in income totaling EUR 204,113 for 2012. EUR 128,464 of this is allocable to Thomas Sattelberger and EUR 75,649 to Dr. Manfred Balz. The expense in the prior year totaled EUR 219,139. EUR 133,558 of this is allocable to Thomas Sattelberger and EUR 85,581 to Dr. Manfred Balz. Nominal award amounts of EUR 515,000 exist for Thomas Sattelberger and of EUR 330,000 for Dr. Manfred Balz for the 2011 MTIP tranche. The term of the 2011 MTIP tranche will expire on December 31, 2013.

Variable performance-based remuneration (new system).

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 strategy and adherence to the Group's Guiding Principles. Variable II is oriented solely toward the long term. This ensures that the variable remuneration is oriented toward the sustained development of the Company and that there is a predominantly long-term incentive effect.

Variable I. The annual variable remuneration of Board of Management members is based on the achievement of targets set by the Supervisory Board of Deutsche Telekom AG for each member of the Board of Management at the beginning of the financial year. The set of targets is composed of corporate targets (50 percent) related to revenue, revenue from growth areas, EBITDA adjusted for special factors, and free cash flow, as well as personal targets for the individual members of the Board of Management. The personal targets consist of targets oriented toward the sustained success of the Company concerning the implementation of strategy (30 percent) and adherence to the Guiding Principles, which accounts for 20 percent. The agreement on targets and the level of target achievement for the respective financial year are determined by the plenary session of the Supervisory Board. Levels of target achievement exceeding 100 percent are rewarded on a straight-line basis, capped at 150 percent of the award amount. Any higher levels of target achievement will not be taken into consideration. To further ensure the long-term incentive effect and orientation toward the sustained development of the Company, a third of the variable remuneration set by the plenary session of the Supervisory Board must be invested in shares of Deutsche Telekom AG; these shares must be held by the respective Board member for a period of at least four years.

Variable II. The exclusively long-term-oriented Variable II is measured based on the fulfillment of four equally weighted performance parameters (adjusted operational return on capital employed (ROCE), adjusted earnings per share (EPS), 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 2012 financial year, the following absolute nominal amounts were pledged to the Board of Management members for their participation in the 2012 tranche of Variable II in the event of 100-percent target achievement.

T 143

	2012 tranche €	2011 tranche €
René Obermann	1,092,000	1,092,000
Reinhard Clemens	650,000	650,000
Niek Jan van Damme	550,000	550,000
Timotheus Höttges	650,000	650,000
Dr. Thomas Kremer	492,708	355,208
Claudia Nemat	675,000	548,438
Prof. Marion Schick	550,000	412,500

Information on the share matching plan. In the 2012 financial year, the Board of Management members who fall under the new Board of Management compensation system, as described above, 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 the Board of Management's aforementioned personal investment (share matching plan) that will be allotted to the beneficiaries of this plan on expiration of the four-year lock-up period. This ensures that the shares granted by the Company can only be sold after the four-year period, and that this element of the compensation system rewards only the members' continued service to the Company.

DRS 17 and IFRS 2 require disclosure not only of the total expense related to share-based payment from matching shares in the 2012 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 T 144 does not represent a component of remuneration for the Board of Management members in 2012. It is an imputed value of the entitlements to matching shares determined on the basis of relevant accounting policies. TABLE T 144 is based on expected target achievement for the 2012 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 2012 financial year may be higher or lower than the amounts estimated here.

The total share-based payment expense for matching shares to be recognized for the 2011 and 2012 financial years pursuant to IFRS 2 is included in the two last columns of TABLE T 144.

T 144

	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 2012	Fair value of the matching shares at grant date €	Cumulative total share-based payment expense in 2012 for matching shares for the years 2010 through 2012 €	Cumulative total share-based payment expense in 2011 for matching shares for the years 2010 and 2011 €
René Obermann	143,454	40,945	266,961	258,458	202,898
Reinhard Clemens	68,259	24,372	158,905	129,381	105,101
Niek Jan van Damme	59,061	20,622	134,458	109,567	85,516
Timotheus Höttges	86,072	24,372	158,905	157,625	118,168
Dr. Thomas Kremer	0	13,606	74,698	8,753	0
Claudia Nemat	7,011	25,309	165,017	34,786	2,246
Prof. Marion Schick	0	20,622	134,458	20,249	0

By December 31, 2012, Deutsche Telekom had acquired 232,169 shares for the purpose of awarding matching shares to Board of Management members as part of the share matching plan.

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 or changed on account of a changeover to the new compensation system include a severance cap in case of premature termination without good cause allowing a compensation payment which, 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 (6 percent for René Obermann) 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 (60 percent for René Obermann) of the last fixed annual remuneration will be attained. The pension payments to be made increase dynamically, at a rate of 1 percent (3 percent for René Obermann). 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 inability to 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.

In addition, the Company makes contributions, including the related taxes, for term life insurance with standard coverage (EUR 1.3 million) for one Board of Management member. The related expenses are included in the figures for non-cash benefits.

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 which 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 inability to work (invalidity), the beneficiary is entitled to the pension fund.

Service cost and defined benefit obligation for each member of the Board of Management are shown in TABLE T 145:

T 145

	Service cost 2012 €	Present value of the defined benefit obligation (DBO) Dec. 31, 2012 €	Service cost 2011 €	Present value of the defined benefit obligation (DBO) Dec. 31, 2011 €
René Obermann	633,893	10,310,353	696,460	5,456,843
Dr. Manfred Balz	211,611	0 [a]	248,312	899,151
Reinhard Clemens	393,132	2,985,441	419,746	1,521,799
Niek Jan van Damme	248,106	1,260,019	250,568	726,336
Timotheus Höttges	306,848	2,924,289	337,339	1,475,193
Dr. Thomas Kremer	150,492	150,492	0	0
Claudia Nemat	191,850	349,412	47,633	47,633
Thomas Sattelberger	345,354	0 [a]	373,834	5,259,298
Prof. Marion Schick	249,144	249,144	0	0

[a] Since Dr. Manfred Balz and Thomas Sattelberger left the Company in the course of the year, the corresponding DBO amounts as of December 31, 2012 are included in the disclosures on previous Board of Management members who left the Group.

An annual contribution of EUR 290,000 was credited to the pension accounts of Niek Jan van Damme in accordance with the provisions of the new company pension plan, while EUR 270,000 is credited to the account of Dr. Manfred Balz annually. EUR 250,000 is credited to the accounts of Dr. Thomas Kremer, Claudia Nemat and Prof. Marion Schick each year. The contributions for Dr. Manfred Balz, Dr. Thomas Kremer and Prof. Marion Schick for 2012 were defined pro rata temporis.

The higher DBO amounts in TABLE T 145 above primarily result from the reduction of the discount rate of 2 percentage points.

The pension expense resulting from the company pension plan is shown as service cost. The additions to provisions for pensions recognized in 2012 amounted to EUR 3.3 million (2011: EUR 3.1 million). This amount includes interest expense totaling EUR 0.5 million (2011: EUR 0.7 million).

Stock option plan. Deutsche Telekom no longer issues any stock option plans. Individual Board of Management members still received stock options from the 2002 tranche of the 2001 Stock Option Plan.

The stock options granted were forfeited completely, since the 2002 tranche expired on July 12, 2012 without the eligible Board of Management members having exercised their stock options. In total 63,240 stock options forfeited upon expiry of the 2002 tranche. 28,830 of the forfeited stock options were allocable to René Obermann. 17,050 of the forfeited stock options were allocable to Timotheus Höttges and 17,360 to Dr. Manfred Balz.

Board of Management compensation for the 2012 financial year. In reliance on legal requirements and other guidelines, a total of EUR 15.0 million (2011: EUR 13.6 million) is reported in TABLE T 146, PAGE 286, as total compensation for the 2012 financial year for the members of the Board of Management.

This compensation comprises the fixed annual remuneration for Board of Management members who have changed over to the new Board of Management compensation system, as well as other benefits, non-cash benefits and remuneration in kind, short-term variable remuneration (Variable I), fully earned 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.

For Board of Management members in the old compensation system, this compensation comprises the fixed annual remuneration, other benefits, non-cash benefits, remuneration in kind, and the short-term variable remuneration for the 2012 financial year.

The fixed annual remuneration and all other remuneration are totally unrelated to performance.

Total compensation. The compensation of the Board of Management is shown as follows:

T 146

		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) €	€
René Obermann	2012	1,450,000	51,711	1,299,480	709,800	266,961	**3,777,952**
	2011	1,450,000	28,683	1,471,250	585,000	315,958	**3,850,891**
Dr. Manfred Balz	2012	333,333	6,342	147,000	–	–	**486,675**
(until May 31, 2012)	2011	800,000	16,102	355,700	–	10,190	**1,181,992**
Reinhard Clemens	2012	840,000	22,596	688,350	422,500	158,905	**2,132,351**
	2011	840,000	26,800	628,550	327,600	164,298	**1,987,248**
Niek Jan van Damme	2012	700,000	26,023	716,100	357,500	134,458	**1,934,081**
	2011	700,000	20,125	527,450	230,100	139,021	**1,616,696**
Timotheus Höttges	2012	900,000	22,415	762,450	422,500	158,905	**2,266,270**
	2011	900,000	21,214	870,250	351,000	189,575	**2,332,039**
Dr. Thomas Kremer	2012	408,333	28,996	351,954	–	74,698	**863,981**
(since June 1, 2012)	2011	–	–	–	–	–	**–**
Claudia Nemat	2012	900,000	54,749	750,600	–	165,017	**1,870,366**
	2011	225,000	10,900	166,219	–	42,654	**444,773**
Thomas Sattelberger	2012	270,968	1,600	343,487	–	–	**616,055**
(until May 2, 2012)	2011	800,000	4,762	941,417	–	15,902	**1,762,081**
Prof. Marion Schick	2012	462,903	17,969	397,664	–	134,458	**1,012,994**
(since May 3, 2012)	2011	–	–	–	–	–	**–**
	2012	**6,265,537**	**232,401**	**5,457,085**	**1,912,300**	**1,093,402**	**14,960,725**
	2011 [a]	**5,715,000**	**128,586**	**4,960,836**	**1,493,700** [b]	**877,598**	**13,175,720**

[a] Remuneration relating to Board of Management members who left the Company in the course of 2011 is no longer included in the table.
[b] The deviations relative to prior-year figures are attributable to remuneration in accordance with § 314 (1) No. 6a sentence 3 HGB amounting to EUR 1.5 million that was granted in the 2012 financial year, but relates to the 2011 financial year.

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 2010 financial year.

According to the provisions of the termination agreement concluded with Dr. Manfred Balz effective May 31, 2012, he would remain available to the Company for special projects until October 21, 2012 after having resigned as a Board of Management member, and would continue to receive his fixed monthly basic remuneration for that period. Dr. Manfred Balz is entitled to his short-term variable performance-based remuneration until May 31, 2012. The entitlements he had accrued through his participation in the 2010 and 2011 MTIP tranches until the termination date remain due to him pro rata temporis. Payment of pension benefits he had accrued during his employment at Deutsche Telekom AG began on November 1, 2012; these are shown under the disclosures on Board of Management members who left the Group.

Thomas Sattelberger's term of office as a member of the Board of Management expired effective midnight on May 2, 2012. He has a pro rata temporis entitlement to short-term variable performance-based remuneration until May 2, 2012. The entitlements he had accrued through his participation in the 2010 and 2011 MTIP tranches until the termination date remain due to him pro rata temporis. Thomas Sattelberger has been receiving monthly retirement benefits from his Board of Management pension since June 2012 which are shown under the disclosures on Board of Management members who left the Group.

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

Former members of the Board of Management and those who left in the reporting year. A total of EUR 7.2 million (2011: EUR 5.0 million) was granted for payments to and entitlements for former members of the Board of Management and their surviving dependents and for those and their surviving dependents who left in the reporting year.

Provisions (measured in accordance with IAS 19) totaling EUR 142.5 million (December 31, 2011: EUR 100.6 million) were recognized for current pensions and vested rights to pensions for this group of persons and their surviving dependents.

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

Compensation of the Supervisory Board.

The compensation received by the members of the Supervisory Board is specified under § 13 of the Articles of Incorporation of Deutsche Telekom AG. Supervisory Board members receive fixed annual remuneration of EUR 40,000.00 plus variable, performance-related remuneration depending on the development of net profit per no par value share.

The performance-related annual remuneration with long-term incentive effect amounts to EUR 1,000.00 for every EUR 0.02 by which the net profit per no par value share in the second financial year following the financial year in question (reference year) exceeds the net profit per no par value share in the financial year preceding the financial year in question. The performance-related annual remuneration as a long-term incentive is limited to a maximum of EUR 40,000.00. The 2012 variable remuneration becomes due upon the end of the 2015 ordinary shareholders' meeting, provided the terms and conditions for the granting of such remuneration are met.

Since the terms and conditions for the payment of the performance-based variable remuneration were not met as of December 31, 2012, the 2010 performance-based remuneration was not paid out.

The chairperson of the Supervisory Board receives double, and the deputy chairperson one and a half times the remuneration of an ordinary member of the Supervisory Board. Total compensation also increases by 50 percent for each membership of a Supervisory Board committee (with the exception of the Mediation Committee and the Nomination Committee), by 100 percent for membership of the Audit Committee, and by a further 50 percent for each Supervisory Board committee chaired. Members of the Supervisory Board who were not in office for the entire financial year receive one twelfth of the remuneration for each month or part thereof that they held a seat. This applies both to fixed annual remuneration and to annual remuneration with a long-term incentive.

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 2012 amounted to EUR 2,017,266.67 (plus VAT).

No loans were granted to the members of the Supervisory Board.

The compensation of the individual members of the Supervisory Board for 2012 is as follows:

T 147

Member of the Supervisory Board	Fixed remuneration €	Meeting attendance fee €	Total €
Baldauf, Sari (since November 1, 2012)	6,666.67	–	6,666.67
Becker, Hermann Josef	100,000.00	21,000.00	121,000.00
Dr. Bernotat, Wulf	83,333.33	16,000.00	99,333.33
Dr. Beus, Hans Bernhard [a]	60,000.00	15,000.00	75,000.00
Brandl, Monika	80,000.00	14,000.00	94,000.00
Bury, Hans Martin (until October 31, 2012)	66,666.67	11,000.00	77,666.67
Dr. von Grünberg, Hubertus	80,000.00	10,000.00	90,000.00
Guffey, Lawrence H.	80,000.00	13,000.00	93,000.00
Hanas, Klaus-Dieter (since June 1, 2012)	23,333.33	4,000.00	27,333.33
Hauke, Sylvia [b]	40,000.00	8,000.00	48,000.00
Hocker, Ulrich (until May 24, 2012)	25,000.00	4,000.00	29,000.00
Holzwarth, Lothar [c]	83,200.00	18,000.00	101,200.00
Kallmeier, Hans-Jürgen [d]	100,000.00	17,000.00	117,000.00
Kollmann, Dagmar P. (since May 24, 2012)	45,000.00	6,000.00	51,000.00
Prof. Lehner, Ulrich (Chairman)	206,800.00	26,000.00	232,800.00
Litzenberger, Waltraud	123,200.00	24,000.00	147,200.00
Löffler, Michael (until May 31, 2012)	16,666.67	4,000.00	20,666.67
Prof. Middelmann, Ulrich	103,200.00	18,000.00	121,200.00
Schröder, Lothar (Deputy Chairman) [e]	163,200.00	25,000.00	188,200.00
Dr. Schröder, Ulrich	60,000.00	12,000.00	72,000.00
Sommer, Michael	40,000.00	7,000.00	47,000.00
Spoo, Sibylle	40,000.00	8,000.00	48,000.00
Dr. h.c. Walter, Bernhard	100,000.00	10,000.00	110,000.00
	1,726,266.67	**291,000.00**	**2,017,266.67**

[a] Plus a subsequent payment of EUR 1,666.67 for the 2011 financial year due to a correction.
[b] In addition to remuneration for her activities as a member of the Supervisory Board of Deutsche Telekom AG, Sylvia Hauke also received other remuneration amounting to EUR 13,500.00 in the 2012 financial year (for her mandate as member of the supervisory board of Telekom Deutschland GmbH).
[c] In addition to remuneration for his activities as a member of the Supervisory Board of Deutsche Telekom AG, Lothar Holzwarth also received other remuneration amounting to EUR 16,500.00 in the 2012 financial year (for his mandate as member of the supervisory board of Telekom Deutschland GmbH).
[d] In addition to remuneration for his activities as a member of the Supervisory Board of Deutsche Telekom AG, Hans-Jürgen Kallmeier also received other remuneration amounting to EUR 10,000.00 in the 2012 financial year (for his mandate as member of the supervisory board of T-Systems International GmbH).
[e] In addition to remuneration for his activities as a member of the Supervisory Board of Deutsche Telekom AG, Lothar Schröder also received other remuneration amounting to EUR 37,500.00 in the 2012 financial year (EUR 22,500.00 for his mandate as member of the supervisory board of Telekom Deutschland GmbH and EUR 15,000.00 as Chairman of the Data Privacy Advisory Council).

41 DECLARATION OF CONFORMITY WITH THE GERMAN CORPORATE GOVERNANCE CODE IN ACCORDANCE WITH § 161 AktG.

In accordance with § 161 AktG, the Board of Management and the Supervisory Board of Deutsche Telekom AG have submitted the mandatory declaration of conformity and made it available to shareholders on Deutsche Telekom AG's website. The full text of the Declaration of Conformity can be found on the Deutsche Telekom website (@ WWW.TELEKOM.COM) under Investor Relations in the Corporate Governance section.

42 EVENTS AFTER THE REPORTING PERIOD.

Issuance of a euro bond. Deutsche Telekom AG issued a bond in the amount of EUR 2 billion on January 10, 2013 via its Dutch financing subsidiary Deutsche Telekom International Finance B.V. There are two tranches to the bond: an 8-year tranche with a volume of EUR 1.25 billion and a coupon of 2.125 percent, and a 15-year tranche with a volume of EUR 750 million and a coupon of 3.25 percent. The issuance forms part of the Company's general corporate financing. This does not increase the level of net debt. The bond will be shown under non-current financial obligations as of the issuance date.

Extension of the early retirement scheme to 2013 resolved. The Board of Management of Deutsche Telekom resolved in January 2013 to extend the early retirement scheme for civil servants to 2013. This will incur expenses of EUR 0.6 billion in 2013.

Share buy-back in January 2013 in connection with the share matching plan. Deutsche Telekom AG brought the share buy-back program resolved by the Board of Management on December 18, 2012 to an end on January 16, 2013. In the period from January 2 to 16, 2013 a total of 268,295 shares with a total acquisition volume of EUR 2.4 million were acquired as part of Deutsche Telekom AG's share buy-back program (average price per share: EUR 8.92); this concluded the buy-back of shares in the Company. As a result, treasury shares of EUR 0.7 million were openly deducted from issued capital (imputed value of EUR 2.56 per share) and the retained earnings of the Group decreased by around EUR 1.7 million. The shares were bought back as part of the Deutsche Telekom compensation plan to implement the share matching plan.

Workforce restructuring in Germany. The management of Telekom Deutschland GmbH decided in January 2013 to introduce a special severance program for staff working in steering and centralized functions in the Germany operating segment that will run through June 30, 2013. Deutsche Telekom will also offer early retirement arrangements above all for civil servants in these functions. This gradual workforce reduction will enable Telekom Deutschland to manage the process in a responsible, socially conscious manner. Deutsche Telekom expects this to make a significant contribution to lowering personnel costs.

OTE bond issue. OTE S.A. issued a bond on January 30, 2013 in the amount of EUR 0.7 billion via its UK financing subsidiary OTE PLC. The bond has a five-year term and a coupon of 7.875 percent. The issuance forms part of the Company's general corporate financing. This does not increase the level of net debt. The bond will be shown under non-current financial liabilities as of the issuance date. The bond generated considerable interest among investors and demonstrates the markets' confidence in OTE's strategy. The success of the issuance is also a positive sign for Greek companies' opportunities to access the global finance markets.

Sale of Hellas Sat. On February 7, 2013 OTE, which is part of the Europe operating segment, entered into an agreement to sell its shares in its subsidiary Hellas Sat for EUR 0.2 billion. The sale is expected to be completed in the first half of 2013. The sale proceeds and the impact on net profit are not likely to be material.

Claims relating to charges for shared use of cable ducts. For explanations on the proceedings, please refer to NOTE 33 "CONTINGENCIES," PAGE 261 et seq.

43 AUDITOR'S FEES AND SERVICES IN ACCORDANCE WITH § 314 HGB.

TABLE T 148 provides a breakdown of the auditor's professional fees recognized as expenses in the 2012 financial year:

T 148

PricewaterhouseCoopers Aktiengesellschaft, Wirtschaftsprüfungsgesellschaft.

	2012 millions of €
Auditing services	5
Other assurance services	19
Tax advisory services	0
Other non-audit services	2
	26

Professional fees for auditing services include in particular fees for the statutory auditing of annual and consolidated financial statements as well as fees for other auditing services.

Professional fees for other assurance services primarily relate to fees for the review of the interim financial statements as well as auditing activities in connection with the documentation of the internal control system for financial reporting.

Professional fees for tax advisory services primarily include professional fees for tax advisory services performed as part of current or planned transactions.

Other non-audit services mainly relate to services in connection with the Company's compliance with requirements stipulated by the Federal Network Agency and other authorities.

RESPONSIBILITY STATEMENT.

To the best of our knowledge, and in accordance with the applicable reporting principles, the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group, and the Group management report, which is combined with the management report of Deutsche Telekom AG, includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal opportunities and risks associated with the expected development of the Group.

Bonn, February 12, 2013

Deutsche Telekom AG
Board of Management

René Obermann

Reinhard Clemens	Niek Jan van Damme	Timotheus Höttges
Dr. Thomas Kremer	Claudia Nemat	Prof. Marion Schick

INDEPENDENT AUDITOR'S REPORT.

To Deutsche Telekom AG, Bonn.

Report on the consolidated financial statements.

We have audited the accompanying consolidated financial statements of Deutsche Telekom AG and its subsidiaries, which comprise the consolidated statement of financial position, the consolidated income statement and statement of comprehensive income, the consolidated statement of changes in equity, the consolidated statement of cash flows and the notes to the consolidated financial statements, for the financial year from January 1 to December 31, 2012.

Board of Management's responsibility for the consolidated financial statements. The Board of Management of Deutsche Telekom AG is responsible for the preparation of these consolidated financial statements. This responsibility includes that these consolidated financial statements are prepared in accordance with International Financial Reporting Standards, as adopted by the EU, and the additional requirements of German commercial law pursuant to § 315a (1) HGB ("Handelsgesetzbuch": German Commercial Code) and that these consolidated financial statements give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these requirements. The Board of Management is also responsible for the internal controls as the Board of Management deems to be necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with § 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany) (IDW), and additionally observed the International Standards on Auditing (ISA). Accordingly, we are required to comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing audit procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The selection of audit procedures depends on the auditor's professional judgment. This includes the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In assessing those risks, the auditor considers the internal control system relevant to the entity's preparation of consolidated financial statements that give a true and fair view. The aim of this is to plan and perform audit procedures that are appropriate in the given circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control system. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board of Management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Audit opinion. According to § 322 (3) sentence 1 HGB we state that our audit of the consolidated financial statements has not led to any reservations.

In our opinion based on the findings of our audit, the consolidated financial statements comply, in all material respects, with IFRSs, as adopted by the EU, and the additional requirements of German commercial law pursuant to § 315a (1) HGB and give a true and fair view of the net assets and financial position of the Group as at December 31, 2012 as well as the results of operations for the financial year then ended, in accordance with these requirements.

Report on the Group management report.

We have audited the accompanying Group management report, which is combined with the management report of the parent company, of Deutsche Telekom AG for the financial year from January 1 to December 31, 2012. The Board of Management of Deutsche Telekom AG is responsible for the preparation of the combined management report in accordance with the requirements of German commercial law applicable pursuant to § 315a (1) HGB. We conducted our audit in accordance with § 317 (2) HGB and German generally accepted standards for the audit of the combined management report promulgated by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany) (IDW). Accordingly, we are required to plan and perform the audit of the combined management report to obtain reasonable assurance about whether the combined management report is consistent with the consolidated financial statements and the audit findings, as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development.

According to § 322 (3) sentence 1 HGB we state that our audit of the combined management report has not led to any reservations.

In our opinion based on the findings of our audit of the consolidated financial statements and combined management report, the combined management report is consistent with the consolidated financial statements, as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development.

Frankfurt/Main, February 12, 2013

PricewaterhouseCoopers
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Harald Kayser	Thomas Tandetzki
Wirtschaftsprüfer	Wirtschaftsprüfer

FURTHER INFOR- MATION

IN AN EVER MORE COMPLEX DIGITAL WORLD, PEOPLE ARE LOOKING FOR PRODUCTS THAT ARE SIMPLE AND INTUITIVE TO USE. WE SUPPORT THEM BY OFFERING TAILOR-MADE SOLUTIONS FOR CONNECTED LIFE AND WORK.

293 BOARDS, SEATS, AND FURTHER INFORMATION

MEMBERS OF THE SUPERVISORY BOARD OF DEUTSCHE TELEKOM AG IN 2012.

Prof. Dr. Ulrich Lehner.
Member of the Supervisory Board since April 17, 2008
Chairman of the Supervisory Board since April 25, 2008
Member of the Shareholders' Committee of Henkel AG & Co. KGaA, Düsseldorf

Seats on the supervisory bodies of other companies:
- Porsche Automobil Holding SE, Stuttgart (since 11/2007)
- E.ON SE, Düsseldorf (since 4/2003)
- Henkel Management AG, Düsseldorf (since 2/2008)
- ThyssenKrupp AG, Duisburg and Essen (since 1/2008)

Member of comparable supervisory bodies of companies in Germany or abroad:
- Dr. August Oetker KG, Bielefeld, Member of the Advisory Board (since 3/2000)
- Novartis AG, Basle, Switzerland, Member of the Board of Directors (since 3/2002)

Lothar Schröder.
Member of the Supervisory Board since June 22, 2006
Deputy Chairman of the Supervisory Board since June 29, 2006
Member of the ver.di National Executive Board, Berlin

Seats on the supervisory bodies of other companies:
- Vereinigte Postversicherung VVaG, Stuttgart (since 6/2011)

Member of the supervisory bodies of the following subsidiaries, associates and joint-ventures:
- Telekom Deutschland GmbH, Bonn (since 8/2003), Deputy Chairman of the Supervisory Board (since 9/2003)

Sari Baldauf.
Member of the Supervisory Board since November 1, 2012
Non-Executive Director and Chairwoman of the Board of Directors of Fortum Oyj, Espoo, Finland

Seats on the supervisory bodies of other companies:
- Akzo Nobel N.V., Amsterdam, Netherlands (since 4/2012)
- Daimler AG, Stuttgart (since 2/2008)

Member of comparable supervisory bodies of companies in Germany or abroad:
- F-Secure Oyj, Helsinki, Finland, Member of the Board of Directors (since 3/2005)

Dr. Wulf H. Bernotat.
Member of the Supervisory Board since January 1, 2010
Former Chairman of the Board of Management of E.ON AG, Düsseldorf

Seats on the supervisory bodies of other companies:
- Allianz SE, Munich (since 4/2003)
- Bertelsmann SE & Co. KGaA, Gütersloh (since 5/2006)
- Bertelsmann Management SE, Gütersloh (since 5/2012)
- Metro AG, Düsseldorf (since 5/2003)

Dr. Hans Bernhard Beus.
Member of the Supervisory Board since December 15, 2011
State Secretary, Federal Ministry of Finance, Berlin

Seats on the supervisory bodies of other companies:
- Deutsche Bahn AG, Berlin (since 3/2010)
- Deutsche Bahn Mobility Logistics AG, Berlin (since 3/2010)
- Gesellschaft für Entwicklung, Beschaffung und Betrieb mbH, Cologne (since 8/2012)
- KfW IPEX-Bank GmbH, Frankfurt/Main (since 3/2010)

Member of comparable supervisory bodies of companies in Germany or abroad:
- Bundesanstalt für Immobilienaufgaben (Institute of Federal Real Estate), Bonn, agency under public law (not a commercial enterprise within the meaning of § 100 (2), Sentence 1, no. 1 AktG (German Stock Corporation Act), Chairman of the Board of Governors, purely advisory body (since 5/2011)

Monika Brandl.
Member of the Supervisory Board since November 6, 2002
Chairwoman of the Central Works Council at Deutsche Telekom AG, Bonn
– no other seats –

Dr. Hubertus von Grünberg.
Member of the Supervisory Board since May 25, 2000
Chairman of the Board of Directors of ABB Ltd., Zurich, Switzerland

Seats on the supervisory bodies of other companies:
Allianz Versicherungs-AG, Munich (since 5/1998)

Member of comparable supervisory bodies of companies in Germany or abroad:
- ABB Ltd., Zurich, Switzerland, Chairman of the Board of Directors (since 5/2007)
- Schindler Holding AG, Hergiswil, Switzerland, Member of the Board of Directors (since 5/1999)
- Sapinda Holding B.V., Schiphol, Netherlands, Chairman of the Advisory Board (since 2/2011)

Lawrence H. Guffey.
Member of the Supervisory Board since June 1, 2006
Senior Managing Director, The Blackstone Group International Partners LLP, London, United Kingdom

Member of comparable supervisory bodies of companies in Germany or abroad:
- Axtel S.A.B. de C.V., San Pedro Garza Garcia, Mexico, Member of the Consejo de Administración (Board of Directors) (since 4/2000)
- The Paris Review Foundation, Inc., New York, United States, Member of the Board of Directors (since 7/2006)
- TDC A/S, Copenhagen, Denmark, Member of the Bestyrelsen (Board of Directors) (since 2/2006)

Klaus-Dieter Hanas.
Member of the Supervisory Board since June 1, 2012
Chairman of the Works Council at Deutsche Telekom Kundenservice GmbH, Central-Eastern District, Bonn

Seats on the supervisory bodies of other companies:
- PSD-Bank Braunschweig eG, Braunschweig (since 11/2009), Deputy Chairman of the Supervisory Board (since 7/2011)

Member of the supervisory bodies of the following subsidiaries, associates and joint-ventures:
- Deutsche Telekom Kundenservice GmbH, Bonn (since 11/2007)

Sylvia Hauke.
Member of the Supervisory Board since May 3, 2007
Member of the Central Works Council's executive committee at Telekom Deutschland GmbH, Bonn

Member of the supervisory bodies of the following subsidiaries, associates and joint-ventures:
- Telekom Deutschland GmbH, Bonn (since 1/2011)

Lothar Holzwarth.
Member of the Supervisory Board since November 6, 2002
Chairman of the Central Works Council at Telekom Deutschland GmbH, Bonn

Seats on the supervisory bodies of other companies:
- PSD Bank RheinNeckarSaar eG, Stuttgart (since 1/1996), Chairman of the Supervisory Board (since 6/2011)

Member of the supervisory bodies of the following subsidiaries, associates and joint-ventures:
- Telekom Deutschland GmbH, Bonn (since 3/2010)

Hans-Jürgen Kallmeier.
Member of the Supervisory Board since October 15, 2008
Chairman of the Central Works Council at T-Systems International GmbH, Frankfurt/Main

Member of the supervisory bodies of the following subsidiaries, associates and joint-ventures:
- T-Systems International GmbH, Frankfurt/Main (since 12/2010)

Dagmar P. Kollmann.
Member of the Supervisory Board since May 24, 2012
Entrepreneur, Deputy Chairwoman of the Supervisory Board, Hypo Real Estate Holding AG, Unterschleißheim
Former CEO of Morgan Stanley Bank, Frankfurt/Main
Former Member of the Board of Directors, Morgan Stanley Bank International Limited, London, United Kingdom

Seats on the supervisory bodies of other companies:
- Deutsche Pfandbriefbank AG, Unterschleißheim, Deputy Chairwoman of the Supervirory Board (since 8/2009)
- KfW IPEX Bank GmbH, Frankfurt/Main (since 5/2012)

Member of comparable supervisory bodies of companies in Germany or abroad:
- Bank Gutmann Aktiengesellschaft, Vienna, Austria, Member of the Supervisory Board (since 9/2010)
- Landeskreditbank Baden-Württemberg – Förderbank (L-Bank) (regional state bank/development bank of Baden-Württemberg), Karlsruhe, agency under public law (not a commercial enterprise within the meaning of § 100 (2), Sentence 1, no. 1 AktG (German Stock Corporation Act), Member of the Advisory Board, purely advisory body (since 7/2004)
- Member of the Monopolies Commission (since 1/2012)

Petra Steffi Kreusel.
Member of the Supervisory Board since January 1, 2013
Vice President, TC Steering Order & Complaints Management, T-Systems International GmbH, Frankfurt/Main
Deputy Chairwoman of the Group Executive Staff Representation Committee of Deutsche Telekom AG, Bonn
Deputy Chairwoman of the Executive Staff Representation Committee of T-Systems International GmbH, Frankfurt/Main

Member of the supervisory bodies of the following subsidiaries, associates and joint-ventures:
- T-Systems International GmbH, Frankfurt/Main (since 12/2010)

Waltraud Litzenberger.
Member of the Supervisory Board since June 1, 1999
Chairwoman of the Group Works Council at Deutsche Telekom AG, Bonn
Chairwoman of the European Works Council at Deutsche Telekom AG, Bonn, until October 24, 2012
– no other seats –

Prof. h.c. (CHN) Dr.-Ing. E. h. Dr. Ulrich Middelmann.
Member of the Supervisory Board since January 1, 2010
Former Vice Chairman of the Executive Board, ThyssenKrupp AG, Duisburg and Essen

Seats on the supervisory bodies of other companies:
- Commerzbank AG, Frankfurt/Main (since 4/2006)
- LANXESS AG, Leverkusen (since 3/2005)
- LANXESS Deutschland GmbH, Leverkusen (since 3/2005)

Member of comparable supervisory bodies of companies in Germany or abroad:
- Hoberg & Driesch GmbH, Düsseldorf (since 2/2001), Chairman of the Advisory Board (since 5/2004)

Dr. Ulrich Schröder.
Member of the Supervisory Board since October 1, 2008
Chairman of the Board of Managing Directors of KfW, Frankfurt/Main

Seats on the supervisory bodies of other companies:
- DEG – Deutsche Investitions- und Entwicklungsgesellschaft mbH [1], Cologne (since 10/2009)
- Deutsche Post AG, Bonn (since 9/2008)
- 2020 European Fund for Energy, Climate Change and Infrastructure ("Fonds Marguerite"), Luxembourg, Luxembourg (since 11/2009)

Michael Sommer.
Member of the Supervisory Board since April 15, 2000
Chairman of the German Confederation of Trade Unions (DGB), Berlin

Member of comparable supervisory bodies of companies in Germany or abroad:
- KfW, Frankfurt/Main, Member of the Board of Supervisory Directors (since 1/2003)

Sibylle Spoo.
Member of the Supervisory Board since May 4, 2010
Lawyer, Trade Union Secretary at the ver.di Federal Administration, Berlin
– no other seats –

Dr. h.c. Bernhard Walter.
Member of the Supervisory Board since May 27, 1999
Former Chairman of the Board of Managing Directors, Dresdner Bank AG, Frankfurt/Main

Seats on the supervisory bodies of other companies:
- Bilfinger Berger SE, Mannheim (since 7/1998), Chairman of the Supervisory Board (since 5/2006)
- Daimler AG, Stuttgart (since 5/1998)
- Henkel AG & Co. KGaA, Düsseldorf (from 5/1998 to 4/2012)

The following individuals resigned from the Supervisory Board in 2012:

Hermann Josef Becker.
Member of the Supervisory Board from January 1, 2008 to December 31, 2012
Member of the management, Deutsche Telekom Direct Sales and Consulting
Chairman of the Group Executive Staff Representation Committee and Executive Staff Representation Committee, Deutsche Telekom AG, Bonn, until December 30, 2012
– no other seats –

Hans Martin Bury.
Member of the Supervisory Board from May 15, 2008 to October 30, 2012
Managing Partner, HERING SCHUPPENER Consulting Corporate Affairs & Public Strategies GmbH, Düsseldorf
– no other seats –

Ulrich Hocker.
Member of the Supervisory Board from October 14, 2006 to May 24, 2012
President, Deutsche Schutzvereinigung für Wertpapierbesitz e. V. (DSW), Düsseldorf

Seats on the supervisory bodies of other companies:
- E.ON SE, Düsseldorf (from 6/2000 to 5/2012)
- Feri Finance AG, Bad Homburg (since 12/2001), Deputy Chairman of the Supervisory Board (since 12/2005)
- Gildemeister AG, Bielefeld (since 5/2010)

Member of comparable supervisory bodies of companies in Germany or abroad:
- Phoenix Mecano AG, Stein am Rhein, Switzerland (since 8/1988), President of the Administrative Board (since 7/2003)

Michael Löffler.
Member of the Supervisory Board from January 1, 1995 to May 31, 2012
Member of the Works Council at Deutsche Telekom Technik GmbH (formerly Deutsche Telekom Netzproduktion GmbH), Bonn, Technical Infrastructure Branch Office, Central/Eastern District, until May 31, 2012
– no other seats –

[1] Supervisory board seats in companies that are part of the same group, as defined in § 100 (2), Sentence 2 AktG (German Stock Corporation Act).

MEMBERS OF THE BOARD OF MANAGEMENT OF DEUTSCHE TELEKOM AG IN 2012.

René Obermann.
Chairman of the Board of Management since November 13, 2006

Seats on the supervisory bodies of other companies:
E.ON SE, Düsseldorf (since 5/2011)

Member of the supervisory bodies of the following subsidiaries, associates and joint-ventures:
- T-Mobile USA Inc., Bellevue, United States (since 1/2003), Chairman of the Board of Directors (since 12/2006)
- T-Systems International GmbH, Frankfurt/Main, Chairman of the Supervisory Board (since 12/2006)

Reinhard Clemens.
Board member responsible for T-Systems since December 1, 2007
– no other seats –

Niek Jan van Damme.
Board member responsible for Germany since July 1, 2009

Member of the supervisory bodies of the following subsidiaries, associates and joint-ventures:
- Deutsche Telekom Kundenservice GmbH, Bonn (since 8/2009)
- Deutsche Telekom Technischer Service GmbH, Bonn (since 9/2009), Chairman of the Supervisory Board (since 12/2009)
- Telekom Shop Vertriebsgesellschaft mbH, Bonn (since 8/2009), Chairman of the Supervisory Board (since 9/2009)

Timotheus Höttges.
Board member responsible for Finance since March 1, 2009
Deputy Chairman of the Board of Management since January 1, 2013

Seats on the supervisory bodies of other companies:
- FC Bayern München AG, Munich (since 2/2010)

Member of the supervisory bodies of the following subsidiaries, associates and joint-ventures:
- Everything Everywhere Limited, Hatfield, United Kingdom, Chairman of the Board of Directors (from 4/2010 to 4/2012) Member of the Board of Directors (since 4/2012)
- HELLENIC TELECOMMUNICATIONS ORGANIZATION S.A. (OTE S.A.), Maroussi, Athens, Greece (since 12/2011)
- Telekom Deutschland GmbH, Bonn (since 4/2005), Chairman of the Supervisory Board (since 7/2009)

Dr. Thomas Kremer.
Board member responsible for Data Privacy, Legal Affairs and Compliance since June 1, 2012
– no other seats –

Claudia Nemat.
Board member responsible for Europe since October 1, 2011
Board member responsible for Europe and Technology since January 1, 2012

Member of the supervisory bodies of the following subsidiaries, associates and joint-ventures:
- BuyIn SA, Brussels, Belgium (since 10/2011), Chairwoman of the Board of Directors (since 1/2013)
- Everything Everywhere Limited, Hatfield, United Kingdom (since 10/2011)
- HELLENIC TELECOMMUNICATIONS ORGANIZATION S.A. (OTE S.A.), Maroussi, Athens, Greece (since 10/2011)

Prof. Dr. Marion Schick.
Board member responsible for Human Resources since May 3, 2012

Member of the supervisory bodies of the following subsidiaries, associates and joint-ventures:
- T-Systems International GmbH, Frankfurt/Main (since 5/2012)
- Telekom Deutschland GmbH, Bonn (since 5/2012)

Board members who left during 2012:

Dr. Manfred Balz.
Board member responsible for Data Privacy, Legal Affairs and Compliance from October 22, 2008 to May 31, 2012
– no other seats –

Thomas Sattelberger.
Board member responsible for Human Resources from May 3, 2007 to May 2, 2012

Member of the supervisory bodies of the following subsidiaries, associates and joint-ventures:
- Telekom Deutschland GmbH, Bonn (from 7/2009 to 5/2012)
- T-Systems International GmbH, Frankfurt/Main (from 6/2007 to 5/2012)

LIST OF GRAPHICS.

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GLOSSARY.

3G. Third-generation mobile communications standard that supports higher transmission rates (see UMTS).

4G. Used to refer to the fourth-generation mobile communications standard (see LTE).

Access. Internet access.

ADSL. See DSL.

All-IP – All Internet Protocol. An all-IP network makes services such as VoIP (Voice over IP), IPTV (Internet Protocol Television), data transfer, etc. available to all users anywhere at all times. The data is transmitted in switched packets using the Internet Protocol (IP).

Android. Platform for mobile devices that is based largely on Linux and Java. Android is being developed by the Open Handset Alliance, a Google initiative that counts T-Mobile among its members. T-Mobile launched the T-Mobile G1, the first cell phone in the United States to use this platform, in October 2008 (launch in the United Kingdom in November 2008, in Germany in February 2009).

App. Apps (short for applications) are programs, especially for smartphones. They are available via an online shop that is usually integrated into the smartphone's operating system, and can be installed directly on the device.

AT&T transaction. For details on the AT&T transaction relating to T-Mobile USA and the effects of the termination of the agreement for the sale of T-Mobile USA to AT&T, please refer to the **2011 ANNUAL REPORT** (❏ in particular **PAGES 76** and **182 – 183).**

Bandwidth. Denotes the width of the frequency band used to transmit data. The broader the bandwidth, the faster the connection.

Carrier. A telecommunications network operator.

Cash capex. Investments in property, plant and equipment, and intangible assets (excluding goodwill) as shown in the statement of cash flows.

Cloud computing. Refers to the dynamic provision of infrastructure, software, or platform services online. Apart from a high level of automation and virtualization, the services provided have to be multi-client-capable and include standardized hardware and software. Customers source these services on demand and pay based on actual usage. The communication infrastructure may be the Internet (public cloud), a corporate network (private cloud), or a mix of the two (hybrid cloud). Dynamic Services is a T-Systems product for the flexible procurement of ICT resources and services.

Connected life and work. Refers to the convenient management of all personal data and Internet services on any screen – whether (tablet) PC, cell phone, or TV set. Requires secure storage of data in the network, which can then be accessed by all devices via broadband networks.

CRM – Customer Relationship Management. A strategy by which a company manages its interactions with its customers and systematically structures the associated processes.

De-Mail. The secure electronic counterpart to classic paper-based mail. With the new service, private individuals and companies can send and receive messages and documents securely, confidentially, and verifiably over the Internet.

Desktop services. Global desktop services involve a variety of support services, including the outsourcing of entire IT networks. In this context Deutsche Telekom offers a full portfolio of corporate IT services, from server infrastructure and PC workstations through to application management and call center services that provide user support.

Double play. Refers to service packages combining Internet and voice communication.

Download. Refers to the downloading of files from a remote server over networks such as the Internet or mobile communication connections onto a local computer or other device such as a smartphone.

DSL – Digital Subscriber Line. In Deutsche Telekom's service portfolio as:

- **ADSL (Asymmetrical Digital Subscriber Line) for consumer retail lines:** Technology used to transmit data at fast rates (up to 8 Mbit/s downstream, 16 to 640 kbit/s upstream) via standard copper wire pairs in the local loop within a radius of approximately three kilometers.
- **ADSL plus:** Successor product to ADSL that raises the maximum data rate to 16 Mbit/s (downstream) or 1 Mbit/s (upstream).
- **VDSL (Very high speed Digital Subscriber Line):** Transmission technology that allows very high bandwidths (up to 50 Mbit/s downstream, up to 10 Mbit/s upstream) on short copper access lines with a maximum length of 500 meters.

Dynamic Computing. A T-Systems product for the flexible procurement of ICT resources and services.

Embedded system. Refers to an electronic calculator or computer embedded in a technical system where the calculator either controls and monitors the system it is embedded in or is used for processing specific data or signals, for instance in connection with encryption, decryption, encoding/decoding, and filtering. Embedded systems perform functions – mostly unrecognized by users – in a variety of applications and devices such as medical equipment, washing machines, aircraft, automobiles, refrigerators, TVs, DVD players, set-top boxes, mobile phones, and other electronic entertainment devices. When used in complex systems, a wide range of otherwise autonomous embedded systems are usually combined in a network (e.g., in a vehicle or aircraft).

Entertain. Deutsche Telekom's Internet Protocol TV service (see also IPTV). The TV signals are transported over the digital subscriber line, facilitating interactive features such as time-shift TV or access to online video stores.

ERP – Enterprise Resource Planning. Refers to systems that help deploy an organization's resources such as capital, equipment, and human resources as efficiently as possible in order to optimize business processes.

E-TASC – Electronics Tool for Accountable Supply Chains. E-TASC is an online information system used throughout the industry for evaluating supplier risks in terms of sustainability. The findings are incorporated into a supplier scorecard (SSC), which is used in the regular reviews of strategically relevant suppliers. In addition to the evaluation of financial ratios, the SSC also offers an overview of the performance of our strategic suppliers across the Group with respect to sustainability.

Fixed-network lines. Lines in operation excluding internal use and public telecommunications, including IP-based lines. The totals reported in the combined management report were calculated on the basis of precise figures and rounded to millions or thousands. Percentages were calculated on the basis of the figures shown.

Flat rate. Rate plan for network access with unlimited online time and data volumes.

FlexPay. FlexPay is a T-Mobile USA hybrid product no longer offered to new customer additions as of July 2011 that provided both contract and no-contract options for pay-in-advance monthly services. FlexPay also included a separate flex account that could be used to pay for additional charges not included in their monthly service such as downloads and international roaming.

FTTB – Fiber To The Building or **Fiber To The Basement.** In telecommunications FTTB means that optical fiber cable is terminated in the user's house (basement).

FTTC – Fiber To The Curb. In the FTTC architecture the optical fiber cable is not terminated inside users' homes (see FTTH) but in a street cabinet. Existing copper technology is used for the last section of the connection to the user.

FTTH – Fiber To The Home. In telecommunications FTTH means that optical fiber cable is terminated right in the user's home or apartment.

GHG Protocol. The Greenhouse Gas (GHG) Protocol divides emissions into the Scope 1, Scope 2 and Scope 3 categories, depending on the degree to which they can be influenced by the reporting company.

- **Scope 1** accounts for all direct GHG emissions.
- **Scope 2** accounts for indirect emissions associated with the generation of electricity, steam, or heat purchased from external sources.
- **Scope 3** allows for the treatment of all other indirect emissions associated with logistics, use of materials, supplies, and waste disposal, including emissions generated by service and manufacturing companies working for the reporting company and their upstream suppliers.

Gigabit. 1 billion bits. Unit of measurement for data transfer rates.

Gigabyte. 1 billion bytes. Unit of measurement for data storage.

GSM – Global System for Mobile communications. Global standard for digital mobile communications.

Hosting. Denotes the provision of storage capacity via the Internet. An Internet service provider's most important services in relation to hosting are registering and operating domains, leasing web servers (in full or in part), and leasing space in a computing center, including Internet connections, regular and emergency power supply, etc.

HR – Human Resources. Comprises all aspects of personnel management at all levels: employees, areas or units, and the company as a whole. Integral part of a company's efforts to achieve its business targets.

HSDPA – High Speed Downlink Packet Access. Packet-based protocol that enhances data rates in UMTS networks and lifts transmission speeds into the megabit range.

HSPA plus. Evolved HSPA offering higher bit rates/bandwidths. HSPA plus enhances the data transfer rates further, making it an ideal standard for use in data-intensive mobile applications.

IC – Interconnection. See MTR.

ICT – Information and Communication Technology.

Intelligent network. Denotes a service-oriented centralized system that piggybacks onto an existing communication network, adding intelligent network components and additional features in the process.

Internet. The Internet is a worldwide Internet Protocol (IP)-based computer network that has no central network management.

Internet service provider. An Internet service provider offers various technical services that are required to use or operate Internet services, usually in return for a fee.

IP – Internet Protocol. Non-proprietary transport protocol in layer 3 of the OSI reference model for inter-network communications.

IPTV – Internet Protocol Television. A system whereby a digital television service is delivered using the Internet Protocol. Refers to the digital transfer of television programs and films over a digital data network using the Internet Protocol (IP).

IP-VPN – Internet Protocol Virtual Private Network. A virtual private network or VPN – e.g., a company intranet – that uses the Internet Protocol. An IP VPN allows the connected Local Area Networks (LANs) of a company to swap data over a "secure" channel (IP tunneling). This makes it possible, for example, to provide secure access to a corporate network from any dial-up Internet access point in the world.

IT. Short for information technology.

Joint venture. Two or more companies set up a joint enterprise for cooperation.

LAN – Local Area Network. Refers to a computer network that is restricted to company premises or a campus.

LTE – Long-Term Evolution. New generation of 4G mobile communications technology using wireless spectrum that was previously reserved for TV broadcasting before digital TV was introduced. Powerful TV frequencies enable large areas to be covered with far fewer radio masts. LTE supports speeds of over 100 Mbit/s downstream and 50 Mbit/s upstream and facilitates new services for mobile phones, smartphones, and tablet PCs.

M2M – Machine-to-Machine. Automatic exchange of information between machines. For example, in an emergency, alarm systems automatically send a signal to security or the police.

Mbit/s – Megabits per second. Unit of data transmission speed.

Mobile customers. For the purposes of the combined management report, one mobile communications card corresponds to one customer. The totals were calculated on the basis of precise figures and rounded to millions or thousands. Percentages were calculated on the basis of the figures shown (see also SIM card).

MTR – Mobile Termination Rate. Termination refers to the transportation of a call, e.g. from the competitor's network to the Deutsche Telekom network. When a call is transported to the mobile communications network, this is referred to as mobile termination. If the call is transported to the fixed network, this is called fixed-network termination, or simply interconnection (IC). Termination rates are the fee a telephone company must pay for network interconnection when a call is terminated in a third-party network.

MVNO – Mobile Virtual Network Operator. Company that offers mobile minutes at relatively low prices without subsidized handsets. A mobile virtual network operator does not have its own wireless network, but uses the infrastructure of another mobile operator to provide its services.

NGA – Next-Generation Access. Refers to access to next-generation networks such as IP networks, the optical fiber network (FTTH), and 4G mobile networks.

NGN – Next-Generation Network. A communication network that reflects the convergence of conventional networks (telephone networks, mobile communications networks, etc.) and IP-based networks. All services are based on the Internet Protocol. NGNs represent a fundamental shift in the architecture of public networks with packet-switched networks replacing the circuit-switched networks that were optimized for telephone services. They support voice, data, and multimedia and are closely linked to the spread of Voice over IP (VoIP).

One Company. Refers to the merger of Deutsche Telekom's previously separate mobile communications and fixed-network operations to form a single company within the Group.

Optical fiber. Channel for optical data transmission.

Outsourcing. The assignment of corporate tasks and units to third parties.

Prepay/prepaid. In contrast to postpay contracts, prepay communication services are services for which credit has been purchased in advance with no fixed-term contractual obligations.

PSTN – Public Switched Telephone Network. Global public telephone network comprising elements such as telephones, connecting cables, and exchanges.

PTC transaction. For information on the agreement with the French company Vivendi, the Polish company Elektrim and Elektrim's creditors regarding PTC and its impact, please refer to the **2010 ANNUAL REPORT** (in particular **PAGE 48**) and the **INTERIM GROUP REPORT FOR THE PERIOD FROM JANUARY 1 TO MARCH 31, 2011** (in particular **PAGES 7** and **64**).

Pure LRIC – Pure Long-Run Incremental Cost. A costing model for the fixed network and for mobile communications based on a long-run approach. Under this approach, the ideal size of operation (size of an efficient network) is defined for a set output volume (forecast demand) with short-term fixed costs being viewed as variable costs. According to this "Recommendation of the European Commission on the Regulatory Treatment of Fixed and Mobile Termination Rates in the EU" of May 7, 2009, regulated termination rates are based only to a minor extent on network costs.

Rating. Assessment of the creditworthiness of securities or debtors by rating agencies.

Retail. The sale of goods and services to end users, as opposed to resale or wholesale.

Roaming. Denotes the use of a communication device or just a subscriber identity in a different network (visited network) rather than one's home network. This requires the operators of both networks to have reached a roaming agreement and switched the necessary signaling and data connections between their networks. Roaming comes into play when cell phones and smartphones are used across national boundaries.

Router. A coupling element that connects two or more sub-networks. Routers can also extend the boundaries of a network, monitor data traffic, and block any faulty data packets.

SCM – Supply Chain Management. Refers to the planning and management of all aspects of supplier selection, procurement, and logistics.

Service revenues. Service revenues are revenues generated by mobile communications customers from services (i.e., revenues from voice services – incoming and outgoing calls – and data services), plus roaming revenues, monthly charges and visitor revenues.

SIM card – Subscriber Identification Module card. Chip card that is inserted into a cell phone to identify it in the mobile network. Deutsche Telekom counts its customers by the number of SIM cards activated and not churned. Customer totals also include the SIM cards with which machines can communicate automatically with one another (M2M cards). The churn rate is determined and reported based on the local markets of the respective countries.

Smart metering. The service consists of the reading, processing, presentation, and billing of power and energy consumption, and other meters in industry and homes. Smart metering reduces costs considerably and paves the way for a mass-marketable service. In particular, the technology allows energy utilities, meter operators, and the housing sector to offer their customers innovative products and services, as it delivers consumption data virtually in real time.

Smartphone. Mobile handset that can be used as a cell phone, a web browser, and an e-mail reader simultaneously.

SMS and **MMS.** The Short Message Service (SMS) is a telecommunications service for the transmission of text messages. It was initially developed for GSM mobile communications and later also became available in the fixed network. The next step up from the SMS is the Multimedia Messaging Service (MMS), which allows the transmission of various media such as text, images, animations, video, and audio clips in a single message. The terms SMS and MMS refer not only to the services, but also to the messages themselves.

Stakeholder. The stakeholder approach is an extension of the shareholder value approach, a concept frequently used in business administration. In contrast to the shareholder value principle, which focuses on the needs and expectations of a company's shareholders, the stakeholder approach attempts to appreciate the company against its overall social background and reconcile the needs of the different stakeholders. In addition to shareholders, stakeholders include staff, customers, suppliers, the government, and the public at large.

Tablet PC. A flat portable computer with a touchscreen that can be operated with a finger or pen. These compact multimedia devices enable users to surf the Internet, check their e-mail, access photos and videos, listen to music, make phone calls, and read electronic books anytime, whether at home or on the move.

TeraStream. A considerably simplified IP network concept that provides all services, including conventional telecommunications services (voice, IPTV, Internet access), from the cloud rather than via a network as is the case today.

Triple play. Refers to packages combining fixed-network voice, data, and TV services. Broadband networks enable customers to use the IP-based services over a single line.

ULL – Unbundled Local Loop. Competitors whose own networks do not reach into customers' premises can rent unbundled local loop lines from Deutsche Telekom. Their networks end at the local exchanges. The ULL bridges the distance between the local exchange and the termination point on the customer's premises or in their home, so it is also known as the "last mile."

UMTS – Universal Mobile Telecommunications System. Third-generation international mobile communications standard that unites mobile multimedia and telematics services in the 2 GHz frequency spectrum.

Utilization rate. Systems Integration: ratio of average number of hours billed to maximum possible hours billed per period.

VDSL. See DSL.

Vectoring. Vectoring is a noise-canceling technology that removes the interference between lines, enabling higher bit rates. However, in order to cancel noise, the operator must have control over all lines. This means that other operators cannot install their own technology at the cable distribution boxes.

Visitor. Visitors are customers of international mobile communications network operators who use voice or data services in a mobile network operated by a company of the Deutsche Telekom Group. The call or the transmitted data is routed via the network of the national company in question and terminated in another mobile or fixed network in the same or another country, or in the national company's own network.

VPN – Virtual Private Network. A computer network that uses a public network to transmit private data. The data is "tunneled" through the public network and is usually encrypted in the process. However, the term "private" does not necessarily imply encrypted transmission. The variant commonly used today is the IP VPN that connects users via IP tunnels.

Wholesale. Refers to the business of selling services to third parties who sell them to their own end customers either directly or after further processing.

Wholesale bundled lines – IP-Bitstream Access/ IP-BSA. Wholesale product for which Deutsche Telekom leases DSL lines to the competitor and transports the datastream via its concentrator network to the associated broadband point of presence (PoP), where the datastream is handed over to the competitor. In contrast to voluntary DSL resale, IP-BSA is a wholesale service required by the regulatory authority. This product is available in conjunction with a Deutsche Telekom PSTN line or as a DSL standalone variant (see also Wholesale unbundled lines).

Wholesale unbundled lines (including IP-BSA Stand Alone/IP-BSA SA. Wholesale product not bundled with a Deutsche Telekom PSTN line, which allows competitors to offer an all-IP product range to end customers.

WiFi – Wireless Fidelity. Popular name for the IEEE 902.11 protocol for wireless local area networks (wireless LANs) (see WLAN).

WLAN – Wireless Local Area Network. Wireless networks for mobile Internet access. The network can also connect multiple computers to each other or to a central information system, a printer, or a scanner (often referred to as WiFi).

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DISCLAIMER.

This Report (particularly the chapter titled "Development of revenue and profits") contains forward-looking statements that reflect the current views of Deutsche Telekom management with respect to future events. They are generally identified by the words "expect," "anticipate," "believe," "intend," "estimate," "aim," "goal," "plan," "will," "seek," "outlook" or similar expressions and include generally any information that relates to expectations or targets for revenue, adjusted EBITDA or other performance measures. Forward-looking statements are based on current plans, estimates and projections. You should consider them with caution. Such statements are subject to risks and uncertainties, most of which are difficult to predict and are generally beyond Deutsche Telekom's control. They include, for instance, the progress of Deutsche Telekom's workforce reduction initiative and the impact of other significant strategic or business initiatives, including acquisitions, dispositions, and business combinations. In addition, regulatory rulings, stronger than expected competition, technological change, litigation, and regulatory developments, among other factors, may have a material adverse effect on costs and revenue development. If these or other risks and uncertainties materialize, or if the assumptions underlying any of these statements prove incorrect, Deutsche Telekom's actual results may be materially different from those expressed or implied by such statements. Deutsche Telekom can offer no assurance that its expectations or targets will be achieved.

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www.telekom.com/annualreport2012

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FINANCIAL CALENDAR.

Financial calendar. [a]

Press conference on the 2012 financial statements and presentation of the 2012 Annual Report	February 28, 2013
Group report Jan. 1 to Mar. 31, 2013	May 8, 2013
2013 shareholders' meeting (Cologne)	May 16, 2013
Dividend payout [b]	June 12, 2013
Group report Jan. 1 to June 30, 2013	August 8, 2013
Group report Jan. 1 to Sept. 30, 2013	November 7, 2013
Press conference on the 2013 financial statements and presentation of the 2013 Annual Report	February 27, 2014

[a] For more dates, an updated schedule, and information on webcasts please go to WWW.TELEKOM.COM/FINANCIAL-CALENDAR.
[b] Deutsche Telekom plans to pay out the dividend either in cash or in kind (shares). The cash dividend is expected to be paid out on June 12, 2013.

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