

The 2010 financial year.

In 2015 mobile customers will send and receive around 14 gigabytes of data per month.

Back in 2005, all they needed was a few megabytes.



Life is for sharing.



# Selected financial data of the Deutsche Telekom Group.

T-Mobile UK no longer fully consolidated since April 1, 2010.

		Change compared to prior year (%) <sup>a</sup>	2010 billions of €	2009 billions of €	2008 billions of €	2007 billions of €	2006 billions of €
<b>Revenue and earnings</b>							
Net revenue		(3.4)	62.4	64.6	61.7	62.5	61.3
Of which: domestic <sup>a</sup>	%	0.3	43.7	43.4	46.8	49.1	52.9
Of which: international <sup>a</sup>	%	(0.3)	56.3	56.6	53.2	50.9	47.1
Profit from operations (EBIT)		(8.4)	5.5	6.0	7.0	5.3	5.3
Net profit (loss)		380.2	1.7	0.4	1.5	0.6	3.2
Net profit (loss) (adjusted for special factors)		0.8	3.4	3.4	3.4	3.0	3.9
EBITDA <sup>a, b, c</sup>		(13.0)	17.3	19.9	18.0	16.9	16.3
EBITDA (adjusted for special factors) <sup>a, b, c</sup>		(5.8)	19.5	20.7	19.5	19.3	19.4
EBITDA margin (adjusted for special factors) <sup>a</sup>	%	(0.8)	31.2	32.0	31.6	30.9	31.7
<b>Statement of financial position</b>							
Total assets		0.0	127.8	127.8	123.1	120.7	130.2
Shareholders' equity		2.6	43.0	41.9	43.1	45.2	49.7
Equity ratio <sup>a</sup>	%	n.a.	33.7	32.8	35.0	37.5	38.2
Net debt <sup>a, c</sup>		3.3	42.3	40.9	38.2	37.2	39.6
Relative debt (Net debt/EBITDA (adjusted for special factors))		n.a.	2.2	2.0	2.0	1.9	2.0
Gearing (Net debt/Shareholders' equity)		0.0	1.0	1.0	0.9	0.8	0.8
Cash capex		(7.1)	(9.9)	(9.2)	(8.7)	(8.0)	(11.8)
<b>Cash flows</b>							
Net cash from operating activities <sup>d</sup>		(6.7)	14.7	15.8	15.4	13.7	14.2
Free cash flow (before dividend payments and spectrum investment) <sup>a, c, e, f</sup>		(6.1)	6.5	7.0	7.0	6.6	3.0
Net cash used in investing activities <sup>d</sup>		23.8	(10.7)	(8.6)	(11.4)	(8.1)	(14.3)
Net cash used in financing activities		24.3	(6.4)	(5.1)	(3.1)	(6.1)	(2.1)
<b>Employees</b>							
Average number of employees (full-time equivalents, without trainees/student interns)	thousands	(2.0)	252	258	235	244	248
Revenue per employee <sup>a</sup>	thousands of €	(1.4)	247.2	250.8	262.5	256.5	246.9
<b>T-Share – key figures</b>							
Earnings per share (basic and diluted) in accordance with IFRS <sup>g</sup>	€	387.5	0.39	0.08	0.34	0.13	0.74
Dividend per share	€	(10.3)	0.70	0.78	0.78	0.78	0.72
Total dividend <sup>h</sup>	billions of €	(11.1)	3.0	3.4	3.4	3.4	3.1
Share buy-back <sup>i</sup>	billions of €	n.a.	0.4	-	-	-	-
Total number of ordinary shares at the reporting date <sup>j</sup>	millions	(0.9)	4,321	4,361	4,361	4,361	4,361

<sup>a</sup> Calculated on the basis of millions for greater precision. Changes to percentages expressed as percentage points.

<sup>b</sup> Deutsche Telekom defines EBITDA as profit/loss from operations before depreciation, amortization and impairment losses.

<sup>c</sup> 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 Group management report in this Annual Report.

<sup>d</sup> Current finance lease receivables were previously reported in net cash from operating activities. Since 2007 they have been reported under net cash from/used in investing activities. Prior-year figures have been adjusted accordingly.

<sup>e</sup> Before cash outflows totaling EUR 0.1 billion in 2007 for investments in parts of Centrica PLC taken over by T-Systems UK as part of an asset deal. Figures for 2006 include EUR 3.3 billion for the acquisition of licenses.

<sup>f</sup> Deutsche Telekom defines 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.

<sup>g</sup> Calculation of basic and diluted earnings per share in accordance with IFRS as specified in IAS 33, "Earnings per share."

<sup>h</sup> Subject to approval from the 2011 shareholders' meeting concerning the dividend payments for the 2010 financial year. For more detailed explanations, please refer to Note 28 in the notes to the consolidated financial statements, "Dividend per share."

<sup>i</sup> Relating to the shareholder remuneration policy adopted in 2010 for the 2010 to 2012 financial years.

<sup>j</sup> Including treasury shares held by Deutsche Telekom AG.

## The Deutsche Telekom Group and its operating segments.

Deutsche Telekom is one of the world's leading integrated telecommunications companies, with approximately 129 million mobile customers, 36 million fixed-network lines, and more than 16 million broadband lines. We provide fixed-network/broadband, mobile communications, Internet, and IPTV products and services for consumers, and information and communication technology (ICT) solutions for business and corporate customers. Deutsche Telekom is present in around 50 countries. With a staff of some 247,000 employees throughout the world, we generated revenue of EUR 62.4 billion, over half of it outside Germany.

## Germany.

We slowed the year-on-year decrease in total revenue in our Germany operating segment. While revenue declined in our fixed-network business, we saw an increase of 3 percent in mobile communications revenue, which was primarily attributable to the strong growth in data revenues of 35 percent. We invested almost EUR 5 million in Germany's broadband future last year – around 50 percent more than in the previous year.

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	Change compared to prior year %	2010 billions of €	2009 billions of €
<b>Total revenue</b>	<b>(1.1)</b>	<b>25.1</b>	<b>25.4</b>
EBIT (profit from operations)	(2.9)	4.9	5.1
EBITDA (adjusted for special factors)	0.1	9.6	9.6
Average number of employees	(6.2)	79,364	84,584

## Europe.

The Europe operating segment encompasses our fixed-network and mobile communications subsidiaries in Greece, Romania, Bulgaria, Albania, Hungary, F.Y.R.O. Macedonia, Montenegro, Croatia, Slovakia, Poland, the Czech Republic, the Netherlands, and Austria. The tough economic situation in the countries of Southern and Eastern Europe in particular had a considerable impact on total revenue. The greatest growth potential for the future is in broadband business and in the areas of IPTV, as customer figures clearly show. Business with high-value contract customers drove growth in our mobile communications segment.

Pages 81 – 87

	Change compared to prior year %	2010 billions of €	2009 billions of €
<b>Total revenue</b>	<b>(14.1)</b>	<b>16.8</b>	<b>19.6</b>
EBIT (profit from operations)	n.a.	1.0	0.1
EBITDA (adjusted for special factors)	(10.0)	5.7	6.4
Average number of employees	(5.5)	65,435	69,277

## USA.

We have expanded our high-performance network further in the United States and are running it at 4G speeds. What's more, we will include a range of attractive new smartphones and tablet computers in our portfolio. The number of 3G and 4G smartphone users on our network more than doubled in 2010. T-Mobile USA received several awards from independent consumer organizations for its excellent customer service.

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	Change compared to prior year %	2010 billions of €	2009 billions of €
<b>Total revenue</b>	<b>4.0</b>	<b>16.1</b>	<b>15.5</b>
EBIT (profit from operations)	(6.3)	2.1	2.2
EBITDA (adjusted for special factors)	(2.5)	4.2	4.3
Average number of employees	(1.1)	37,795	38,231

## Systems Solutions.

T-Systems provides individual ICT solutions for corporate customers, operating networks and data centers all over the world. Despite the fact that prices in the ICT business are falling, T-Systems' total revenue increased on the back of strategically significant new deals, with the high level of demand for cloud services playing a considerable role. Our customers receive the bandwidth and computing and storage capacity they need for their business processes, and they only pay for what they actually use.

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	Change compared to prior year %	2010 billions of €	2009 billions of €
<b>Total revenue</b>	<b>2.9</b>	<b>9.1</b>	<b>8.8</b>
EBIT (profit (loss) from operations)	n.a.	0.04	(0.01)
EBITDA (adjusted for special factors)	2.7	0.9	0.9
Average number of employees	5.0	47,588	45,328

## Group Headquarters & Shared Services.

Group Headquarters & Shared Services performs strategic and cross-divisional management functions and is responsible for operating activities that are not directly related to our core business. Shared Services include property management, DeTeFleetServices GmbH, and Vivento, which is responsible for providing employees with new employment opportunities as part of our staff restructuring program.

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	Change compared to prior year %	2010 billions of €	2009 billions of €
<b>Total revenue</b>	<b>(10.1)</b>	<b>2.2</b>	<b>2.4</b>
EBIT (loss from operations)	(98.5)	(2.5)	(1.2)
EBITDA (adjusted for special factors)	n.a.	(0.9)	(0.3)
Average number of employees	(7.3)	22,312	20,181

Ready for the  
gigabit society.





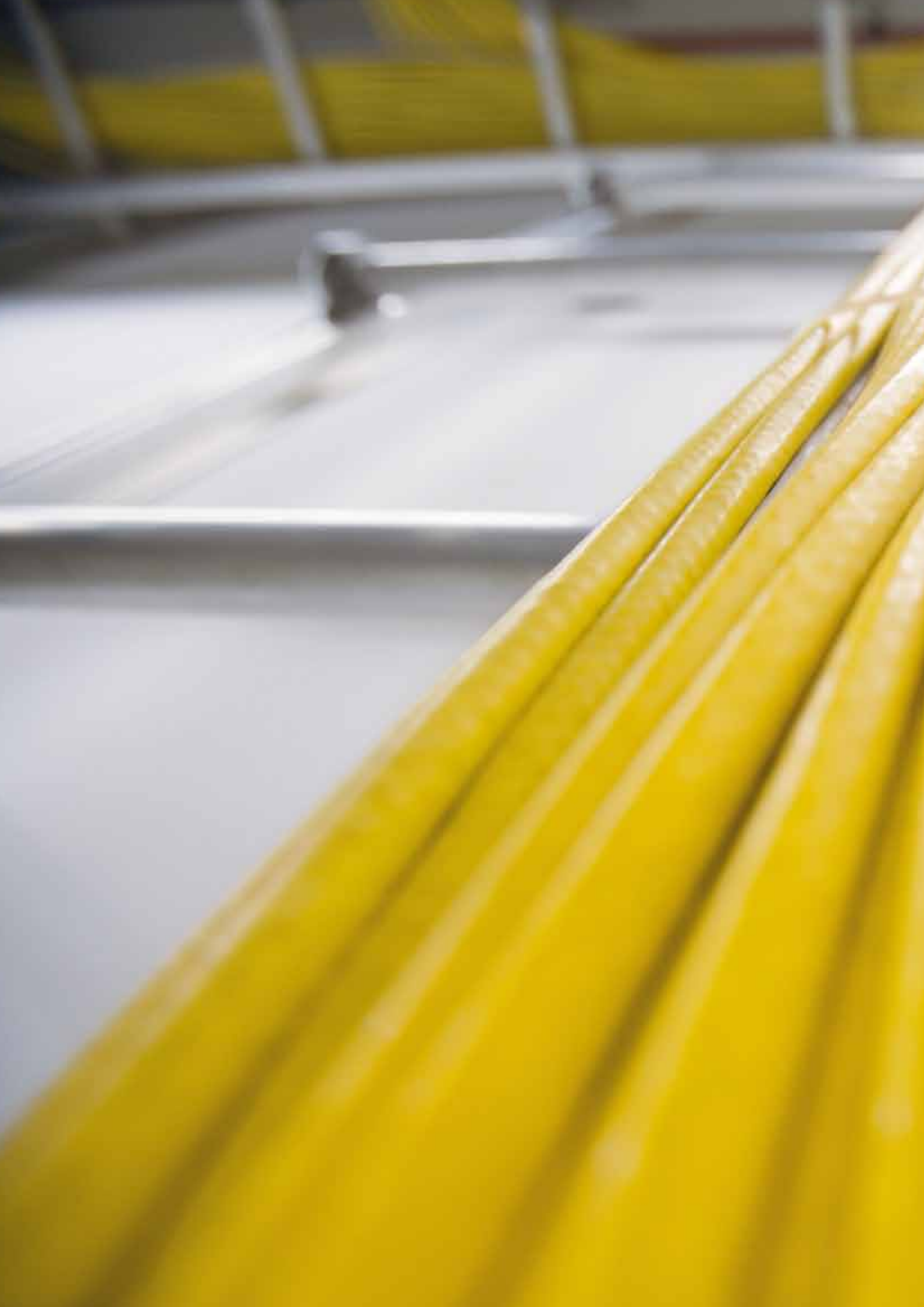
# We have everything it takes to meet the challenges of the future.

The digital age is changing the way we communicate. Internet applications have become an indispensable part of our lives. The utopias of the past are the realities of the present. We can download films from the Web, watch soccer games live on our mobile phones, and send photographs and video files from our smartphones or share them with our friends via a social network – all in a matter of seconds. Translated into technical terms, all this means that more and more data – gigabytes – have to be transmitted at more and more speed – gigabits per second. Indeed, speed is one of the main features of the gigabit society. Our powerful networks are helping us to create the infrastructure that is so vital in this new world.

Our strategy and business model are perfectly aligned with the challenges of the future. We plan to invest in intelligent networks and our own Internet products and premium services to drive our business forward and tap the revenue potential in these growth segments.

The gigabit society is fast approaching, with Deutsche Telekom's innovative energy as a driving force.










# High-speed networks!

Our powerful networks  
will carry the gigabit  
society into the future.

Everything – now and in future – stands and falls with modern networks. Around the world, around the clock people are sending messages and downloading music and videos from the Internet. The increasing range and complexity of multimedia applications on the market requires a full-coverage, powerful broadband infrastructure that is capable of transmitting these enormous volumes at the necessary speed. That infrastructure is the backbone of our business. By 2012 we plan to invest around ten billion euros in Germany's broadband network alone.



“I’m in one of the teams bringing high-speed Internet to rural regions via our mobile network. When the station goes into operation and the antenna starts transmitting – to me that’s the best part of the job.”

Uwe Pobel, Telekom Deutschland



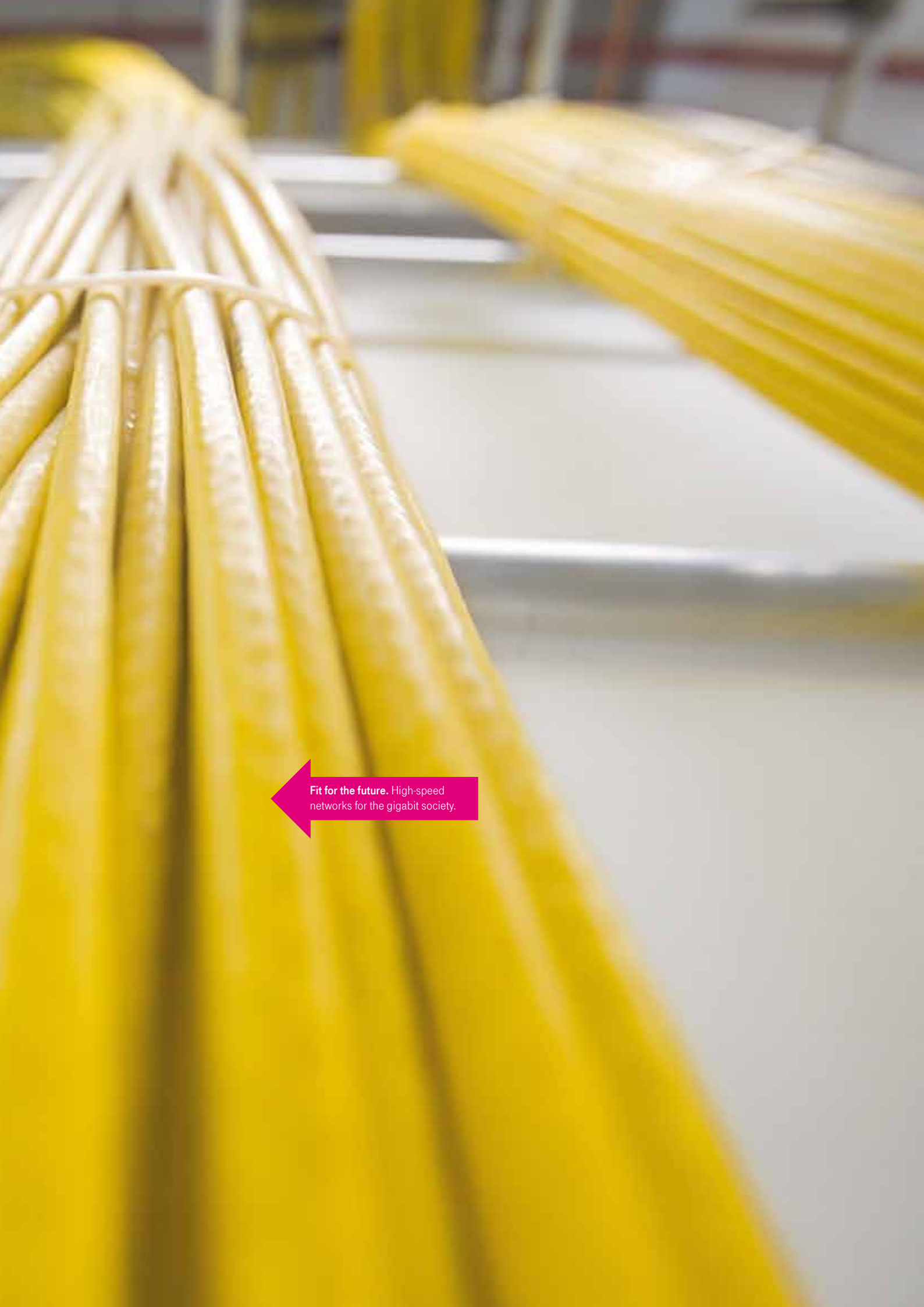


## High-capacity broadband networks for the future.

An optical fiber, while thinner than a guitar string, is capable of transmitting up to 200 megabits per second in the fixed network. Customers with an uninterrupted optical fiber connection at home can enjoy the fastest Internet access available today. Not least, they can enjoy 3D TV and use Entertain, our Internet Protocol TV service, to record and play back several movies at once. This service, known as FTTH or Fiber To The Home, was successfully tested in a number of pilot projects in 2010. We are now starting to roll out the network.



In mobile, we are working at high speed to roll out the Long Term Evolution network. LTE, the fourth-generation mobile communications standard, has enormous reach and will allow us to bring high-speed Internet service to regions, rural areas in particular, that were previously out of range. This will also help us to fulfill our responsibility to society for closing the gaps on the broadband map one step at a time.



**Fit for the future.** High-speed networks for the gigabit society.





# Connected life!

Convenient access to  
information, communica-  
tion, and entertainment,  
wherever you are.

Accessing photos, videos, and favorite songs. Displaying photos on a TV screen. Using smartphones and laptops with mobile Internet access to upload photos and videos to Facebook or Flickr and share them with friends, with no e-mail or USB flash drive in sight. Enjoying broadband Internet access on board the ICE or a plane. We develop applications and solutions for cell phones, TVs, and PCs that connect all areas of life.



“For the first time, a HotSpot is installed in an aircraft. The passengers on our maiden flight tried to bring the system to its knees by sending extra-large data volumes. But to no avail. We were delighted to receive a message from them that they’d tried everything, but failed. The system is stable.”

Antje Williams, Deutsche Telekom







## The many shapes of connected life.



The worlds of Internet, TV, and mobile communication are converging. The fundamental prerequisite of this connected life is fast access to the Internet via the fixed network, cell phone or TV.



The benefits of the link between Internet and TV are particularly apparent in our Media Center and Program Manager applications. Both are part of Entertain, our IPTV service. Program Manager enables users to schedule their chosen TV programs even if they are not at home. Media Center is a secure, free application for storing data on the Web. Users can access their personal files, photos, music, and videos from wherever they are.

We have expanded our online coverage of high-speed ICE trains to include around 1,500 kilometers of track and 69 trains so that we can give our customers the best possible connectivity anytime and anywhere. We have also installed HotSpots to enable high-speed mobile Internet access at the 25 most important Deutsche Bahn stations.

FlyNet, an in-flight broadband service, has been available to passengers on Lufthansa's long-haul services since the end of 2010. We are exploring new dimensions back on the ground, too, helping customers to use their cell phones or computers to manage applications and installations in their connected homes.

By 2015 we expect to generate around six billion euros in additional revenue with mobile data. Around two billion euros are anticipated to come from applications for connected homes, including broadband access. We also plan to add up to five million additional Entertain customers.



*Without limits. The best connections anytime, anywhere.*





# Connected work!

We have broadband  
networks, information tech-  
nology, and services.

We operate a global infrastructure of computing centers and networks to provide information and communication technology (ICT) for multinational corporations, small to medium-sized enterprises, and the public sector. Our global supply infrastructure and unique capability to offer both information technology (IT) and communication technology from a single source make us a partner of choice for business customers across all industries.





“I have a major client who plans to bring his electronic collaboration system up to the latest standard. What he needs is a cloud. To accommodate all his wishes and specifications we’ve developed an entire concept, right down to the bits and bytes.”

Holger Bräunlich, T-Systems International







## Intelligent network solutions.

Groundbreaking information and communication technology solutions bring us closer to our goal of connected work in the private and public sectors, and intelligent networks are a significant and growing element of the ICT industry. Three examples: Cars are constantly connected with the Internet, even while on the move, allowing drivers in future to use voice-activated solutions for more convenience and security at the wheel – and making fleet management more cost-efficient and environmentally sound for freight carriers. “Connected health” is all about applications for the entire chain of care, from the patient, the doctor, and the hospital through to the insurance company, to ensure a good level of medical care. In the energy sector, Deutsche Telekom intends to contribute to the stability of the power grids of the future. The planned rises in the proportion of renewable energy, for example from photovoltaic systems on the roofs of houses, is presenting power suppliers with major challenges. Deutsche Telekom’s expertise in the field of mass data processing and services for smart grids makes it the ideal partner for the energy sector. Overall, by 2015 Deutsche Telekom expects to generate around one billion in additional revenue from intelligent network solutions.



On the systems solutions side, another growth market is “cloud computing” for major business customers, which involves providing ICT resources on demand. T-Systems offers this service jointly with a number of Dynamic Services customers. DeutschlandLAN, our package solution including a broadband line, was specially designed for small and medium-sized businesses. It bundles a full range of communication applications on a standardized user interface.





Intelligent. One-stop solutions for connected work.





# Better integration!

## Fixed network and mobile come together as one.

As part of our corporate strategy we have merged our fixed-network and mobile operations, previously two separate areas, in Germany and in several European subsidiaries. This was a far-reaching decision that has allowed us to start launching integrated products and services on the market. It has also produced valuable synergies in marketing, sales, and procurement while improving our efficiency, innovative capacity, and service quality. Our new integrated corporate structure is helping us to sharpen our competitive edge.



“Before the integration there was little cooperation between our mobile and fixed-network operations. I’m delighted we have achieved so much so quickly. Now we need to bring our new structure and processes to life together. Once that happens, we’ll be a truly integrated company.”

Alzbeta Slizova, Slovak Telekom





## We're stronger together!

2010 was a year of achievements. In Germany we launched Telekom Deutschland GmbH, now home to our fixed-network and mobile business. We also successfully merged these two areas in Hungary and Croatia. The latest change of this kind came in the summer, when we merged Slovak Telekom and T-Mobile Slovakia. This has given us a strong European platform for designing products and services for mobile data and connected life and work, an area where we plan to generate two billion euros in additional revenue by 2015.



To achieve this goal, we are improving and optimizing our customer relations management systems, which is particularly important for the integrated companies and a vital prerequisite for launching integrated fixed-network and mobile services on the market. The new concept has been developed based on the experience of all our European subsidiaries.



**Strong.** More innovative capacity  
and service for our customers.







# Peak performance!

We are developing  
our mobile data business  
in North America.

In the United States, for instance, this market is set to more than triple by 2014. We want to leverage these market opportunities in full, so our growth strategy is designed to increase our market share and raise revenue by three billion U.S. dollars through 2014. To this end we are building out the network and currently operate the fastest mobile network in the country. In other words, our customers will continue to experience mobile speeds that are comparable to those in the fixed network – up to 42 megabits per second. The 4G network is already available to more than 200 million users in 100 metropolitan areas across the United States.



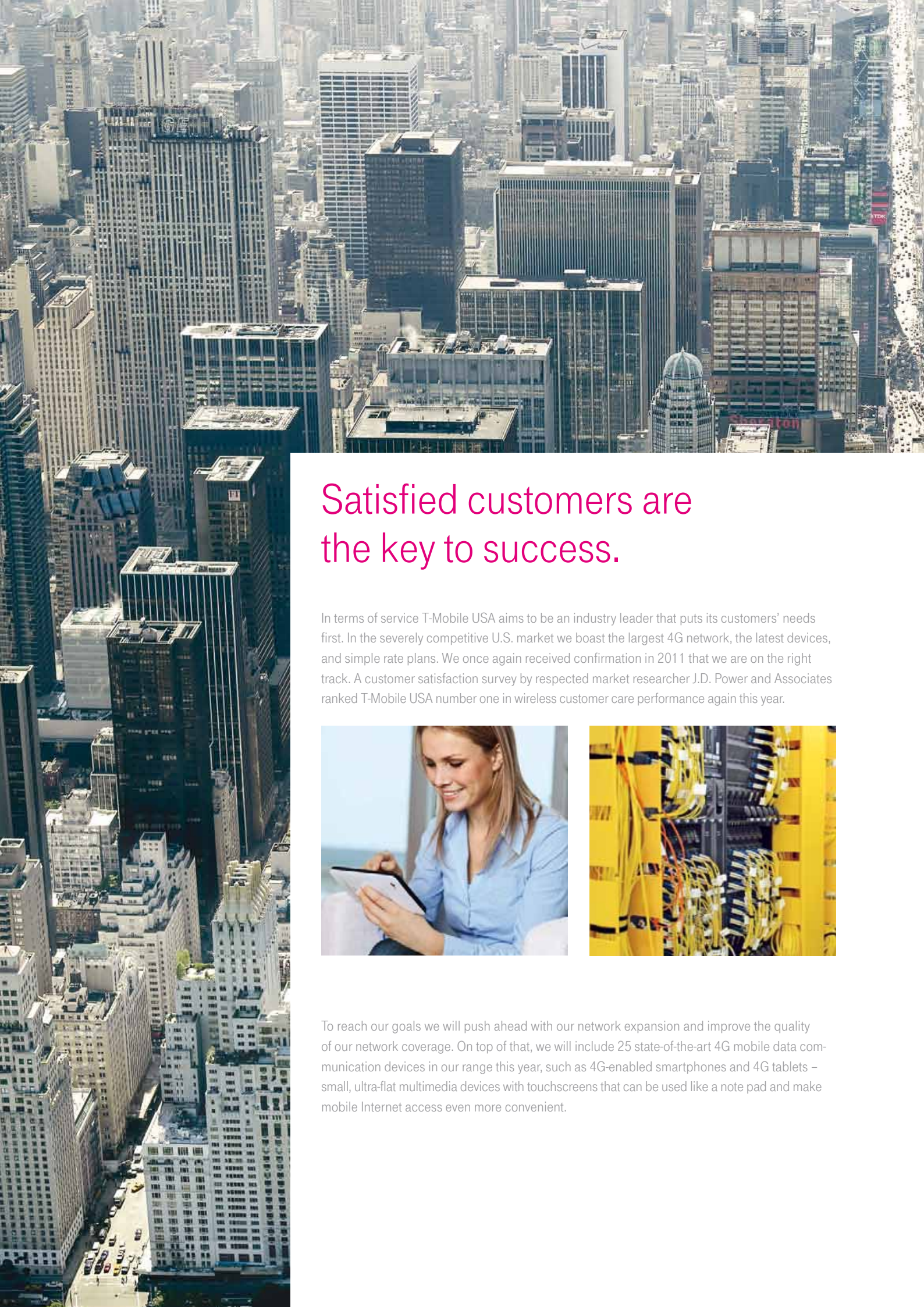


“My T-Mobile shop is in Times Square, right in midtown Manhattan, and I’m honored to be a part of the team in this newly redesigned concept store. I am sure that the ambience will inspire our customers. Here, they can experience what America’s largest 4G network is all about, with our wide range of state-of-the-art smartphones and tablet PCs. I know that we are on the right track.”

Tony Sarfraz, T-Mobile USA







## Satisfied customers are the key to success.

In terms of service T-Mobile USA aims to be an industry leader that puts its customers' needs first. In the severely competitive U.S. market we boast the largest 4G network, the latest devices, and simple rate plans. We once again received confirmation in 2011 that we are on the right track. A customer satisfaction survey by respected market researcher J.D. Power and Associates ranked T-Mobile USA number one in wireless customer care performance again this year.



To reach our goals we will push ahead with our network expansion and improve the quality of our network coverage. On top of that, we will include 25 state-of-the-art 4G mobile data communication devices in our range this year, such as 4G-enabled smartphones and 4G tablets – small, ultra-flat multimedia devices with touchscreens that can be used like a note pad and make mobile Internet access even more convenient.



Strategic. We have the largest  
4G network in the U.S. growth market.

To our shareholders.





# Prospects!

## Eyes on 2015: Deutsche Telekom's strategy has long-term goals.

If you want to be successful in five years' time, you have to set your course today. Deutsche Telekom is evolving from a traditional telco to a "telco plus" and is adding to its core business with new Internet-based products. Our "Fix - Transform - Innovate" strategy shows the way forward with clearly defined measures and measurable targets up to the year 2015. That helps our shareholders see over the long term what we are using their capital for.



To our shareholders.



The gigabit society  
is fast approaching,  
with Deutsche Telekom  
as a driving force.







## To our shareholders.

### Dear shareholders,

Deutsche Telekom stands for stability and reliability in troubled times. While the financial and economic crisis left many companies and industries facing considerable volatility, our shareholders can still count on predictable, solid business results. We increased our revenue slightly in 2010 to EUR 62.4 billion – after adjustment for our UK operations, which were transferred to a joint venture “Everything Everywhere” in April 2010. At EUR 6.5 billion, free cash flow was higher than the EUR 6.2 billion we had forecasted. With regard to adjusted EBITDA, we reached our target for the year of EUR 19.5 billion.

And all this in spite of the fact that the general conditions were often less than optimal. Our business continues to be marked by intense pressure with regard to competition and prices. Also, regulatory decisions lead to shrinking revenues in many of Deutsche Telekom’s core countries. Finally, unforeseen special taxes put a strain on results in some countries in Eastern Europe. We will have to continue to live with such outside influences. This is why a disciplined cost management will remain without alternative. Therefore we are continuing our successful Save for Service efficiency enhancement program.

To continue to be successful in the future, we must not only keep costs under control, but we also have to successfully develop growth initiatives and innovations. “Fix – Transform – Innovate” is our strategy for the next years. It is our response to the decisive trends in our industry: Data will flow in ever-increasing volumes and speeds through the networks. The Internet is becoming increasingly mobile.

For us, this means two different things. The operation of infrastructure and IT will remain the bedrock of our business. At the same time, we are focusing on new growth areas: the mobile Internet and the connected home, ICT solutions for corporate customers, our own online services, and intelligent network solutions for other industries, such as the health sector. We aim to increase our revenue from all of these growth areas by 2015 to approximately EUR 29 billion. In the long term, Deutsche Telekom shall again be on the level of the general economic growth. In view of the plunge in the former monopoly business, this will not be an easy effort. Therefore, a major transformation of our company is required. For that, we are concentrating on five strategic action areas:



## We are building the networks and processes for the gigabit society.

Operating networks can remain an attractive business under the right conditions. Therefore we are planning to invest further into broadband expansion in fixed-network and mobile communications, but in order to do so, we need a modern regulation and an investment-friendly environment. Last year, we installed fiber to the home for our first pilot customers in Germany, achieving speeds of up to 1 gigabit per second. Nationwide roll-out starts in 2011. Simultaneously, in 2010, we purchased additional mobile spectrum, for instance in Germany, Austria and the Netherlands. We were the first network operator in Germany to put an LTE mobile base station into operation, a step toward improving broadband coverage in rural areas. In the United States, we operate the HSPA+ standard, offering our customers the biggest and currently fastest mobile communications network.

## We connect our customers' lives across all screens.

We believe that the greatest opportunities for growth are in the mobile Internet. We expect to generate revenue of around EUR 10 billion in this sector in 2015. This growth will be driven by attractive Internet-enabled mobile devices and corresponding applications. More than eight million customers in the United States now use so-called smartphones. Accordingly, in 2010 our worldwide revenues from the mobile Internet shot up by almost 30 percent to EUR 4.4 billion. Another important cornerstone of our strategy is the European television business. By the end of 2010, more than 1.5 million customers in Germany have decided in favor of Entertain, while a total of 2.3 million customers in Southern and Eastern Europe already use our TV services.

## We are connecting the working world with unique ICT solutions.

In 2010, T-Systems could once again increase its revenue with customers outside the Group and secured a series of new orders from companies such as Deutsche Post and E.ON. Cloud services – the renting of infrastructure, software and bandwidth at defined service conditions – are becoming increasingly important. At the same time, T-Systems is positioning itself with intelligent network solutions for the energy, healthcare, automotive, and media distribution sectors. At CeBIT 2010, we presented an infotainment system for the connected car together with Continental. And T-Systems is collaborating with ABB and others on the development of smart grids.

## We leverage One Company in integrated assets.

The entry of Telekom Deutschland GmbH in the commercial register at the end of March legally completed the merger of our mobile communications and fixed-network operations in Germany. We can now serve our mobile and fixed-network customers from one source and thus generate additional revenue, further improve our service performance, and leverage synergies. We also view fixed-mobile integration as a model for other markets. In addition to Hungary, also Croatia and Slovakia followed this course last year – and others could follow.

## We are improving the performance of mobile-centric assets.

Following the successful launch of the “Everything Everywhere” joint venture in the United Kingdom, our main focus in this action area has been on the U.S. market. We presented our new strategy for T-Mobile USA at the end of January 2011. By 2014 we aim to increase our revenue by USD 3 billion. A high-performance mobile communications network and an attractive device selection of smartphones and tablet computers will help us in doing so. We have now strategically set course to return to growth. Finally, we have reached an amicable conclusion to a long-running legal dispute in Poland. The settlement guarantees our rights to full ownership of PTC, giving us a powerful mobile communications subsidiary in the Polish market.

Dear shareholders, we are laying the foundations for economic success in the so-called gigabit society with our “Fix – Transform – Innovate” strategy. We have made a conscious decision in favor of a long-term perspective. And it is important to us to continue our balanced stakeholder policy and to provide reliability for all of Deutsche Telekom’s internal and external stakeholders. This applies first of all to our employees, without whom we could not carry out the transformation of the Company. We will continue to keep the necessary staff restructuring balanced in the future and shape it in a socially compatible way. Our goal is to offer a job perspective in the company to as many people as possible. In addition, we are also hiring new employees. We took on around 4,000 in 2010, half of them from the ranks of our own trainees.

The high environmental, social, and governance standards that guide our business practices are increasingly gaining the respect of the capital market. Nine percent of T-Shares are already held by investors who give priority to sustainable investment. And we know that many of our shareholders are value-oriented investors who are more interested in long-term stability and sustainable dividend payments than short-term growth. To specifically address this very group of investors, we decided a year ago to implement a medium-term shareholder remuneration policy with a projected fixed volume of EUR 3.4 billion for the years 2010 through 2012. Last year, we bought back shares for a total of EUR 400 million. The Board of Management and Supervisory Board will therefore propose to the shareholders’ meeting on May 12, 2011 to pay a dividend of EUR 0.70 per share for the 2010 financial year. Together with the share buy-backs, this brings the total remuneration to the level we had announced.

I would like to thank you for the trust you have placed in me and my team on the Board of Management in recent years and I hope our strategy convinces you to give Deutsche Telekom your continued support.

Bonn, February 2011

Sincerely,

René Obermann  
Chairman of the Board of Management Deutsche Telekom AG

# Content.



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# The Board of Management of Deutsche Telekom AG in 2010/2011.




**Timotheus Höttges.**  
Board member  
responsible for Finance.

**Guido Kerkhoff.**  
Board member  
responsible for Europe.







**Thomas Sattelberger.**  
Board member responsible  
for Human Resources.




**Edward R. Kozel.**  
Board member responsible  
for Technology and  
Innovation.




**Niek Jan van Damme.**  
Board member  
responsible for Germany.



**René Obermann.**  
Chairman of the  
Board of Management.



**Dr. Manfred Balz.**  
Board member responsible  
for Data Privacy, Legal Affairs  
and Compliance.



**Reinhard Clemens.**  
Board member responsible  
for T-Systems.

# The Board of Management of Deutsche Telekom AG in 2010/2011.



“We will invest around ten billion euros in Germany’s broadband future by 2012.”

#### **René Obermann.**

##### **Chairman of the Board of Management.**

Born in 1963. After training to become an industrial business administrator at BMW AG in Munich, René Obermann set up the trading company ABC Telekom in 1986. He headed ABC’s successor company, Hutchison Mobilfunk GmbH, as Managing Partner and was Chairman of the company’s Managing Board from 1994 to 1998. In 1998 he joined the Deutsche Telekom Group as Managing Director of T-Mobile Deutschland with responsibility for Sales. In April 2000 he became Chairman of the Managing Board and one year later was appointed Member of the Board of Management for European Operations and Group Synergies at T-Mobile International. In November 2002 he joined the Deutsche Telekom Board of Management where he headed the mobile communications department and at the same time was appointed Chairman of the T-Mobile International Board of Management. On November 13, 2006 René Obermann took over as Chairman of the Board of Management of Deutsche Telekom AG.



“For us, data privacy and data security are a firm part of the product development process.”

#### **Dr. Manfred Balz.**

##### **Board member responsible for Data Privacy, Legal Affairs and Compliance.**

Born in 1944. After studying law at the universities of Tübingen, Munich, St. Petersburg, and Harvard University in Boston, Dr. Balz began his career at the German Federal Ministry of Justice in 1974. He then worked as General Counsel for Treuhandanstalt Berlin and as a partner at the international law firm Wilmer, Cutler & Pickering. From 1997 until his appointment to the Deutsche Telekom Board of Management, Dr. Balz was the Group’s General Counsel. He has been Member of the Deutsche Telekom Board of Management responsible for Data Privacy, Legal Affairs and Compliance since October 22, 2008.



“Information and communication technology are the backbone of our economy – like the supply of power and water.”

#### **Reinhard Clemens.**

##### **Board member responsible for T-Systems.**

Born in 1960. After graduating with a degree in electrical engineering from Aachen University, Reinhard Clemens launched his career as General Manager of the Association for Industry Automation in 1990. Between 1994 and 2001, he held various positions within the IBM group, before moving to the Board of Management of Systematics AG with responsibility for the sales department. He then became chairman of the Executive Board of EDS in Germany. Since December 2007 Reinhard Clemens has served on the Deutsche Telekom Board of Management, where he is responsible for T-Systems. He is also T-Systems’ Chief Executive Officer.



“Connected life and work is all about making life less complicated.”

#### **Niek Jan van Damme.**

##### **Board member responsible for Germany.**

Born in 1961. Niek Jan van Damme, an economics graduate of VU University Amsterdam, launched his career at Procter & Gamble in 1986. He joined Floor Heijn Retail as Managing Partner in 1997 before moving to Ben Nederland, later T-Mobile Netherlands, as Director of Marketing Communications in June 1999. In 2004 he was appointed Managing Director of the firm, a post he held until 2009. Niek Jan van Damme has been Member of the Deutsche Telekom Board of Management since March 2009. Since July 2009 he has headed the Germany department where he is responsible for sales, marketing and service in connection with standard fixed-network and mobile products for private and business customers in Germany. In April 2010 he was also appointed Managing Director of Telekom Deutschland GmbH.



“Sound financial governance is vital for sustainable business management.”

**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, moving on to the VIAG group in 1992. He joined Deutsche Telekom in September 2000, where he has held various positions including Chairman of the T-Mobile Deutschland Managing Board and Member of the T-Mobile International Board of Management with responsibility for Sales and Service Operations Europe, before assuming responsibility for T-Home and Sales & Services on the Group Board of Management. On March 1, 2009 he became Member of the Deutsche Telekom AG Board of Management with responsibility for Finance.



“We will continue to boost mobile and fixed-network data usage in all of our existing markets.”

**Guido Kerkhoff.**

**Board member responsible for Europe.**

Born in 1967. After taking a degree in business administration Guido Kerkhoff began his career at VEW AG and later Bertelsmann AG. In April 2002 he moved to Deutsche Telekom, occupying various management positions in the Finance department. Between March 2009 and April 2010 he served as Board member for Southern and Eastern Europe with responsibility for all fixed-network and mobile communications subsidiaries in this region, such as OTE, Magyar Telekom, Hrvatski Telekom (Croatia), and Slovak Telekom. In April 2010 he was appointed Board Member responsible for Europe, which extended his remit to include Deutsche Telekom's mobile communications subsidiaries in Austria, the Czech Republic, the Netherlands, Poland, plus the UK joint venture.



“On our way to a cutting-edge, Internet-centric company we are strengthening our innovation culture.”

**Edward R. Kozel.**

**Board member responsible for Technology and Innovation.**

Born in 1955. Edward R. Kozel graduated from UC Davis with a degree in electrical engineering. He has held several executive positions in the telecommunications industry, including Member of the Board of Directors at Cisco, Member of the Supervisory Board at Yahoo and Reuters, and Chairman of the Supervisory Board at Telepo. He has also worked for several leading technology firms such as Red Hat, Symbol Technology, and TIBCO Software. Edward R. Kozel joined Deutsche Telekom as Member of the Board of Management responsible for Technology and Innovation on May 3, 2010.



“Talent is everywhere: We need a corporate biosphere of people hungry for cultural change.”

**Thomas Sattelberger.**

**Board member responsible for Human Resources.**

Born in 1949. After completing his business administration studies at the Baden-Württemberg University of Cooperative Education, Thomas Sattelberger joined the then Daimler Group in Stuttgart in 1975 and spent 19 years with the company. He also held positions at Daimler's subsidiary MTU-Gruppe, in the Mercedes Benz sales department, and at what is now EADS. From 1994 to 2003, he worked for Deutsche Lufthansa AG, most recently as Executive Vice President Product & Service of Lufthansa Passage Airline. Between 2003 and 2007 he served as Chief Human Resources Director of Continental AG in Hanover. Since May 3, 2007 Thomas Sattelberger has been Member of the Deutsche Telekom AG Board of Management responsible for Human Resources and Arbeitsdirektor (Labor Director).

## Supervisory Board's report to the 2011 shareholders' meeting.



For Deutsche Telekom, the 2010 financial year was marked by the implementation of the merger of its fixed-network and mobile operations in Germany, the development of T-Mobile USA and strategic plans for the business in the United States, and the persistently difficult competitive and regulatory environment. Despite the macroeconomic challenges in Southern and Eastern Europe, in the 2010 financial year the Group succeeded in achieving positive results and meeting 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 2010 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. The Board of Management regularly reported to the Supervisory Board on the corporate planning, business developments, and significant business transactions of the Company and of principal 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. On the agenda of every Supervisory Board meeting was the development of the business, as was a discussion of any deviations from the originally planned course of business. 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 this information.

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 regularly reviews the list of items and amends it as necessary. 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. These meetings served in particular to discuss the benefits and effects of each transaction. The Supervisory Board approved all the transactions and measures submitted. 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 the Company's strategy, the development of its business, and its risk management, and was informed of the general business situation and significant events.

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

- The way in which the merger of the Company's fixed-network and mobile operations in Germany was implemented.
- The development of the regulatory and competitive environment and implications for Group strategy and planning.
- Implementation of the Group strategy, discussed during an in-depth conference between the Board of Management and the Supervisory Board.
- The development of the U.S. business and strategic planning for T-Mobile USA.
- The establishment of the UK-based joint venture between T-Mobile UK and Orange UK.
- The development of OTE in Greece, with special consideration given to the current state of the Greek economy.
- Issues in connection with the legal dispute surrounding PTC in Poland.

- Participation in spectrum auctions for the 4G mobile communications standard in Germany and other European countries.
- The Group's budget and medium-term planning and shareholder remuneration policy.
- Monitoring of the development of staffing requirements, headcount, and qualitative personnel planning.
- The Group's risk and compliance situation.
- Discussion of 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 introduction of the Act on the Appropriateness of Management Board Remuneration (Gesetz zur Angemessenheit der Vorstandsvergütung – VorstAG) and its impact on the compensation system for the members of the Board of Management.
- Continual monitoring of the handling of the data misuse affair and protection of the people concerned.
- Corporate governance, with special emphasis given to the recommendations and suggestions of the German Corporate Governance Code.
- Development of the Group's portfolio of shareholdings.
- Deutsche Telekom AG's delisting from the New York and Tokyo stock exchanges.
- Preparation of the Supervisory Board's recommendation to the 2011 shareholders' meeting concerning the appointment of external auditors for the 2011 financial year.

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 and the Audit Committee supported the Board of Management's plans to expand this organization. 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, Deutsche Telekom AG's Supervisory Board has set up the following committees, all of which have an equal number of shareholders' and employees' representatives:

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), Jörg Asmussen, Waltraud Litzenberger, Lothar Schröder.

The **Finance Committee** deals with complex financial and business transactions that are referred to it by the Supervisory Board or its Chairman for discussion. Members: Prof. h. c. (CHN) Dr.-Ing. E. h. Dr. Ulrich Middelmann (Chairman since July 5, 2010), Hermann Josef Becker, Dr. Wulf H. Bernotat (since July 5, 2010), Monika Brandl (since July 5, 2010), Hans Martin Bury (until July 5, 2010), Lawrence H. Guffey (until July 5, 2010), Lothar Holzwarth, Waltraud Litzenberger (until July 5, 2010), Dr. Ulrich Schröder (since July 5, 2010), and Dr. h. c. Bernhard Walter (Chairman until July 5, 2010).

The **Audit Committee's** area of responsibility is essentially defined by German legislation and the German Corporate Governance Code. Amongst other things, it monitors accounting activities and supervises the effectiveness of the internal control system, the risk management system, and the internal auditing system. 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 as well as compliance and data privacy issues. Until Deutsche Telekom AG finally delisted from the New York Stock Exchange, the Audit Committee also dealt with all matters that fell under its remit according to U.S. legislation applicable to listed companies that are domiciled outside the United States.

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 use of accounting standards and internal control procedures. The other Committee members are Hermann Josef Becker, Hans Martin Bury, Lawrence H. Guffey, Lothar Holzwarth (until July 5, 2010), Hans-Jürgen Kallmeier (since July 5, 2010), Waltraud Litzenberger.

In the 2010 financial year the Audit Committee held its first extraordinary meeting dedicated exclusively to fundamental issues. The plan is to hold such a meeting once annually from now on. The agenda for the 2010 meeting dealt mainly with risk management, insurance cover, financial statement audits, the responsibilities of the Audit Committee, and new developments in the fields of legislation and accounting. The Audit Committee underwent an external efficiency audit in the 2010 financial year, with excellent results.

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 headcount levels and staffing requirement planning for the purpose of preparing Supervisory Board resolutions on budgets and medium-term planning. Members: Lothar Schröder (Chairman), Dr. Hubertus von Grünberg, 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, Jörg Asmussen. None of the shareholders' seats on the Supervisory Board became vacant in 2010.

The responsibilities of the **Mediation Committee**, formed pursuant to § 27 (3) of the German Codetermination Act (Mitbestimmungsgesetz – MitbestG), are determined by law. It did not meet in the 2010 financial year. Members: Prof. Dr. Ulrich Lehner (Chairman), Dr. Hubertus von Grünberg, Waltraud Litzenberger, Lothar Schröder.

A **special committee** was set up between January 1 and May 20, 2010 to monitor the Company's participation in the spectrum auction for the fourth generation of mobile communications in Germany. Members: Prof. Dr. Ulrich Lehner (Chairman), Waltraud Litzenberger, Lothar Schröder, Dr. h. c. Bernhard Walter.

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 2010 financial year the Supervisory Board held four regular meetings and one extraordinary meeting. The Supervisory Board and the Board of Management also held a joint in-depth conference to discuss the Group's strategic focus. The General Committee of the Supervisory Board met eight times during the reporting year (including one joint meeting with the Finance Committee). The Audit Committee held six meetings, the Finance Committee met three times (including one joint meeting with the General Committee). The Staff Committee met twice. The special committee that was formed to monitor the spectrum auctions in Germany met three times. With regard to the frequency of the Board members' participation in Supervisory Board meetings in the 2010 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 is a member of the Supervisory Board of Deutsche Telekom AG and is also Manager in Chief 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. Mr. Hocker also stated that, where necessary, he would consult the Chairman of the Supervisory Board to discuss how to address a potential conflict of interest.

## Corporate governance.

The Supervisory Board and Board of Management are aware that good corporate governance in the interests of the Company's shareholders and capital markets 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 2010.  The Company's corporate governance policy is also presented in greater detail in a separate section of the Annual Report (pages 32–37).

## Changes in the composition of the Board of Management.

On December 17, 2009 the Supervisory Board approved Hamid Akhavan's request to relieve him of his duties with effect from February 15, 2010 so he could pursue other professional challenges.

The Supervisory Board resolved that from February 15, 2010, Guido Kerkhoff, the Board Member responsible for Southern and Eastern Europe, would temporarily take responsibility for the Company's mobile communications subsidiaries in the Netherlands, the UK, Austria, Poland, and the Czech Republic. These subsidiaries were added to Mr. Kerkhoff's area of responsibility effective April 1, 2010. His Board department was subsequently renamed "Europe."

The other functions in the department previously headed by Hamid Akhavan were temporarily assigned to Reinhard Clemens, Member of the Board of Management responsible for T-Systems, effective February 15, 2010. On May 2, 2010 the Supervisory Board approved the appointment, effective May 3, 2010, of Edward R. Kozel as Member of the Board of Management with responsibility for the Technology and Innovation department that covers the areas of technology, IT, procurement, and products and innovation for the standard business with private and business customers.

## Changes in the composition of the Supervisory Board.

**Shareholder representatives:** At the shareholders' meeting on May 3, 2010, Dr. Wulf Bernotat and Prof. h. c. (CHN) Dr.-Ing. E. h. Dr. Ulrich Middelman, both court-appointed members of the Supervisory Board since January 1, 2010, were formally 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 2014 financial year.

**Employee representatives:** Owing to his retirement, Josef Falbisoner resigned his seat on the Supervisory Board effective the end of the 2010 shareholders' meeting. The District Court of Bonn appointed Sibylle Spoo as his successor effective May 4, 2010.

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 2010 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, and Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft, Stuttgart, which were jointly appointed as auditors of the single-entity financial statements and auditors of the consolidated financial statements ("external auditors") for the 2010 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, 2010, 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, 2010, 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. They issued an unqualified audit opinion in each case. The audit of the consolidated financial statements also included a request to assess their overall compliance with IFRS.

Before resolving on their proposal of external auditors to the shareholders' meeting, the Audit Committee received the external auditors' confirmation that there are no business, financial, personal or other relationships between themselves, their 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 their independence. The declaration 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 requisite independence of the external auditors. 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 auditors.

The external auditors submitted their reports on the nature and extent as well as the result of their audits (audit reports) to the Supervisory Board. The documentation on the aforementioned financial statements, the external auditors' audit reports, 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 audit reports of the external auditors.

Prior to the Supervisory Board's review and resolution, 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 to the members of the Audit Committee at its meeting on February 22, 2011. The members of the Board of Management also answered the committee members' questions. Moreover, the external auditors, who also attended the meeting, explained their audits, in particular the key audit areas defined in agreement with the Audit Committee and the Supervisory Board, the main results of their audits, and their audit reports. The external auditors 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 reports and audit opinions, and discussed them, as well as the audits themselves, with the external auditors. The review included questions about the nature and extent of the audits and about the audit results. The Audit Committee satisfied itself that the audits and audit reports were compliant. In particular, the committee satisfied itself that the audit reports, and the audits conducted by the external auditors, met the legal requirements. The Audit Committee agrees with the external auditors 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 has recommended to the Supervisory Board

to approve the results of the audits by the external auditors and, since it had no objections to the documents submitted by the Board of Management, to approve the annual 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 23, 2010, taking into account the report and recommendations of the Audit Committee and the audit reports of the external auditors. 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 auditors also attended this meeting, reported on their audits and their main audit results, explained their audit reports, and answered questions from the Supervisory Board on the nature and extent of the audits and the audit results. Based on this and the report presented by the Audit Committee, the Supervisory Board satisfied itself that the audits and audit reports were compliant. The Supervisory Board followed the Audit Committee's recommendation and approved the result of the audits.

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 auditors. The Supervisory Board followed the Audit Committee's recommendation and approved the annual financial statements and the consolidated financial statements. In particular, the Supervisory Board approved the transfer of EUR 0.0 in net income from the single-entity financial statements of Deutsche Telekom AG to other retained earnings in accordance with § 58 (2) AktG in conjunction with § 19 (3) of the Articles of Incorporation. The approval of the Supervisory Board constitutes the 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 16, 2010, 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 22, 2011 and by the Supervisory Board on February 23, 2011. The external auditors were 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 3.0 billion and to carry forward around EUR 3.0 billion to unappropriated net income.

## Review of the dependent company report.

The Board of Management presented its dependent company report for the 2010 financial year to the Supervisory Board in good time.

The external auditors 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 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 auditors 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 also reviewed the dependent company report of the Board of Management and the audit report of the external auditors.

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 22, 2011, 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 auditors, who also attended the meeting, reported on their audit, in particular their key audit areas and the significant results of their audit, and explained their 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 audits themselves, with the external auditors. The review included questions about the nature and extent of the audit and about the audit results. The Audit Committee satisfied itself that the audit and audit report were compliant. In particular, it satisfied itself that the audit report, and the external auditors' audit, met the legal requirements. The Audit Committee recommended to the Supervisory Board to approve the results presented by the external auditors, as the committee sees no grounds for objections to the Board of Management's declaration on the dependent company report.

The Supervisory Board performed the final review at its meeting on February 23, 2011, taking into account the audit report of the external auditors. 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 auditors were also present and reported on their audit of the dependent company report and their main audit results, explained their audit report, and answered questions from the Supervisory Board on the nature and extent of the audit of the dependent company report and the audit results. 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 audit report were compliant. In particular, it satisfied itself that the audit report, and the external auditors' audit, met the legal requirements. The Supervisory Board examined the dependent company report in particular for completeness and 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. Following the recommendation of the Audit Committee, the Supervisory Board concurred with the result of the external auditors' 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 2010 financial year.

Bonn, February 23, 2011  
The Supervisory Board

Prof. Dr. Ulrich Lehner  
Chairman


# Corporate governance report.

Sound, systematic corporate governance is particularly important for an international group such as Deutsche Telekom with its numerous subsidiaries, associates and joint ventures. 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 2010 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 Corporate Governance Code. During the reporting period just ended, 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, 2010:

## **Declarations 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 January 5, 2010, 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 August 5, 2009 in the official section of the electronic Federal Gazette (elektronischer Bundesanzeiger), without exception.
- II. The Supervisory Board and Board of Management of Deutsche Telekom AG hereby declare further that Deutsche Telekom AG complies 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 electronic Federal Gazette (elektronischer Bundesanzeiger) on July 2, 2010, without exception.

 This Declaration of Conformity can be found on the Deutsche Telekom website ([www.telekom.com](http://www.telekom.com)) via the following path: Investor Relations/Corporate Governance/Declaration of Conformity. This website also provides access to the superseded declarations of conformity from previous years.

**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 2010 there were also one extraordinary meeting 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 of all relevant business developments, plans, potential risks, risk management, compliance, as well as of any deviations from original business plans. The Board of Management regularly submits written 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 the working methods of the Board of Management and Supervisory Board, please refer to pages 24–31 of the Annual Report.

**Composition of the Board of Management.** In accordance with the Board of Management's schedule of responsibilities, there are eight Board departments: the department of the Chairman of the Board of Management; Finance; Human Resources; Data Privacy, Legal Affairs and Compliance; T-Systems; Germany; Technology and Innovation; and Europe. Each Board of Management member is authorized to manage the spheres of responsibility allocated to him. 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.


**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 each individual member at the last shareholders' meeting on May 3, 2010. 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).  For details about changes to the composition of the Supervisory Board during the reporting period, please refer to the Supervisory Board's report to the shareholders' meeting on pages 24–31 of the Annual Report. 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.

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


- Taking into account the Company's specific situation, the Supervisory Board aims to ensure that the candidates they propose to the voting bodies not only have the requisite qualifications but also contribute to making the Board more diverse.
- The Supervisory Board should be composed in such a way that its members collectively have the expertise, skills, and qualifications required for the Board to duly fulfill its responsibilities.
- The Supervisory Board supports the adequate representation of women. Specifically, it aims to increase the proportion of women on the Supervisory Board to 30 percent, the Company's intended share of women in management positions, by the end of 2015. Women currently make up 20 percent of the Supervisory Board.
- To account for the Company's international outlook, international candidates, too, should be sufficiently considered when appointing new members to the Supervisory Board.
- Conflicts of interest should be avoided when appointing new members to the Board.
- Supervisory Board members should not be older than 67 at the time of their appointment.

**Tasks assigned to the Supervisory Board.** The Supervisory Board 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 the Rules of Procedure. To clarify the reporting requirements on the part of the Board of Management, the Supervisory Board has defined 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 2009 based on a comprehensive questionnaire and individual discussions with the Chairman of the Supervisory Board. The Audit Committee underwent an external efficiency audit in 2010, with excellent results.


In order to perform its tasks more effectively, the Supervisory Board currently has six 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 advises the Board of Management on personnel questions not connected with the Board of Management. The Finance Committee deals with complex financial issues and with budgets. The Audit Committee performs the tasks of an audit committee as required by law and in accordance with the German Corporate Governance Code. Amongst other things, it prepares a recommendation for the Supervisory Board's resolution on the annual financial statements, monitors accounting activities and supervises the effectiveness of the internal control system, the risk management system, and the internal auditing system. Until the Company delisted from the New York Stock Exchange, the Audit Committee also fulfilled the responsibilities assigned to it under U.S. law. 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. Between January 1 and May 20, 2010 a special committee was established to monitor the Company's participation in the spectrum auction for the fourth generation of mobile communications in Germany.  For details about the composition and working methods of the committees, please refer to the Supervisory Board's report to the shareholders' meeting on pages 24–31 of the Annual Report.

The committee chairpersons regularly report to the Supervisory Board on the work of the committees. The chairman of the Audit Committee, Dr. h. c. Bernhard Walter, is particularly knowledgeable and experienced in the use of accounting standards and internal control procedures. Dr. Walter has never served on the Board of Management of the Company.


To the extent permitted by law, the Supervisory Board makes use of modern communication media to expedite its work and accelerate decision-making processes in the interests of the Company.

The Chairman of the Supervisory Board coordinates the work of the Supervisory Board and presides over its meetings. Over and above his organizational duties in the Supervisory Board, the Chairman of the Supervisory Board maintains regular contact with the Chairman of the Board of Management and with the Board of Management as a whole, in order to stay informed about the Company's strategy, business developments, risk management policy, and management measures, and to discuss these with the Board of Management. In this context, the Chairman of the Board of Management 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 226–227 of the Annual Report.

**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.

**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 auditors and Internal Audit, and is constantly being expanded and improved. The Audit Committee deals with risk management, which includes monitoring 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 more information, please refer to the section entitled "Risk and opportunity management" on pages 112–122 of the Annual Report.

**Compliance.** Deutsche Telekom has a Group-wide compliance organization that is continuously being expanded ( for details, please refer to the 2010 Corporate Responsibility Report under [www.cr-report.telekom.de](http://www.cr-report.telekom.de)). The first element to be introduced was a Compliance Committee, which supports the Board of Management in setting up and 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, corporate auditing, corporate security, and human resources. The Chief Compliance Officer, appointed by the Board of Management, is the chairman of the Compliance Committee. He reports to the Group Board of Management and directly to the Audit Committee and the Supervisory Board. A compliance officer has been appointed in each of the strategic business areas. There are compliance officers/contacts in the business units where required depending on their size and the risk exposure. The decision to pool all compliance activities in the Board of Management department for Data Privacy, Legal Affairs and Compliance reflects the increased significance of compliance.

The compliance program includes the Code of Conduct and the Code of Ethics. The Code of Conduct defines how employees and management should display value-based and legally compliant conduct in their daily business activities. The Code of Ethics addresses the members of the Group Board of Management and persons who carry special responsibility for financial reporting. The Code obliges the above individuals to comply with the principles of honesty, integrity, transparency, and ethical conduct and is expressly acknowledged once a year by those concerned by way of signature.  The Code of Conduct and the Code of Ethics are published on Deutsche Telekom's website ([www.telekom.com](http://www.telekom.com)).

 For more information about the compliance program, please visit Deutsche Telekom's website ([www.telekom.com/compliance](http://www.telekom.com/compliance)).

**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 2010 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) that came into force in May 2009.

■ For a description of the main features of the accounting-related internal control system, please refer to the “Group organization” section in the Group management report on pages 51–56 of the Annual Report.

**Accounting and audit of financial statements.** An agreement has been reached with the external auditors 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 auditors’ report, unless these issues can be resolved forthwith. Moreover it has been agreed that the external auditors shall immediately report any findings and issues that emerge during the audit and which have a direct bearing upon the tasks of the Supervisory Board. According to this agreement, the external auditors undertake to inform the Supervisory Board or make a note in their 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 auditors.

## Report on the compensation of the Board of Management.

■ The compensation of each member of the Board of Management is reported in the notes to the consolidated financial statements, broken down in accordance with statutory requirements into fixed and performance-related components and long-term incentives. For details, please refer to pages 213–220 of the Annual Report under “Compensation of the Board of Management and the Supervisory Board.” These disclosures made in the notes to the consolidated financial statements are also an integral part of this Corporate Governance Report. A summary of the structure and main features of Board of Management compensation is given below.

Deutsche Telekom AG’s shareholders’ meeting on May 3, 2010 approved a new Board of Management compensation system in line with the German Act on the Appropriateness of Management Board Remuneration (Gesetz zur Angemessenheit der Vorstandsvergütung – VorstAG). The Supervisory Board subsequently began to switch the existing Board of Management service contracts to the new compensation system. Effective December 31, 2010 six Board of Management members’ contracts had been transferred to the new system, while two members exercised their right to remain with the old system.

The compensation system for the Board of Management, including the main elements of their service contracts, is defined and regularly reviewed by the Supervisory Board. Since the introduction of the Act on the Appropriateness of Management Board Remuneration and the update of the Deutsche Corporate Governance Code in 2009, the entire Supervisory Board has been responsible for approving the individual provisions of the Board of Management members’ service contracts. Since then, the General Committee has had the function of preparing the resolution for the Supervisory Board. Both the old and the new compensation system for the Board of Management members consists of several elements. Compensation includes fixed as well as short- and long-term variable components, various fringe benefits that are also detailed for each Board member in the notes and which are generally payable in the form of benefits in kind, insurance contributions, or taxable non-cash benefits, as well as Board of Management pension entitlements.

The variable components in both systems include components tied to the annual business results and long-term incentives containing risk elements.

The **annual variable component** (referred to in the new system as Variable I) is based on the extent to which each member of the Board of Management achieves the targets assigned to them by the Supervisory Board before the beginning of each financial year. If the targets associated with the variable elements of remuneration are achieved in full, under the old system around two thirds of the remuneration is variable and one third is fixed. Under the new system, the fixed component accounts for around 40 percent of a Board member’s total annual target remuneration, while the variable components (Variables I and II) account for approximately 60 percent.

Under the new system Board members are obliged to invest one third of Variable I, which is set each year by the Supervisory Board, in Deutsche Telekom AG shares, and to hold these shares for at least four years. After four years Deutsche Telekom AG will match the number of shares by granting Board members who remain with the Company one free stock for every share purchased and held under this scheme (matching shares). This ensures that the shares granted by the Company can only be sold after the four-year period and the members’ continued service to the Company is rewarded.

Under the old system, the **long-term incentives containing risk elements** are based on the Mid-Term Incentive Plan, or MTIP. The Board members also have entitlements from stock option plans (see below for details of the 2001 Stock Option Plan). Deutsche Telekom AG's **MTIP** is a Group-wide long-term compensation instrument for senior executives. The members of the Board of Management have participated in it since the 2004 financial year. The plan has a term of three years and will be issued annually on a rolling basis. It consists of two share-based, additive and equally weighted performance parameters. For the 2010 financial year, as for the years before, one absolute and one relative plan target have been set. The absolute plan target is related to the increase in value of the Deutsche Telekom AG share. The relative plan target requires the total return of the Deutsche Telekom AG share to outperform the Dow Jones Euro STOXX® Total Return Index. The tranche of the 2008 MTIP achieved the relative share price development target but not the absolute share price development target. This means 50 percent of the award amount can be paid out for the 2008 tranche. For details, please refer to the notes to the consolidated financial statements on pages 200–201 of the Annual Report.

Under the new system, Variable II represents the long-term incentive compensation component. Variable II is launched annually on a rolling basis for a period of four years. Its target parameters correspond to four equally weighted performance indicators (adjusted operational return on capital employed (ROCE), adjusted earnings per share (EPS), customer satisfaction, and employee satisfaction). Levels of target achievement exceeding 100 percent are rewarded on a straight-line basis, capped at 150 percent of the award amount. The assessment is based on average target achievement across the four years planned at the time the tranche was determined. The amount awarded is not influenced by the other elements and is set for each Board member individually. It should correspond to around 30 percent of their total target remuneration.

The **2001 Stock Option Plan** was closed for the Board of Management in 2004. Options granted to current and former members of the Board of Management from tranches of the 2001 Stock Option Plan can still be exercised, provided the necessary conditions are met. For details, please refer to the notes to the consolidated financial statements on pages 202–203 of the Annual Report. These disclosures in the notes to the consolidated financial statements are also an integral part of this Corporate Governance Report.

The new compensation system involves a **share matching plan**, which is another variable, long-term incentive containing risk elements. Under this plan, after four years Deutsche Telekom AG will match the number of shares by granting the eligible Board members one free stock for every share they purchased under the binding personal investment scheme using their Variable I as fixed by the Supervisory Board.

The terms of the service contracts of the Board of Management members are linked to the term of appointment as a member of the Board of Management. To account for the Company's entitlement to terminate the appointment without this justifying simultaneous termination of the service contracts, for good cause, the contracts of all the members of the Board of Management of Deutsche Telekom AG contain a clause specifying the maximum severance amount payable to the Board members in the event of their departure in such circumstances.

As a rule, the Board member's agreements stipulate a clause prohibiting them from joining a competitor after their departure.

Service contracts for members of the Board of Management include a provision in case of premature termination without good cause that allows a compensation payment which, in line with the recommendations of the 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 members of the Board of Management are in principle entitled to a **company pension**. For members who joined the Board of Management before 2009 the amount depends on their final salary, which means that Board of Management members receive company pension benefits based on a fixed percentage (between 5 and 6 percent) of their last fixed annual salary for each year of service rendered prior to their date of retirement. The maximum pension entitlement, attainable after ten years of Board of Management membership, is 50 (or 60) percent of the last fixed annual salary. The rights to benefits are generally vested in accordance with statutory provisions (or contractually vested immediately, in specific cases). Benefits are paid in the form of a life-long old-age pension, an early-retirement pension, disability pension, and widow and orphans' pension. All other required details can be found in the notes to the consolidated financial statements on pages 213–220 of the Annual Report under "Compensation of the Board of Management and the Supervisory Board." These disclosures in the notes to the consolidated financial statements are also an integral part of this Corporate Governance Report.



Board of Management members who joined the Board in 2009 or later participate in a defined contribution plan with a one-time capital payment upon retirement. 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. The amount to be provided annually is individualized and decoupled from other remuneration components. The exact amount of the contribution is based on a comparison with peer companies that are of a similar size and also offer defined contribution plans.

Members of the Board of Management receive no third-party remuneration for their activity as Board members.

■ For details of the compensation system and a specification of the long-term incentives containing risk elements, please refer to the notes to the consolidated financial statements, on pages 213–220 of this Annual Report under "Compensation of the Board of Management and the Supervisory Board," or to the company website ([www.telekom.com](http://www.telekom.com)) under Investor Relations/Corporate Governance/Incentive plans. These disclosures in the notes to the consolidated financial statements are an integral part of this Corporate Governance Report.

## Report on the compensation of the Supervisory Board.

The compensation of the members of the Supervisory Board is specified in § 13 of the Articles of Incorporation. The system was renewed at the shareholders' meeting on May 3, 2010. The compensation is designed to take account of the responsibilities and scope of activity of the members of the Supervisory Board, as well as the financial position and success of the Company. In addition to fixed remuneration, the members of the Supervisory Board receive performance-related remuneration in the form of a long-term incentive element that is based on the development of net profit per share. Special functions such as that of Chairman or Deputy Chairman of the Supervisory Board and chair or member of any of its committees are compensated additionally.

■ The compensation of each member of the Supervisory Board is reported in the notes to the consolidated financial statements, broken down in accordance with statutory requirements into its individual components. For details please refer to pages 213–220 of the Annual Report under "Compensation of the Board of Management and the Supervisory Board." These disclosures in the notes to the consolidated financial statements are also an integral part of this Corporate Governance Report.

No other remuneration was paid by the Company to the members of the Supervisory Board, or advantages extended for services provided individually, in particular advisory services or agency services. Lothar Schröder received attendance fees for his function as Chairman of the Data Privacy Advisory Council.

## 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.

## Securities-based incentive systems.

■ Specific details of the securities-based incentive systems of the Company are contained in the notes to the consolidated financial statements on pages 200–203 under "Mid-term incentive plans (MTIPs)/Phantom share plan/Share-based compensation plans." and on pages 213–220 under "Compensation of the Board of Management and the Supervisory Board" of the Annual Report. These disclosures in the notes to the consolidated financial statements are also an integral part of this Corporate Governance Report.

Bonn, February 23, 2011  
The Supervisory Board and the Board of Management

# The T-Share.

Economic recovery and the euro crisis dominated the year on the stock exchanges // Markets impressed by Deutsche Telekom's long-term shareholder remuneration policy

## T-Share information.

		2010	2009
<b>Xetra closing prices</b>			
	€		
Share price on the last trading day		9.66	10.29
Year high		10.60	11.39
Year low		8.55	7.93
<b>Trading volume</b>			
German exchanges	billions of shares	4.7	5.3
New York Stock Exchange (ADRs) *	millions of shares	184	356
Tokyo Stock Exchange *	millions of shares	1.4	0.3
<b>Market capitalization on the last trading day</b>			
	billions of €	41.7	44.9
<b>Weighting of the T-Share in major stock indexes on the last trading day</b>			
DAX 30	%	4.7	5.8
Dow Jones Euro STOXX 50®	%	1.1	1.2
<b>T-Share – key figures</b>			
Earnings per share (basic and diluted)	€	0.39	0.08
Proposed dividend	€	0.70	0.78
Number of shares issued	millions, at year-end	4,321.32	4,361.32

\* Deutsche Telekom delisted from the New York and Tokyo stock exchanges in the 2010 financial year. The last day of trading at the NYSE was on June 18, 2010 and at the Tokyo Stock Exchange on July 15, 2010.

## Capital markets environment.

While the global economy in 2009 went through the worst recession since 1945, 2010 was marked by economic recovery on the one hand and the debt crisis in several European countries on the other.

Economic activity around the globe was revived, in many cases with the help of large-scale fiscal and monetary policy programs. However, fear of national bankruptcy in Greece, Ireland and other European countries put the euro under considerable pressure. The EU and the IMF had to help out with financial aid facilities worth several billions.

Market demand worldwide centered on cyclical stocks, e.g., stocks that depend heavily on economic growth. These, however, were in fact among the main losers in the crisis year of 2009. Consequently, in 2010 defensive

stocks such as health and telecommunications that had not experienced such a pronounced decline beforehand tended to lag somewhat behind the strengthening markets.

## Development of international indexes.

Europe's indexes developed very differently depending on their exposure to the euro crisis, on the significance of the financial sector, and on the strength of the respective national economies. For instance, the DAX rose by a total of 16.1 percent, making it one of Europe's best performing indexes in 2010. For the first time since June 2008, it passed the 7,000 points mark several times in December and closed the year at 6,914. By contrast, Spain's IBEX 30 sustained a drop of 17.4 percent while Greece's index lost as much as 35.6 percent.



The euro zone's leading index, the EuroSTOXX 50<sup>®</sup>, lost 2.8 percent on a total return basis (share price performance plus dividend), a decline that was clearly attributable to the debt crisis in several euro zone countries, which put considerable pressure especially on bank stocks. These stocks are relatively strongly represented in the EuroSTOXX 50<sup>®</sup>.

The main U.S. indexes closed the year 2010 on a solid high, even though fears of another decline in the U.S. economy – known as a double dip – coupled with continued high unemployment caused repeated setbacks throughout 2010. The Dow Jones Industrial Index climbed 11 percent overall, while the S&P 500 rose 12.8 percent and the NASDAQ increased 16.9 percent.

Japan's Nikkei had sustained a 3-percent decline by year-end. This was due to the strength of the yen, a challenge especially for the country's export-orientated businesses that form the backbone of Japan's economy.

## T-Share performance.

The T-Share remained stable over the full year. Its annual high was reached very early in 2010 at EUR 10.60, while the low of EUR 8.55 came in May after the dividend payout. Based on total shareholder return (share price performance plus dividend) the share gained 2 percent over the full year and closed at the end of 2010 at EUR 9.66.

Deutsche Telekom impressed the telecommunications markets with its new shareholder remuneration policy: The Company announced that it will remunerate its shareholders with a total of EUR 10 billion over the next three years through 2012. Of this, EUR 3 billion will be paid out as a dividend each year. This makes Deutsche Telekom the first DAX company to communicate a minimum dividend for three years in conjunction with a share buy-back totaling up to EUR 1.2 billion. This policy is subject to the requisite unappropriated net income being posted in the single-entity financial statements of Deutsche Telekom AG for the financial year in question and the ability to form the necessary reserves for the share buy-back. It is also contingent upon the executive bodies adopting resolutions to this effect, taking account of the Company's situation at the time.

The share buy-back program the Board of Management approved on July 27, 2010 was completed on December 3 as part of Deutsche Telekom's aforementioned new shareholder remuneration policy. A total of around 40 million shares accounting for around EUR 102.40 million in share capital were bought back through the stock exchange. The amount equates

to around 0.9 percent of the Company's share capital. The average buy-back price per share was EUR 9.9998, taking the total buy-back value to around EUR 400 million.

The Company's quarterly figures, particularly those for the German business, were in line with expectations.

## Delisting of American Depositary Shares from the New York Stock Exchange.

Deutsche Telekom's American Depositary Shares (ADSs) were delisted from the New York Stock Exchange (NYSE) after the close of trading on June 21, 2010. The Company also deregistered from and therefore discontinued its reporting obligations to the U.S. Securities and Exchange Commission (SEC) in accordance with a resolution adopted by the Group Board of Management at its meeting on April 20, 2010.

The delisting did not affect U.S. investors holding ordinary Deutsche Telekom shares. Level III ADSs held by investors in the United States were transferred to a sponsored Level I ADS program with the assistance of our depository bank, Deutsche Bank, so that the shares could be traded over the counter.

The primary aim of delisting and deregistration was to simplify financial reporting processes within the Company and cut costs. However, Deutsche Telekom remains committed to the very highest levels of transparency and maintaining corporate governance standards in its financial reporting. The Company will also continue to maintain a close, open, and direct dialog with its U.S. investors.

## Share ownership by members of the Board of Management and the Supervisory Board.

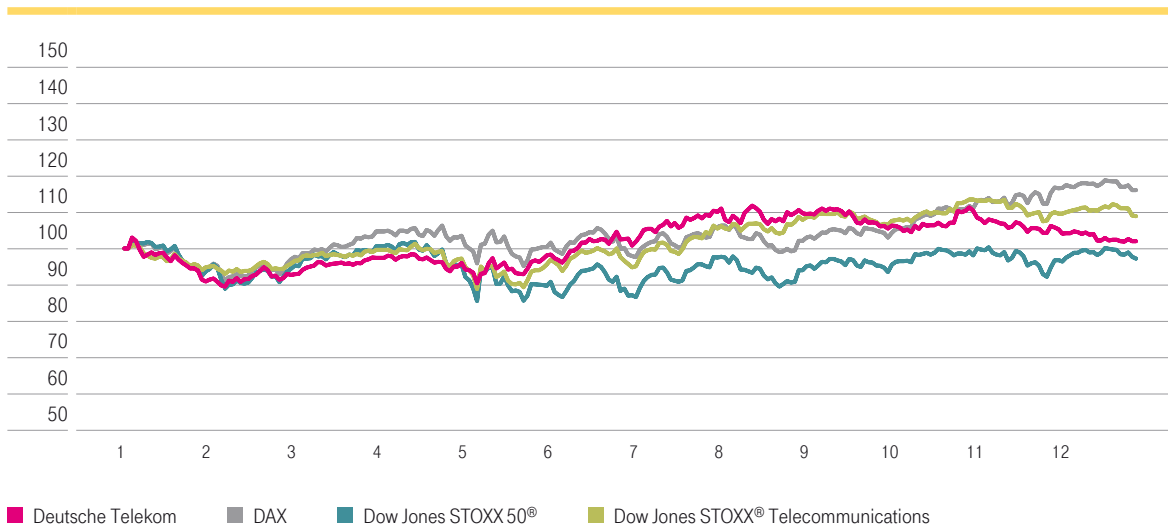
Members of the Deutsche Telekom Board of Management and Supervisory Board bought a total of approximately 160,000 Deutsche Telekom shares in 2010. Total direct or indirect holdings of shares in the Company or associated financial instruments by members of the Board of Management and the Supervisory Board do not exceed 1 percent of the shares issued by the Company.

## Dividend.

The Board of Management and Supervisory Board of Deutsche Telekom AG propose to this year's shareholders' meeting, to be held on May 12, 2011, the distribution of a dividend of EUR 0.70 per share.

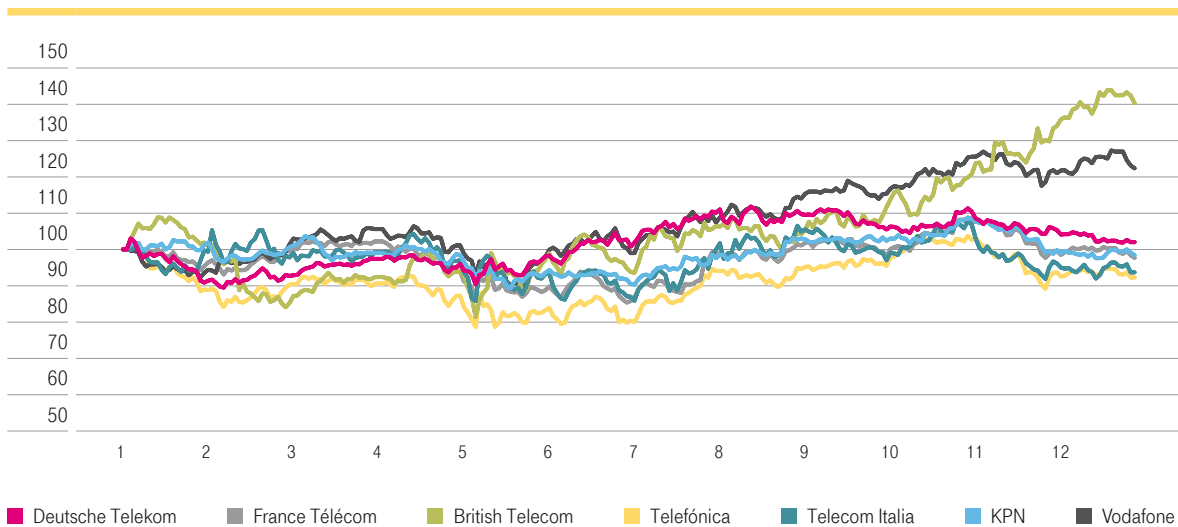
### T-Share as compared to DAX, Dow Jones STOXX 50® and Dow Jones STOXX® Telecommunications.

January 1 to December 31, 2010



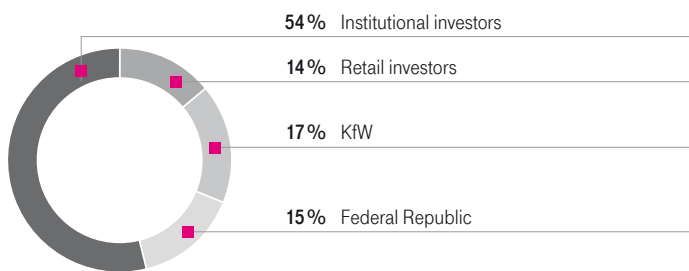
### T-Share as compared to other telecommunications companies.

January 1 to December 31, 2010



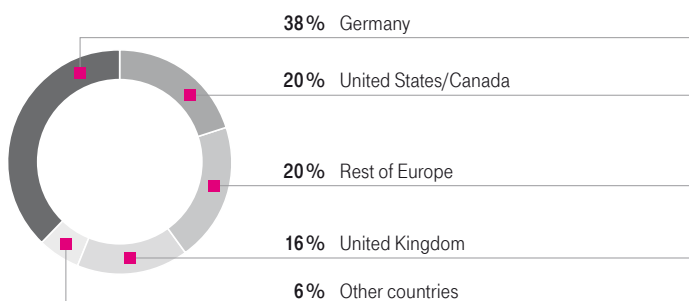
### Shareholder structure.

As of December 31, 2010



### Geographical distribution of free float.

As of December 31, 2010



### Shareholder structure.

The share buy-back and subsequent capital decrease, which took effect as of December 17, 2010, resulted in minor changes to the shareholder structure. The Federal Republic's shareholding including that of KfW (Kreditanstalt für Wiederaufbau) is now 32 percent. The percentage of shares in free float consequently decreased to 68 percent. The proportion of institutional investors decreased to 54 percent of share capital, while the share of retail investors increased to approximately 14 percent.

### Investor relations.

In the 2010 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 and North America, top management personally 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 on the occasion of an analysts' conference in Bonn and in London, and international investors' conferences held at various locations including Frankfurt, Barcelona, London, Paris, and New York.

Comprehensive online services were again available to Deutsche Telekom's shareholders in the 2010 financial year. Shareholders can also in future use the option of receiving documents relating to the shareholders' meeting by e-mail, for instance. In addition, Internet Dialog also facilitates the ongoing expansion of electronic communication with shareholders. The personal profiles the shareholders can set up themselves allow them to order tickets to the shareholders' meeting for themselves or for a proxy. If shareholders do not wish to attend in person, they can change voting instructions issued to proxies until shortly before voting begins. For the second year running, the carbon footprint of the shareholders' meeting is being offset fully.

In addition, the "direkt" newsletter (available in German only) reports on the most recent quarterly results and the annual financial statements of the Group. It also covers significant developments and events as well as the Group strategy, and contains special offers for shareholders. The newsletter is available for download from the Investor Relations website. Shareholders can also receive the free newsletter in printed form or by e-mail. Last year, Deutsche Telekom AG shareholders and other persons interested in the T-Share made intensive use of the services for retail investors. In 2010, our team dealt with over 20,000 inquiries.

The IR team provides retail investors with a direct point of contact on + 49 (0) 228 181 88333 (fax + 49 (0) 228 181 88339) or e-mail [forum-taktie@telekom.de](mailto:forum-taktie@telekom.de) for questions relating to Deutsche Telekom.

We have the expertise,  
the financial strength, and  
the right people.

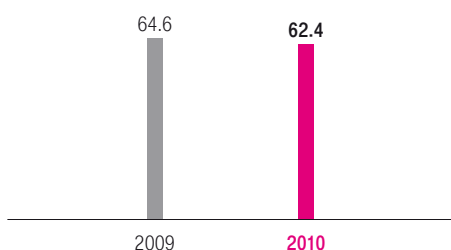


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- 126 Development of revenue and profits

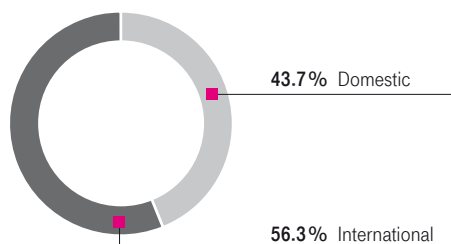
# Overview of the 2010 financial year.

## Net revenue. (billions of €)



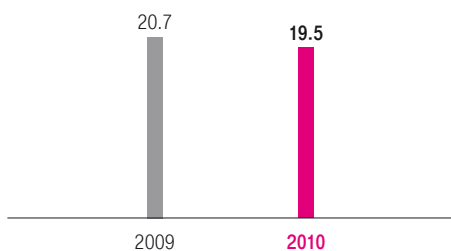
- Net revenue decreased by 3.4 percent compared with the prior year. Excluding T-Mobile UK, net revenue increased slightly year-on-year by EUR 0.3 billion.
- Changes in the composition of the Group (OTE, T-Mobile UK) had a net negative effect of EUR 1.9 billion, while exchange rate effects totaling EUR 1.2 billion had a positive impact on net revenue.
- Operations were positively impacted by the development of mobile data revenue and the increase in revenue from Systems Solutions as a result of new deals.
- Negative impacts on operations included fixed lines lost to competition and regulatory price cuts.

## Proportion of net revenue generated internationally. (%)



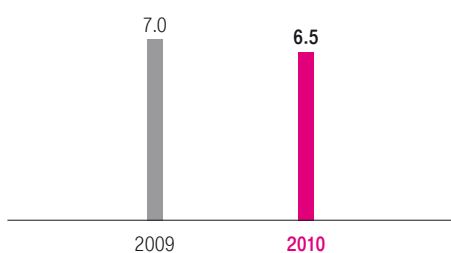
- Proportion of net revenue generated internationally decreased slightly to 56.3 percent, compared with 56.6 percent in the prior year.
- Domestic net revenue amounted to EUR 27.3 billion, EUR 0.8 billion lower than in the prior year. International net revenue decreased year-on-year by 3.9 percent or EUR 1.4 billion.
- The decline in international net revenue is primarily attributable to the establishment of the new joint venture Everything Everywhere in the United Kingdom. T-Mobile UK has no longer been fully consolidated since April 1, 2010.

## Adjusted EBITDA. (billions of €)



- We generated adjusted EBITDA of EUR 19.5 billion, achieving the target we originally communicated for the year of approximately EUR 20 billion, less EUR 0.4 to 0.5 billion following the deconsolidation of T-Mobile UK.
- Fixed-network lines lost to competitors, price changes imposed by the regulator, and newly imposed or increased special taxes on telecommunications services had a negative impact on adjusted EBITDA.
- Cost management and the Save for Service program only partly offset these effects.

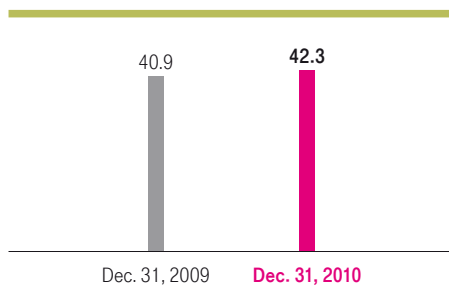
## Free cash flow (before dividend payments and spectrum investment). (billions of €)



- Free cash flow amounted to EUR 6.5 billion, exceeding the Company's guidance for 2010 by EUR 0.3 billion despite a year-on-year decrease of EUR 0.6 billion in cash inflows from factoring.

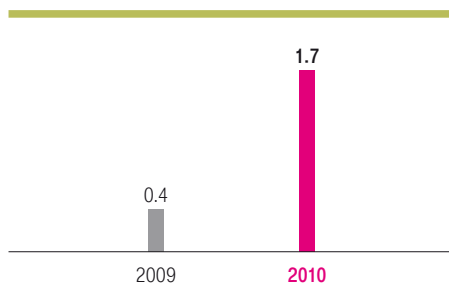


### Net debt. (billions of €)



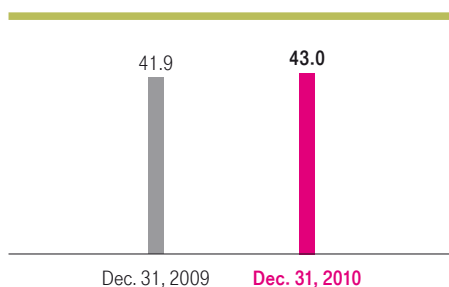
- Net debt increased by 3.3 percent compared with the end of 2009 to EUR 42.3 billion.
- This increase was driven by: dividend payments of EUR 4.0 billion (including dividends paid out to non-controlling interests), payments of EUR 1.3 billion for spectrum, exchange rate effects of EUR 0.8 billion, effects of corporate transactions of EUR 0.8 billion – mainly relating to T-Mobile UK and STRATO – and the share buy-back amounting to EUR 0.4 billion.
- Free cash flow of EUR 6.5 billion reduced net debt.

### Net profit. (billions of €)



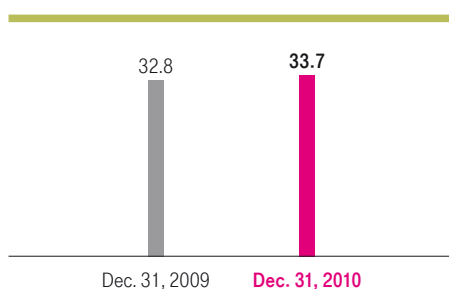
- Net profit increased by EUR 1.3 billion to EUR 1.7 billion.
- The decline in EBITDA was more than offset.
- Depreciation, amortization, and impairment losses (including impairment on goodwill and property, plant and equipment) decreased by EUR 2.1 billion; loss from financial activities reduced by EUR 0.5 billion.
- Income tax expense decreased by EUR 0.8 billion; decline in share of non-controlling interests in profit.

### Shareholders' equity. (billions of €)



- Shareholders' equity increased by EUR 1.1 billion compared with the end of 2009.
- Positive effects from currency translation (EUR 3.7 billion) and net profit (EUR 1.7 billion).
- Negative effects from dividend payments (EUR 4.0 billion) and capital decrease (EUR 0.4 billion).

### Equity ratio. (%)



- Total assets remained almost unchanged compared with the end of 2009 (EUR 127.8 billion).
- Increase of 2.6 percent in shareholders' equity.
- This resulted in an improvement in the equity ratio.

## Comparison of expectations and actual development at Group level.

The estimates for the 2010 financial year originally published in the 2009 Annual Report were based on the planning assumption that the UK subsidiary T-Mobile UK was fully consolidated. Everything Everywhere, the joint venture established on April 1, 2010 as a result of the merger of T-Mobile UK and Orange UK, is included in the consolidated statement

of financial position under investments accounted for using the equity method. The share in the joint venture's profit/loss is reported under profit/loss from financial activities in the consolidated income statement. The original estimates have therefore been adjusted to take account of the changed circumstances.

Adjusted EBITDA 	
<b>2010 guidance</b>	<b>2010 delivery</b>
– Including T-Mobile UK, approx. <b>€ 20 billion</b>	
– Excluding T-Mobile UK, less <b>€ 0.4 – 0.5 billion</b>	<b>€ 19.5 billion</b>


Free cash flow 	
<b>2010 guidance</b>	<b>2010 delivery</b>
– Including T-Mobile UK, approx. € 6.2 billion	
– Excluding T-Mobile UK, approx. <b>€ 6.2 billion</b>	<b>€ 6.5 billion</b>


**Capital expenditure (before spectrum)** totaled EUR 8.5 billion in 2010 and was concentrated in all countries on further rolling out broadband and expanding capacities in existing networks. In mobile communications, we increased 3G network coverage, while in the fixed network, the focus was mainly on DSL, VDSL, and IPTV. Furthermore, we continued to upgrade the existing telephone network to a next-generation network, such as the IP-based voice network. At T-Systems, capital expenditure was primarily in connection with customer orders and the expansion of new shared platforms (e.g., for cloud services).

## Comparison of stakeholders' expectations and actual development.

The following measures and achieved targets serve to ensure the different expectations and interests that the stakeholders (shareholders, providers of debt capital, employees, and the "entrepreneurs within the enterprise")

have of the Group are fulfilled.  For further explanations, please refer to the section "Group strategy and Group management."

Shareholders 	
<b>Shareholder remuneration policy<sup>a</sup></b>	<p><b>2010 guidance</b></p> <ul style="list-style-type: none"> <li>– Total annual remuneration volume of <b>€ 3.4 billion</b></li> <li>– Of which minimum annual dividend of <b>€ 0.70 per share</b></li> </ul> <p><b>2010 delivery</b></p> <ul style="list-style-type: none"> <li>– Share buy-back of <b>€ 0.4 billion</b> and</li> <li>– Proposed dividend for 2010 of <b>€ 0.70 per share</b> (€ 3.0 billion)</li> </ul>

Providers of debt capital 	
<b>Rating</b>	<b>2010 guidance</b> A-/BBB+ <b>2010 delivery</b> BBB+
<b>Relative debt</b>	2 to 2.5x 2.2x
<b>Equity ratio</b>	25 to 35% 33.7%
<b>Gearing</b>	0.8 to 1.2 1.0
<b>Liquidity reserve</b>	covers maturities of the next 24 months covers maturities > 24 months

**Guidance through 2012**  
Improvement of 150 basis points

ROCE

**ROCE level<sup>b</sup>**  
2010: 3.5% (2009: 3.9%)

**Staff restructuring and staff reduction**  
Expenses arising from staff restructuring in 2010: € 1.0 billion  
ROCE impact: ≈ -0.6 %-age points

**Transactions in 2010**  
– Establishment of the Everything Everywhere joint venture  
– PTC transaction  
Total ROCE impact: ≈ -0.4 %-age points

Employees

"Entrepreneurs within the enterprise"


<sup>a</sup>  Please refer to footnote 2, page 129.

<sup>b</sup> ROCE 2010: 3.9% (excluding expenses arising from the PTC transaction and effects from the deconsolidation of T-Mobile UK).

# Highlights in the 2010 financial year.

## Development of the Group's strategy.

**Board of Management develops Group strategy further.** As part of our enhanced Fix – Transform – Innovate strategy, we are aiming to refocus our business with investments in intelligent networks and with IT, Internet, and network services. Our aim is to drive up revenues in growth areas.

 For more information about the further development of our strategy, please refer to the section "Group strategy and Group management."

## Developments at management level.


**New five-year contract for René Obermann.** At its meeting on December 16, 2010, the Supervisory Board of Deutsche Telekom AG resolved ahead of time to extend René Obermann's contract as Chairman of our Board of Management by five years. His current contract expires on October 31, 2011. The new contract will run until the end of October 2016.

**Edward R. Kozel appointed to the Board of Management of Deutsche Telekom AG.** At its meeting on May 2, 2010, the Supervisory Board appointed Edward R. Kozel as a new member of Deutsche Telekom AG's Board of Management effective May 3, 2010. As member of the Board of Management for Technology and Innovation/Chief Technology and Innovation Officer (CTIO), he is responsible for Technology, IT, Procurement, and Products & Innovation for standard business (consumers and business customers).

**Changes in management at T-Mobile USA and OTE.** Philipp Humm succeeded Robert Dotson as CEO of T-Mobile USA effective November 1, 2010. Robert Dotson remains with the company as Vice Chairman. Michael Tsamaz was appointed successor to Panagis Vourloumis as Chairman and Chief Executive Officer (CEO) of OTE effective November 3, 2010. Panagis Vourloumis left the company effective the same date. Michael Tsamaz will also continue as CEO of Cosmote Mobile Communications.

## Investors/Shareholder remuneration policy.

**Shareholder remuneration policy\* for the 2010 to 2012 financial years approved.** The Board of Management and Supervisory Board have decided to pursue a shareholder remuneration policy for the 2010 to 2012 financial years, consisting of an annual dividend of at least EUR 0.70 per share and the buy-back of the Company's own shares with the remaining amount, up to a total shareholder remuneration of around EUR 3.4 billion. This policy is subject to the requisite unappropriated net income being posted in the annual financial statements of Deutsche Telekom AG for the financial year in question and the ability to form the necessary reserves for the share buy-back. It is also contingent upon the executive bodies adopting resolutions to this effect taking account of the Company's situation at the time.

**Share buy-back and capital decrease completed in 2010.** Deutsche Telekom AG purchased shares for a total price of EUR 400 million (excluding transaction costs) in 2010. The Company then retired the approximately 40 million shares purchased and reduced Deutsche Telekom AG's share capital accordingly by EUR 102 million.  For more information, please refer to the notes to the consolidated financial statements.

**Deutsche Telekom included in Dow Jones Sustainability Index (DJSI) again.** In 2010, we again qualified for the Dow Jones Sustainability Index World and Dow Jones Sustainability Index Europe, the most renowned sustainability indexes.

## Corporate transactions/Changes in the segment structure.

**Everything Everywhere joint venture successfully established in the United Kingdom.** On April 1, 2010, together with France Télécom S.A., we merged T-Mobile UK and Orange UK to create a joint venture called Everything Everywhere in which the two shareholders hold equal shares of 50 percent. Following the establishment of the joint venture, the assets and liabilities of T-Mobile UK have no longer been shown in the consolidated statement of financial position since April 1, 2010. Also T-Mobile UK's income statement has no longer been included in the consolidated income statement since the same date. Instead, the joint venture is included in the consolidated statement of financial position under investments accounted for using the equity method, while the share in the joint venture's profit/loss is reported in the consolidated income statement under profit/loss from financial activities.


\*  Please refer to footnote 2, page 129.

**Merger of the Europe and Southern and Eastern Europe operating segments.** On February 24, 2010, the Supervisory Board resolved to realign the management structure of the two operating segments Southern and Eastern Europe, and Europe. These two operating segments were merged on April 1, 2010 to form the new Europe operating segment that encompasses the 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 and Services unit, which mainly provides wholesale telecommunications services for the Group's other operating segments. Since April 1, 2010, we therefore report on the four operating segments Germany, Europe, United States, and Systems Solutions, as well as on Group Headquarters & Shared Services.

**Acquisition of STRATO and ClickandBuy.** We fully consolidated STRATO AG and STRATO Rechenzentrum AG (STRATO) as of January 1, 2010. The transaction makes us a leading provider of Web hosting products, especially for consumers and small business customers in Germany. We also acquired the remaining shares in the Internet payment service provider Firstgate effective April 1, 2010. Via our venture capital company, T-Venture, we have held shares in Firstgate, best known for the Clickand-Buy brand, since 2006.

## Litigation settlements.

**T-Online appraisal rights proceedings.** In the proceedings concerning the review of the appropriateness of the exchange ratio in the merger of T-Online into Deutsche Telekom, the Frankfurt/Main Higher Regional Court ruled on September 3, 2010 that Deutsche Telekom must make a supplementary cash payment of EUR 1.15 per share plus interest to former T-Online shareholders. The ruling only applies to those shareholders who exchanged their T-Online shares for Deutsche Telekom shares as part of the merger. As approximately 120 million shares were exchanged in this manner, a supplementary cash payment of around EUR 138 million plus interest had to be made.

**Polska Telefonia Cyfrowa Sp.z o.o. (PTC).** In December 2010, we reached an agreement with the French media company Vivendi and the Polish-based Elektrim as well as Elektrim's creditors that has secured us full, undisputed ownership of PTC. Deutsche Telekom and its subsidiaries paid approximately EUR 1.4 billion to Elektrim and Vivendi in January 2011 under the terms of the agreement. Settlement of all legal disputes between the parties was also agreed.  For more information, please refer to the notes to the consolidated financial statements.

## One Company.

**Official launch of Telekom Deutschland GmbH.** The spin-off of the T-Home unit into T-Mobile Deutschland GmbH became effective upon entry in the commercial register on March 30, 2010, and with it the merger of German fixed-network and mobile operations within a single entity. At the same time, T-Mobile Deutschland GmbH was renamed Telekom Deutschland GmbH – a step which also became effective upon entry in the commercial register on March 30, 2010.

**Fixed-network and mobile operations now also merged in Slovakia.** Following the mergers of mobile and fixed-network operations in Hungary, Montenegro and – in early 2010 – in Croatia, Slovak Telekom and T-Mobile Slovakia have also merged to form one company. Consequently, the national companies in Slovakia are following the path that we have already successfully taken in Germany.

## Delisting.

**Deutsche Telekom delisted from the New York Stock Exchange (NYSE) and the Tokyo stock exchange.** Deutsche Telekom AG's shares have been traded on the U.S. over-the-counter (OTC) market since June 21, 2010. Also, Deutsche Telekom AG has deregistered from the U.S. Securities and Exchange Commission (SEC). Deutsche Telekom shares have been delisted from the Tokyo stock exchange since July 15, 2010.

**OTE and Magyar Telekom withdraw from the NYSE.** OTE delisted its American Depositary Shares (ADSs) from the NYSE on September 17, 2010, followed by Magyar Telekom on November 12, 2010. Both companies also intend to deregister and thus discontinue their reporting obligations to the SEC.

## Employees.

**Deutsche Telekom is the first DAX 30 company to introduce a women's quota for management positions.** In March 2010, we became the first DAX 30 company to introduce a women's quota for upper and middle management positions. Women are to be appointed to 30 percent of these positions by 2015.

## Investments in networks and new spectrum.

**Telekom Deutschland GmbH successfully participated in the LTE spectrum auction.** In May 2010, Telekom Deutschland GmbH purchased spectrum in the 0.8 GHz, 1.8 GHz, and 2.6 GHz frequency ranges at auction, for which it paid around EUR 1.3 billion. We are using this spectrum to supply rural areas with broadband and make a rapid start on filling in some of the gaps on the map. We were the first network operator to put a 4G base station into operation in Kyritz (Brandenburg) in August 2010. Pilot operation started at selected customers' sites in Baden-Württemberg and Brandenburg in December 2010.

**Fiber roll-out in Germany/Fiber-to-the-home.** We maintained our position as an innovation leader last year with our broadband roll-out. In addition to extending the roll-out of fiber-optic cables in our trunk network, we began laying fiber right to the homes of our customers in 2010 (fiber-to-the-home, FTTH). Hennigsdorf and Braunschweig were the first cities to pilot this roll-out.

**T-Mobile USA offers fastest network in the United States.** T-Mobile USA now offers mobile communications users a 4G experience with HSPA+ technology, including speeds comparable with other 4G networks currently offered to mobile communications users in the United States. The roll-out of this new technology allowed T-Mobile USA to cover 200 million people by the end of the year.

**3G/UMTS network build-out in Europe pushed ahead.** In Austria, the Czech Republic, Romania, and Greece, we have significantly advanced our 3G/UMTS network build-out. T-Mobile Austria, for example, replaced its entire 3G network in collaboration with network equipment supplier Nokia Siemens Networks, upgrading it with state-of-the-art technology. In the Czech Republic, T-Mobile now provides 39 towns and cities with UMTS services and is currently testing HSPA+ technology with speeds of up to 21 Mbit/s. In Romania, we have already put a 3G network with speeds of up to 21.6 Mbit/s into operation in several large urban areas. Our mobile subsidiary Cosmote in Greece is the first provider in the country to achieve mobile broadband download speeds of up to 42.2 Mbit/s.

**T-Mobile Netherlands and T-Mobile Austria both purchase licenses in the 2.6 GHz range.** T-Mobile Netherlands purchased two-part 10 MHz bandwidths in the 2.6 GHz range for EUR 109,000 at the mobile spectrum auction. T-Mobile Austria paid EUR 11 million for a total of 2 x 20 MHz in the 2.6 GHz range. The spectrum purchased makes it possible to use the full range of features of the new 4G technology. In mid-October 2010, T-Mobile Austria went live with 4G, connecting Innsbruck as the first city in Austria to the new network.

**Cosmote Bulgaria (GLOBUL) acquired additional spectrum for the UMTS network.** We have purchased spectrum through Cosmote Bulgaria, which is part of the OTE group, to expand the UMTS network in Bulgaria. We will use this spectrum to further expand the 3G network of GLOBUL, Cosmote Bulgaria's mobile communications brand. GLOBUL paid a one-time fee of BGN 17 million plus an annual fee of BGN 1 million, equivalent in total to approximately EUR 9 million, for the spectrum issued by the Bulgarian communications supervisory authority (CRC).

## New products/Connected life and work.

**DeutschlandLAN.** We have launched an innovative complete package for connected work including broadband connection and Web-based applications for voice and data communication via fixed-network and mobile channels. An integrated communication center makes connected work at the office and on the go simple and convenient.

**T-Systems demonstrates new solutions for a connected working environment.** At CeBIT 2010, T-Systems and Continental presented an open, flexible, and future-proof infotainment concept that runs on the AutoLinQ communications network. Similar to a modern smartphone app, this solution enables mobile connection of vehicles anytime and any place.

**HomeNetwork 2.0 in T-City.** The HomeNetwork 2.0 pilot project was launched in July 2010. This network solution can connect different electrical household devices, track and control them centrally from wherever the homeowners are.

**LIGA total! goes interactive.** We presented a personalized soccer live coverage function in time for the 2010/2011 Bundesliga season. LIGA total! subscribers can now choose between standard coverage with live reports from all matches taking place at the same time and personalized coverage.

**Innovative devices.** In 2010, we began selling the iPhone 4 in Germany and in all countries of our Europe operating segment. We took individual user behavior and different technical prerequisites in each country into consideration when setting the corresponding rate plans. As a strategic partner to Microsoft, we have additionally been marketing two exclusive, high-end phones featuring the new, innovative Windows Phone 7 operating system – the HTC 7 Mozart and the Samsung Omnia 7 – since the fourth quarter of 2010. In the United States, we have launched the new T-Mobile G2 with Google technology, which delivers downloads and Web browsing in 4G quality and integration with Google services. We are breaking new ground with the G2, the first smartphone specifically designed for T-Mobile USA's HSPA+ network. T-Mobile USA also revealed the first mobile tablet in the Android portfolio, the Samsung Galaxy Tab.

## Connections of the future/Wireless Internet connections.

**Entertain news.** At the Internationale Funkausstellung (IFA) held in Berlin in September 2010, we showcased for the first time 3D content that all Entertain customers can retrieve from the online video library at any time provided they have the right television set and 3D glasses. In 2010, we included a large number of HD channels in the range such as Das Erste HD, ZDF HD, TNT Film HD, SyFy, Sport1+ HD. In addition, we expanded our online video library to include 15,000 titles and 1,500 in HD.

**De-Mail.** Since October 22, 2010, future De-Mail users have been able to register a personal address of their choice with us for secure, legally binding online communication.

**Broadband Internet access in the air.** On November 30, 2010, we extended our range of over 8,000 access points (HotSpots) throughout Germany to include on-board broadband Internet access in Deutsche Lufthansa aircraft. The alliance with Deutsche Lufthansa gives our customers unlimited Internet access on intercontinental flights.

## T-Systems strengthened through expansion of cloud services and forward-looking projects for corporate customers.

More and more energy providers are demanding services relating to smart electricity grids in addition to traditional ICT services. In 2010, we closed several new deals in this sector concerning the recording, transmission, and processing of energy data.

Our focus on corporate customers' systems business translated into successful large-scale orders in and outside Germany in 2010, with **Deutsche Post DHL** and **DekaBank** both signing up to purchase key ICT services from T-Systems for at least five years. The energy utility **E.ON** is also outsourcing some of its IT services that up until now were performed in-house. Its partners for this are T-Systems and Hewlett-Packard. The contract will run for a minimum of five and a maximum of seven years. The deal has a total volume of up to EUR 1 billion.

T-Systems also posted success with its cross-border business, as evidenced by a number of major deals abroad. For example, T-Systems will set up a pan-European telecommunications network linking the corporate sites of the tourism group **TUI Travel**. **Swiss Federal Railways (SBB)** also continued its strategic partnership with T-Systems, extending existing agreements until 2015. SBB has been using T-Systems' services for more than ten years.

# Group organization.

## Merger of the Europe and Southern and Eastern Europe operating segments

### Business activities and organization.

#### Business activities.

We are one of the world's leading service providers in the telecommunications and information technology industry. We offer our millions of customers all kinds of products and services for connected life and work.

We have an international focus and are represented in around 50 countries. In the 2010 financial year, over half of our revenue, EUR 35.1 billion, was generated outside of our home market Germany. Overall, we employ 246,777 people (December 2010).

Our activities are guided by major 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 increasingly 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 we are focusing on an integrated product portfolio with which customers can access

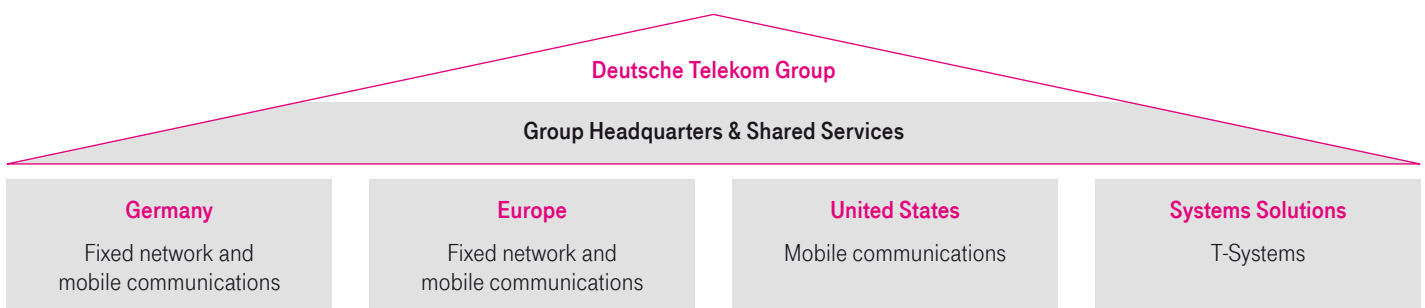
personalized data such as music, videos or addresses from any terminal device. Through fixed-network and mobile communications, we offer network access as well as communication and value-added services with ever-expanding bandwidths, thus promoting personal and social networking with innovative products and services. In addition to our core business (traditional fixed-network and mobile access business), we are specifically tapping new growth areas with investments in intelligent networks and our portfolio of IT, Internet and network services.

We provide customers in Germany with tailor-made products and services and top-quality networks from a single source. To make this possible, we have now merged the formerly independent business units for fixed-network (T-Home) and mobile communications (T-Mobile) to form a single legal entity. The "T" is our Group brand and will also be an integral part of the brand identity for our foreign shareholdings in the future.

T-Systems, our corporate customer arm, is focused on business involving network-centric ICT solutions – with offers combining IT and telecommunications services. T-Systems supplies complete solutions for companies with operations worldwide. In addition, it is focusing on services such as cloud computing and IT solutions for sectors that are undergoing major changes such as energy, healthcare, media distribution, and automotive.

#### Organization.

#### Organizational structure.



On February 24, 2010, the Supervisory Board resolved to realign the management structure of the Europe and Southern and Eastern Europe operating segments. These were merged on April 1, 2010 to form the new Europe operating segment. Since April 1, 2010 we have therefore broken down our reporting into the following four operating segments:

- Germany
- Europe
- United States
- Systems Solutions.

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. When marketing these services, we also sell mobile handsets and other hardware. In addition, we sell T-Mobile services to resellers and to companies that buy network services and market them independently to third parties (MVNOs).

Business in the four operating segments is divided as follows: in three segments by region and in one segment by customer and product.

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 and Services unit, which mainly provides wholesale telecommunications services for the Group's other operating segments.

The **United States** operating segment combines all our 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. The operating segment offers its customers information and communication technology from a single source. It develops and operates infrastructure and industry solutions for multinational corporations and public institutions. The 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 are responsible for all other operating functions not directly related to the operating segments' core business activities. In addition to Vivento, which is responsible for providing employees with new employment opportunities as part of the workforce restructuring program, Shared Services includes Real Estate Services and DeTeFleetServices GmbH, a full-service provider of fleet management and mobility services. Group Headquarters & Shared Services also includes the Technology and Innovation Board department. The Shared Services unit primarily provides services in Germany.

## Legal structure of the Deutsche Telekom Group.

Deutsche Telekom AG, Bonn, is the parent of the Deutsche Telekom Group. Its shares are traded on the Frankfurt Stock Exchange as well as on other German stock exchanges.

Information on the capital stock in accordance with § 289 (4) No. 1 of the German Commercial Code (Handelsgesetzbuch – HGB) can be found in Note 15 in the notes to the financial statements.

### 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, 2010) and trust shares (around 19 million as of December 31, 2010). The trust shares are connected with the acquisition of VoiceStream and Powertel in 2001. As part of these acquisitions, Deutsche Telekom 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 waive voting rights and preemptive 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 if the beneficiaries do not exercise their options or conversion rights or if these expire. The proceeds from the sale accrue to Deutsche Telekom.





**Buy-back of Deutsche Telekom shares.** The shareholders' meeting resolved on May 3, 2010 to authorize the Board of Management to purchase shares in the Company by November 2, 2011, with the amount of share capital accounted for by these shares totaling up to EUR 1,116,497,918.20, 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 § 71 d and § 71 e 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 in compliance with the principle of equal treatment (§ 53a AktG) through the stock exchange. 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.

A resolution of the shareholders' meeting on May 3, 2010 authorized the Board of Management to retire Deutsche Telekom AG's shares purchased on the basis of the aforementioned authorization, without such retirement or its implementation requiring a further resolution of the shareholders' meeting. Based on this authorization, the Board of Management resolved on July 27, 2010 to implement a share buy-back program.

The buy-back program was completed on December 3, 2010. A total of 40,001 thousand shares were acquired for a total price of EUR 400 million (excluding transaction costs) with an average purchase price of EUR 9.99 per share. The Board of Management decided on December 14, 2010 to reduce the share capital of Deutsche Telekom AG accordingly and to retire the shares that had been bought back. This resulted in a decrease of EUR 102 million in issued capital (imputed value of EUR 2.56 per share) and EUR 400 million in the retained earnings of the Group as of December 31, 2010. EUR 102 million was transferred to capital reserves in accordance with § 237 (5) AktG.

**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 noncash 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 capital stock 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' preemptive rights are disappplied. 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, 2010, 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 preemptive 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 EUR 1,100,000,000 as of December 31, 2010, 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 takeover, the individual lenders have the right to terminate the credit line and, if necessary, serve notice or demand repayment of the loans. A takeover is assumed when a third party, which can also be a group acting jointly, acquires control over Deutsche Telekom AG.

In addition, the other members of the Toll Collect consortium (Daimler Financial Services AG and Cofiroute SA) 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. § 22 (1) of the German Securities Trading Act (Wertpapierhandelsgesetz – WpHG) similarly applies to the allocation of voting rights.

Should Deutsche Telekom AG 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, the Hellenic Republic shall have the right to purchase from Deutsche Telekom AG all the shares Deutsche Telekom AG owns in the Greek company Hellenic Telecommunications Organization S.A., Athens, Greece (OTE). For this purpose, Deutsche Telekom shall be deemed to have been taken over if one or several entities, with the exception of the Federal Republic of Germany, directly or indirectly acquires 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. Transferring shares to competitors would remain prohibited even in this situation, however.



## Changes in the consolidated group.

■ The principal subsidiaries of Deutsche Telekom AG are listed in the notes to the consolidated financial statements in the section “Summary of accounting policies” under “**Principal subsidiaries.**” In addition to Deutsche Telekom AG, 64 German and 177 foreign subsidiaries are fully consolidated in Deutsche Telekom’s consolidated financial statements (December 31, 2009: 62 and 182). 13 associates (December 31, 2009: 12) and 5 joint ventures (December 31, 2009: 5) are also included using the equity method.

Business combinations and other transactions in the 2010 financial year are described in the following:

**Acquisition of STRATO.** On November 19, 2009, Deutsche Telekom signed an agreement with Freenet AG to take over 100 percent of the shares in the Web hosting provider STRATO AG and STRATO Rechenzentrum AG (hereinafter referred to as STRATO). Deutsche Telekom obtained control of STRATO as of January 1, 2010. The STRATO group is the second largest Web hosting provider in Germany and Europe. In addition to its German core market, it also operates in Spain, the Netherlands, France, the United Kingdom, and Italy.

**Acquisition of a stake in Firstgate (ClickandBuy).** On March 23, 2010, Deutsche Telekom signed an agreement with the former shareholders for the acquisition of the remaining shares in the Internet payment service provider Firstgate. Deutsche Telekom obtained control of the entity as of April 1, 2010 and, as a result, fully consolidated it for the first time as of that date. Via its venture capital company, T-Venture, Deutsche Telekom has held 20.2 percent of the shares in Firstgate, best known for the ClickandBuy brand, since 2006.

**Everything Everywhere joint venture in the United Kingdom.** Effective April 1, 2010, Deutsche Telekom AG and France Télécom S.A. merged the entities T-Mobile UK and Orange UK into a joint venture under the name Everything Everywhere. Each entity holds a 50 percent stake in the new company. Deutsche Telekom contributed T-Mobile UK to the new joint venture. As a result, the joint venture has been included in the consolidated financial statements under investments accounted for using the equity method.

## 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.

Board of Management responsibilities are distributed across eight Board departments. Five of these are the central management areas:

- Chairman of the Board of Management

and the Board departments

- Finance
- Human Resources
- Data Privacy, Legal Affairs and Compliance
- Technology and Innovation.

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

- Germany
- Europe
- T-Systems.

**Changes in the composition of the Board of Management.** On December 17, 2009, the Supervisory Board agreed to Hamid Akhavan’s request to resign his seat on the Board of Management effective February 15, 2010. On January 29, 2010, the Supervisory Board of Deutsche Telekom approved the proposal by the Board of Management to reassign Hamid Akhavan’s responsibilities on a temporary basis. Board of Management members Guido Kerkhoff and Reinhard Clemens assumed Hamid Akhavan’s responsibilities in an acting capacity. Guido Kerkhoff assumed temporary responsibility for the Europe operating segment (the United Kingdom, the Netherlands, Austria, Poland, and the Czech Republic) and International Sales and Service effective February 15, 2010. Reinhard Clemens, also in an acting capacity, assumed Group-wide responsibility for the remaining units of the Chief Operating Officer (COO), such as Products & Innovation, Technology, IT and Procurement effective the same date.

On February 24, 2010, the Supervisory Board of Deutsche Telekom approved the proposal by the Board of Management to extend Guido Kerkhoff’s area of responsibility on a long-term basis. Since April 1, 2010, Guido Kerkhoff has been responsible for the Europe operating segment in addition to the Southern and Eastern Europe operating segment. The former Chief Operating Officer (COO) Board of Management department has been adjusted accordingly. Since April 1, 2010, the two operating segments have been merged and are continuing operations as the Europe operating segment.


At its meeting on May 2, 2010, the Supervisory Board appointed Edward R. Kozel as a new member of Deutsche Telekom's Board of Management effective May 3, 2010. Edward R. Kozel took over as member of the Board of Management for Technology and Innovation/Chief Technology and Innovation Officer (CTIO) and as such is responsible for Technology, IT, Procurement, and Products & Innovation for standard business (consumers and business customers).

The Supervisory Board of Deutsche Telekom advises the Board of Management and oversees its management of business. The Supervisory Board is composed of 20 members, of whom 10 represent the shareholders and the other 10 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.

#### Composition of the Board of Management as of December 31, 2010.

Members of the Board of Management	Department
René Obermann	Chairman of the Board of Management (CEO)/USA
Dr. Manfred Balz	Data Privacy, Legal Affairs and Compliance
Reinhard Clemens	T-Systems
Niek Jan van Damme	Germany
Timotheus Höttges	Finance (CFO)
Guido Kerkhoff	Europe
Edward R. Kozel	Technology and Innovation
Thomas Sattelberger	Human Resources

**Basis of Board of Management compensation.** On February 24, 2010, the Supervisory Board resolved 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.  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 German Corporate Governance Code, please refer to Note 39 in the notes to the consolidated financial statements.

The compensation of Board of Management members is comprised of various components. Under the terms of their service contracts, members of the Board of Management are entitled to annual fixed remuneration and annual variable performance-based remuneration, 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.

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 and Group management.

New Group strategy // Five growth areas // Three-year finance strategy through 2012

## Group strategy.

**Fix – Transform – Innovate. New strategy successfully implemented since March 2010.** Telecommunications is an industry that sees permanent, dynamic change and is influenced by global trends. All relevant areas are affected: the fixed network, mobile communications, and the Internet.

Infrastructure is and will remain the basis of our business. We expect the gigabit society to need faster and faster networks. Two factors are of crucial importance here, if we are to be efficient and successful: next-generation networks and standardized IT. Telecommunications providers will also have to focus increasingly on realizing growth potential. In our opinion, the mobile Internet and Internet services, for example, provide a wealth of growth opportunities. What do customers expect? Secure and universal access to all services – from all devices. In our view, cloud computing and dynamic computing provide considerable growth potential for business customers. Furthermore, intelligent networks will in future support the upcoming changes in industries such as energy, healthcare, media, and transportation/automotive. We still firmly believe on the whole that a strong national competitive position is vital for a profitable business.

After successfully implementing our preceding strategy called “Focus, fix and grow” between 2007 and 2009, we have been developing our strategic approach further with the new Fix – Transform – Innovate strategy we presented in March 2010. We are focusing specifically on the challenges and opportunities in the market, which will safeguard our successful position in the long term. Our vision is still to become an international market leader for connected life and work. This is why we will systematically restructure our business model in the coming years – with investments in intelligent networks, with IT services and with Internet and network services. The aim of this strategic approach is to expand our activities across the entire value chain and position ourselves as an open partner for consumers and business customers as well as for the Internet sector.

We have defined five new strategic 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 are systematically implementing the new strategy within these action areas and have achieved initial successes in all areas.

### Improve the performance of mobile-centric assets.

In all countries in which our operations primarily provide mobile communications services, we are planning to enhance our performance and specifically invest in next-generation technologies, develop innovative services, and expand our portfolio of mobile devices.

In the United Kingdom, for instance, our new joint venture Everything Everywhere got off to a good start as the market leader, measured in terms of the combined customer base. In the United States, we have developed a new strategic orientation to further improve our competitive position. We increased our average data revenue per user by more than 20 percent in the U.S. market in 2010 thanks to our 3G/4G network. In addition, we improved our position in the other mobile-centric markets, for example in the Netherlands and Poland, where we also substantially increased our data revenues.

### Leverage One Company in integrated assets.

We are continuing to integrate fixed-network and mobile communications – an approach we had taken under the One Company project – as planned and again in line with the new strategy. On the back of the successfully completed integration in Germany and several European markets (e.g., Croatia and Slovakia) in the course of the year, we generated additional revenues, further improved our customer service and leveraged synergies. We have also reorganized our activities in Europe with good results: EBITDA margins in the integrated markets are still at a high level despite the challenging economic situation in some countries.

New innovative services and calling plans have allowed us to set ourselves apart from our competitors more clearly. Media Center, for example, already gives our customers 24/7 access to their music, photos, and other media content, whether on their PCs, TVs, or smartphones. LIGA total!, Deutsche Telekom's soccer league service in Germany, can likewise be watched on various screens at home or on the move.

### **Build networks and processes for the gigabit society.**

We are forecasting a rapid increase in global data volumes in the coming years. Our goal is therefore to continue to transform operations by becoming more efficient, but also by supplying the greater bandwidth required. For this reason, we are focusing on:

- rolling out the fiber-optic networks and enhancing the mobile communications networks by pushing HSPA+ and LTE
- systematically implementing the all-IP concept
- increasing the speed and flexibility of the IT factory
- systematically expanding key enabling skills.

We have already started out on the path to achieving these goals. We purchased additional mobile frequency spectrum at auction in several countries, including Germany, the Netherlands, and Austria. We made further progress with our network roll-out and put more than 3,000 additional UMTS sites into operation in Germany in 2010. On top of this, we have started to roll out the LTE network in several countries. In the United States, we operate America's largest 4G network on the basis of the fast transmission standard HSPA+, which is currently available in 100 metropolitan areas reaching 200 million people.

We are also expanding our networks on the fixed-network side. Our billion-euro investments ensure that more and more households will be covered by fast broadband lines. Put into figures: We have marketed around 12 million broadband lines in Germany, which makes us market leader. On top of this, 342,000 customers have opted for a VDSL line from Deutsche Telekom.

### **Connected life across all screens.**

One strategic goal is the provision of innovative, non-device-specific and convergent services. In our view, the greatest opportunities for growth lie in making data services mobile, particularly on the mobile Internet. We are marketing our own key solutions for connected life, such as innovative

communication services centered around the personalized, network-based address book that we have successfully launched on the market in five countries (e.g., myPhonebook in Germany). Needless to say, we also place a great deal of emphasis on ensuring that our customers have attractive handsets. Initial sales of smartphones in Germany and the United States have been strong. Around 50 percent of all handsets now sold in Germany are smartphones, while more than 8 million of our customers in the United States own smartphones for the national 3G/4G network – more than twice as many as one year before.

Deutsche Telekom is also positioning itself as a pioneer for digital content, by linking and distributing personalized media content. We have made some targeted acquisitions (e.g., ClickandBuy and STRATO), all of which are valuable additions to Deutsche Telekom's portfolio in the high-growth Internet business. Our prominent position in the European TV market is yet another success factor. We have already sold 1.6 million Entertain packages in Germany since market launch and expanded our TV customer base in Southern and Eastern European markets to 2.3 million which corresponds to a 23-percent increase from 2009.

### **Connected work with unique ICT solutions.**

Deutsche Telekom provides customized ICT solutions for business customers and draws on the services of T-Systems in the ongoing standardization of its internal IT solutions. In pursuit of this task, T-Systems will continue to be restructured and its profitability raised to industry level. T-Systems succeeded in increasing its external revenue from IT services in 2010, with particular gains in international markets.

We have developed intelligent, innovative offerings centering around secure cloud services that our business customers are happy to use. We are positioning T-Systems as an open partner, also for other sectors, with the aim of leveraging growth opportunities for ICT solutions in sectors that are undergoing major changes. As part of this initiative, we have created four new business areas for developing intelligent network solutions: energy, healthcare, media distribution, and the connected car. These also got off to a good start. At CeBIT 2010, for instance, we signed an agreement with Continental for the joint development of an open, flexible, and future-proof infotainment concept for connected cars. In addition, we were successful in establishing a partnership with ABB to develop smart grids of the future.

### Growth areas of Deutsche Telekom.

The advances in the strategic action areas are having a positive and direct effect on Deutsche Telekom's principal growth areas.

The **mobile Internet** is our largest growth area. This includes all revenue that we generate with mobile data services. Our aim is to generate revenue of around EUR 10 billion in this area by 2015. To this end, the national companies have launched a number of initiatives.

Another very important growth area for us is the **connected home**. 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 future innovative products for the connected home, such as the Home Gateway or the Personal Communication Suite. The 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: online advertising (e.g., on the web pages of the Scout group, on cell phones, on our TV offerings); the digital content of our Load family (music, video, games, and software); and what are known as "near access services" – these include the roll-out of websites and the sale of security software. Our goal is to increase the revenue from our Internet offerings to between EUR 2 billion and EUR 3 billion by 2015.

In a further growth area, we measure all of **T-Systems' external revenue**, which includes, in particular, the business with innovative cloud services in accordance with the new strategy. Our aim is for T-Systems to generate around EUR 8 billion in total revenue with external customers by 2015.

The **intelligent network solutions** growth area comprises the new business in sectors that are undergoing major changes, such as energy, healthcare, media and transportation/automotive. Here, we have set ourselves the goal of generating revenue of around EUR 1 billion by 2015. To this end, we set up four new business areas this year that are developing and marketing innovative solutions.

### Growth areas of Deutsche Telekom.

	Ambition level for 2015 Revenue in billions of €
Mobile Internet	≈ 10
Connected home	≈ 7
Internet services	2 – 3
T-Systems (external revenue)	≈ 8
Intelligent network solutions (energy, healthcare, media distribution, connected car)	≈ 1

Our overall objective is to almost double revenue in the growth areas by 2015, from EUR 15 billion in 2009 to around EUR 29 billion in 2015. We will therefore continue to systematically implement all five strategic action areas in 2011.

### Group management.

For sustainable Group management we need to take account of the expectations Deutsche Telekom's **four groups of stakeholders** (shareholders, providers of debt capital, employees, and the "entrepreneurs within the enterprise") have of the Group:

- **Shareholders** expect an appropriate, reliable return on their capital employed.
- **Providers of debt capital** and banks expect an appropriate return and that Deutsche Telekom is able to repay its debts.
- **Employees** expect jobs that are secure in the long term, 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 to develop products, innovations, and services for the customer.

The purpose of Group management is to strike a balance between the contrasting expectations and interests of these stakeholders so that sufficient funding is available for investment, socially responsible staff restructuring, debt repayment, and an attractive dividend.

For us **ROCE (return on capital employed)** is the main benchmark for focusing all operational measures on increasing the value of the Group. We believe that ROCE best reflects the expectations of the aforementioned groups of stakeholders. It represents the result a company has achieved in relation to the assets employed in achieving that result. ROCE is calculated using the ratio of profit from operations after depreciation, amortization and impairment losses, and imputed taxes (i.e., 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 (i.e., net operating assets, or NOA). Our goal 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 and thus to generate value. We measure return targets using the weighted average cost of capital (WACC).

For operational management, we also use the KPIs described in the following:

The development of our **revenue** is essential for measuring the Company's success, and programs to improve the top line are a fundamental building block of the Company's future.

**EBITDA** corresponds to **EBIT** (profit/loss from operations) before depreciation, amortization and impairment losses. EBIT and EBITDA indicate the short-term operational performance and the success of individual business areas. The Group also uses the EBIT and EBITDA margins to show how these indicators develop in relation to revenue. These relative indicators make it possible to compare the earnings performance of profit-oriented units of different sizes.

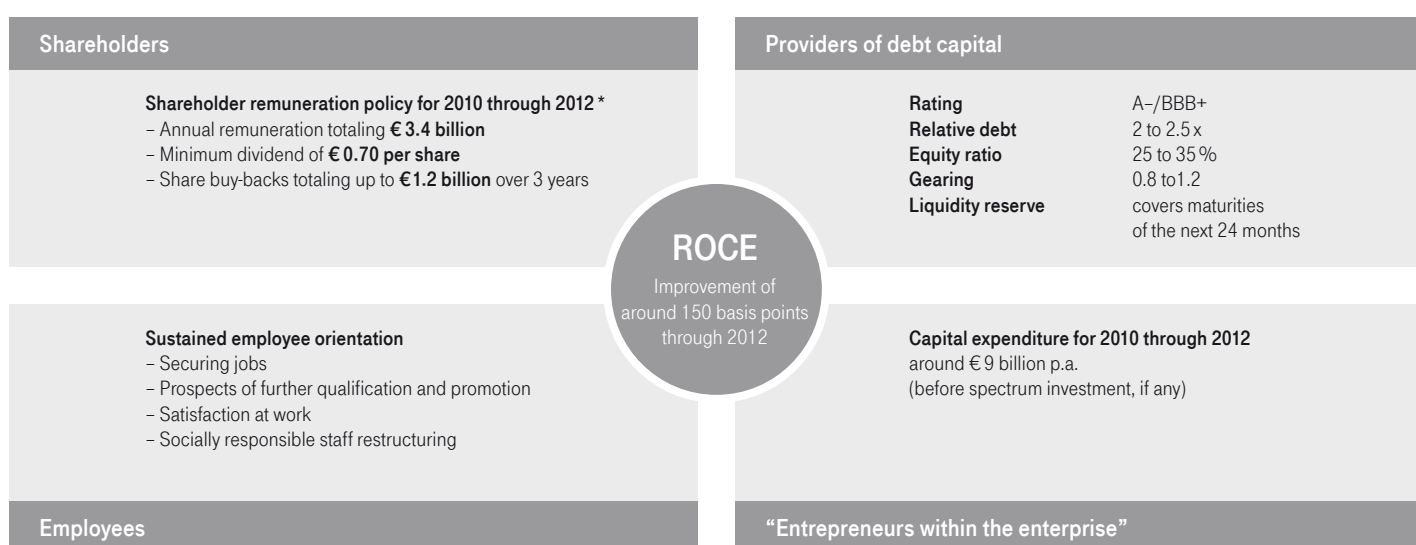
We define **free cash flow** as net cash from operating activities less net cash outflows for investments in intangible assets (excluding goodwill) and property, plant and equipment. It is the key measure used by providers of debt capital and equity as stakeholders in Deutsche Telekom. Free cash flow is indicative of the Company's potential for further development, such as the generation of organic and inorganic growth, and of its ability to pay a dividend and repay debt.

A centralized free cash flow management unit was set up in the prior year that is responsible for transparency, steering, forecasts, and performance measurement. In 2010 we continued to improve working capital, fine-tune our short- and medium-term planning instruments, and refine our steering processes. To improve working capital throughout the Group we launched CORE (Cash Optimization for ROCE Enhancement). As part of these efforts, we developed a set of Group-wide payment regulations to optimize our payables management. Furthermore, workshops were organized across the Group to identify and evaluate potential improvements in receivables management at the individual companies and to define measures. These measures are scheduled for implementation between 2011 and 2013, with the aim of bringing about a long-term improvement in working capital.

In addition to a stable rating, gearing and relative debt are the relevant factors for fulfilling the requirements of debt capital providers and ensuring financial stability. Relative debt is the ratio of net debt to adjusted EBITDA, while gearing is the ratio of net debt to equity.

## Finance strategy.

Our 3-year finance strategy for the years 2010 through 2012.



\* Please refer to footnote 2, page 129.



# The economic environment.

Positive development in 2010 // Momentum to slow slightly in 2011

## Global economic development.

The recovery of the global economy continued in 2010 thanks to the acceleration in global trade and the expansionary monetary and fiscal policy of leading economic nations. According to a forecast by the OECD, the global economy may have grown by 4.5 percent in 2010 after contracting by 1 percent in 2009. Global economic output increased much faster than forecast a year ago, particularly in the first half of 2010. Yet, the pace of this recovery slowed slightly toward the end of 2010 when a number of economic stimulus packages came to an end in the industrialized countries and the resulting "push effects" weakened. This trend was not compensated completely by self-supporting growth.

The growth engines in 2010 were the emerging economies, which accounted for around 70 percent of growth worldwide. According to OECD forecasts and initial estimates, the economic upturn was perceptibly weaker and increasingly disparate in the majority of industrialized nations: Germany, the driver of the EU economy, recorded growth of 3.6 percent in the reporting year, outstripping the euro zone countries with their 1.7-percent growth. After starting the year on a strong note, the U.S. economy posted subdued growth. Viewed from a historical perspective, the growth rate of 2.8 percent was rather moderate. The core countries in our Europe operating segment also presented an uneven picture. Poland, Slovakia, and the Czech Republic show fairly good growth rates of 2.5 to 4.5 percent, whereas the economies of Greece, Romania, and Croatia contracted by between 2 and 4 percent year-on-year. The Netherlands, Austria, and Hungary recorded moderate growth rates of 1 to 2 percent.

Conditions on the labor markets also diverged considerably during 2010. Germany recorded a very positive trend in its labor market, due in particular to a flexible labor market policy in the form of reduced working hours, but also to a return to a healthy level of exports. Unemployment fell to 7.2 percent at the end of the year. However, in many other Western industrialized nations and core countries of Deutsche Telekom, unemployment is still close to the record levels seen in 2009 during the crisis. In the United States, the unemployment rate remained high at 9.4 percent. Countries with substantial national debt that have introduced austerity programs and fiscal policy measures are in a particularly dire macroeconomic situation, coupled with even higher unemployment.

## Telecommunications market.

Our business in the reporting year was impacted by strong competition, intensified regulatory intervention, and the resulting price erosion.

The upswing in the global economy and the slight increase in consumer demand in most of our core markets were able to support the business environment only to a limited extent and were not a major source of impetus. A negative or continuous braking effect was apparent in countries where purchasing power is still falling. As a result of the high pressure on individual countries to consolidate their public finances, some of them raised existing or imposed new taxes on telecommunications companies in 2010. This had a negative impact on both consumption and on the telecommunications companies. In telecommunications, the economic crisis will continue to impact the markets in Southern and Eastern Europe in 2011. In some countries, governments will endeavor to improve the financial situation through fiscal policy intervention.

### Germany.

Total revenue from telecommunications services in Germany decreased by more than 1 percent in 2010 to approximately EUR 61 billion. Fixed-network revenue was down 3.5 percent in this period compared with the previous year. Mobile communications business partially compensated for this decrease with a slight revenue increase of 0.8 percent.

In the reporting year, prices for (fixed-network and mobile) telecommunications services overall declined 2.0 percent year-on-year. Prices for fixed-network and Internet services declined by 1.8 percent, while prices for mobile voice and data connections were down 2.8 percent.

Germany's fixed-network market continued to be subject to major changes in 2010. Over 90 percent of voice minutes were covered by complete packages, while the share of voice minutes attributable to call-by-call and preselection declined further. The number of fixed-only lines remained approximately the same, while the number of fixed-network broadband lines in Germany increased by around 1.3 million to just under 26 million. Cable operators are the main beneficiaries in this situation, since they can offer high bandwidths, sometimes of up to 128 Mbit/s, as well as integrated products (telephony, Internet, and TV). In terms of user figures, cable companies posted growth rates of approximately 26 percent in 2010.

The expansion of the fiber-optic network is becoming more and more important for Germany. We are contributing to this build-out in Dresden, Hennigsdorf and Braunschweig, for example, where we have started laying fiber right into the homes of our customers.

Despite intense and predatory competition, the mobile communications market in Germany saw a slight growth in 2010. Regulatory decisions like the one to lower termination charges will play an increasingly important role in the development of the market. This is the reason mobile communications providers are placing greater emphasis on customer loyalty and value-driven growth among contract customers. Service revenues in the overall market grew year-on-year in 2010. This is mainly due to mobile data growth, which is a result of the ever increasing popularity of smartphones. To meet the rising demands in the mobile network, Germany already has 69,258 cell sites (source: Federal Network Agency), of which Deutsche Telekom alone operates around 25,000.

The new LTE frequency was auctioned in May 2010. Since then, telecommunications providers across Germany have begun to roll out the new mobile communication standard. We started doing this in June 2010, rolling out LTE in Brandenburg, Lower Saxony, Baden-Württemberg, and Bavaria.

Telecommunications companies continue to extend the range of products and services they offer to their customers. We, too, are entering into new areas of business, including automatic machine-to-machine data exchange, intelligent network structures and new service offerings for electronic data transfer, such as De-Mail.

## Europe.

The telecommunications markets in the countries of our Europe operating segment were also dominated by intense competition, which put further pressure on retail prices. In addition, revenues were negatively impacted by the reduction in termination charges imposed by regulatory authorities. Telecommunications companies in most of the Southern and Eastern European countries assigned to the Europe operating segment were strongly impacted by government and regulatory decisions.

Even though the mobile communications markets in our Europe operating segment are largely saturated, market penetration increased in nearly all countries. The only markets where it decreased were Greece and the Netherlands. In the case of Greece, this was due to a new national regulation requiring prepay customers to be registered immediately. In the Netherlands, market penetration was lower because T-Mobile Netherlands deregistered inactive prepay customers.

The traditional fixed-network business is increasingly being pushed into the background. Further line losses were registered in all countries in the Europe operating segment in 2010, though the decline was slightly less marked than in the previous year. The broadband business, on the other hand, is still growing, albeit at a slower pace in 2010. Broadband coverage varies from country to country. The need for greater bandwidth continues to grow on the strength of business areas such as IPTV.

## United States.

The U.S. wireless market as a whole continues to expand, as growth in data revenues more than offsets declines in voice revenues. The market is divided into four national operators (AT&T Wireless, Verizon Wireless, Sprint, and T-Mobile USA) and several regional operators. In addition to the network operators, there are a number of mobile virtual network operators (MVNOs) that are using the networks of one or several of the four national operators. The two largest operators, AT&T Wireless and Verizon Wireless, have achieved especially strong revenue growth and healthy margins in 2010. This was driven by strong growth in smartphone adoption and rising post-paid ARPU. Due to potential advantages through size, scale and their ability to bundle wireless service with other non-wireless communication services, AT&T Wireless and Verizon Wireless could be able to deliver services in a more cost-efficient manner and disproportionately increase their customer base, thereby negatively affecting T-Mobile USA's competitive position.



AT&T has had a competitive advantage in the past three years with the exclusive distribution of the Apple iPhone. However, this exclusivity will end in 2011 and distribution will be expanded to include Verizon, giving Verizon a similar competitive advantage. It is not clear yet at which point T-Mobile USA might get the iPhone. Verizon and AT&T, in particular, achieved proportionately higher net customer additions in 2010, which, combined with pressure from the regional unlimited discount operators, resulted in a slight decline in T-Mobile USA's market share in 2010.

A major theme for the industry is the deployment of 4G networks. Thus Verizon Wireless started the roll-out of LTE with a coverage of 110 million of the population reached by year-end. To date Verizon Wireless is offering only LTE dongles but plans to introduce LTE smartphones in 2011. AT&T and T-Mobile USA have deployed HSPA+ networks. As of year-end 2010 T-Mobile USA achieved an HSPA+ coverage of 200 million of the population. AT&T, which is believed to be behind T-Mobile USA in HSPA+ coverage due to a less advanced roll-out of fiber backhaul, has announced that it will begin deploying LTE in 2011. Sprint does not have its own 4G network but is relying on Clearwire, in which it has a non-controlling stake. As of year-end 2010 the Clearwire network, which is based on WiMAX, covered approximately 110 million of the population. Sprint has begun offering several WiMAX-capable smartphones.

### Systems Solutions.

Whereas 2008 and 2009 were marked by the global economic crisis, 2010 showed clear signs of recovery. Despite the general market recovery, companies remained under pressure to reduce their costs. Many companies were hesitant to implement the necessary modernization and upgrading of their IT. Project and infrastructure business recovered slowly. This trend impacted the individual segments of the market in very different ways.

Economic recovery had little effect on the telecommunications business, a market that experienced intense competition and severe price erosion, as in previous years.

The market for IT services began to grow again following the crisis years and the recovery in outsourcing business in the area of Computing and Desktop Services (CDS) is tangible. This is not only due to the traditional outsourcing business, but also as a result of the success of cloud services, i.e., the provision of IT services over the Internet.

IT project business also recorded a slight growth in 2010 following a strong decline in 2009. Industry-specific systems integration business, driven by IT projects in the healthcare, energy and public sectors recovered significantly faster than standard project business in the fields of ERP (Enterprise Resource Planning), CRM (Customer Relationship Management) and SCM (Supply Chain Management).

Demand on the whole is continuing to change. Whereas customers used to demand telecommunications products and IT services as separate services, now they increasingly want one-stop ICT solutions to improve their corporate processes and raise their enterprise value. Cloud services, embedded systems, and intelligent networks in particular are increasingly transforming the market.

## Regulatory influence on Deutsche Telekom's business.

Our business activities are largely subject to national and European regulation, combined with extensive powers to intervene in our product design and pricing.

We were again subject to extensive regulation in our **fixed-network business** in 2010. The main interventions are detailed in the following:

The Federal Network Agency issued two regulatory orders in the reporting period. On September 17, 2010, the Agency determined that the regulated wholesale service regime that applies to DSL will now generally also apply to VDSL and FTTH lines, as well as to Ethernet-based bitstream access. The standard offering must be adapted in line with the new order, with rates subject to ex-post control by the Federal Network Agency.

In September 2010, the Federal Network Agency issued a draft consultation paper for the regulatory order on unbundled local loop lines (ULLs). This essentially confirms the existing obligations for unbundled access to ULLs. The Federal Network Agency also intends to include pure fiber-optic access to ULLs in the existing regulatory regime on the basis of an ex-post obligation. With its appeal ruling in 2010, the Federal Administrative Court reimposed the obligation to grant access to dark fiber. The final regulatory order will be adopted following consultation with the European Commission.

The Federal Network Agency has also reviewed in ex-post proceedings the rates charged by us for the provision of customer data to providers of directory inquiry services and the publishers of telephone and business directories to determine whether they are abusive. On July 19, 2010, it ruled that any charges exceeding EUR 1.6 million per annum for the provision of data are abusive. We have initiated legal proceedings against this decision. Until a court ruling has been issued, this decision of the Federal Network Agency is binding.

On September 20, 2010, the European Commission issued its Recommendation on regulated access to Next-Generation Access Networks (NGA Recommendation) containing guidelines to be observed as far as possible by national regulatory authorities when obligating market-dominant companies to grant access to these networks. Its aim is to harmonize regulatory requirements in Europe. The object of the Recommendation is general regulation of access to the physical network infrastructure at the wholesale level and in the broadband access market. Overall, the European Commission is providing for price and access regulation that was developed for the existing copper network to be applied to new fiber-optic networks.

In spite of intense competition, mobile termination in the **mobile communications market** continued to be regulated ex-ante in 2010 and was thus subject to price control by the Federal Network Agency and the EU.

The next stage of the EU Roaming Regulation entered into force on July 1, 2010. Since then, outgoing calls within the EU cost 39 eurocents plus VAT and incoming calls cost 15 eurocents plus VAT. The inter-operator tariff (IOT) was reduced to 22 eurocents plus VAT. Prices for text messages sent or received remained unchanged at 11 eurocents and 4 eurocents respectively, plus VAT. For data roaming the IOT was reduced from EUR 1.00 to EUR 0.80. Also on July 1, 2010, a spending cap was introduced for all customers who did not expressly opt out. Now the data roaming connection is automatically interrupted once EUR 50 (net) are spent, until the customer actively confirms they want to continue using the connection and incur further costs. The future of the Roaming Regulation following the expiration of the current Regulation in July 2012 is currently being discussed in Brussels. In its Digital Agenda for Europe, the European Commission issued the political goal of abolishing the differences between national and roaming rates by 2015.

On November 30, 2010, the Federal Network Agency provisionally approved the new rates for call termination in national mobile networks that are applicable from December 1, 2010. This involved cutting Vodafone and Telekom Deutschland GmbH's previously asymmetric rates by around 50 percent, making them de facto symmetrical. The Federal Network Agency's rate ruling requires consultation throughout the EU and is expected to enter into force toward the end of the first quarter of 2011. These rates will expire on November 30, 2012.

**Regulatory requirements for LTE roll-out.** In May 2010, Telekom Deutschland GmbH purchased spectrum at auction in the 800 MHz, 1.8 GHz, and 2.6 GHz frequency ranges and by the end of October 2010 had received assignment notices from the Federal Network Agency for all frequencies purchased. The coverage requirements stipulate for the 800 MHz range that network operators must start rolling out LTE in towns and communities that have no or very little broadband coverage. Broadband coverage is to be increased to 90 percent of the population in these gaps by early 2016. Roll-out is to be in stages based on the number of inhabitants, beginning with municipalities with populations of 5,000 or less. Other broadband coverage provided by us or other operators (e.g., DSL or UMTS) with a minimum transfer bandwidth of 1 Mbit/s also count toward meeting the requirements. Irrespective of this, however, each network operator must provide 50 percent of the population with 800 MHz broadband services by the start of 2016.

There are also roll-out requirements for the new frequencies in the 1.8 GHz and 2.6 GHz spectrum ranges: 25 percent population coverage by the beginning of 2014 and 50 percent by the beginning of 2016. As GSM and UMTS also count toward these coverage targets, Telekom Deutschland GmbH has already met these requirements.

# Development of business in the Group.

Company targets achieved // Adjusted EBITDA of EUR 19.5 billion  
// Free cash flow guidance exceeded at EUR 6.5 billion

## Statement on business development in 2010.

We have achieved and exceeded our guidance for adjusted EBITDA and free cash flow (before dividend payments and spectrum investment), respectively. We also fully delivered on the shareholder remuneration policy we announced for the 2010 to 2012 financial years with a proposed dividend of EUR 0.70 per no par value share carrying dividend rights and the share buy-back amounting to EUR 0.4 billion in 2010. With the investments we have made amounting to EUR 8.5 billion (excluding spectrum), we have pushed ahead with the broadband roll-out and invested in expanding the capacities of existing networks and in faster mobile networks. We have also acquired spectrum for EUR 1.3 billion, which will speed up our broadband roll-out. Despite the fact that competitive pressure in the telecommunications market continued to grow and regulatory intervention became more and more intense, leading to a further price erosion, we brought the 2010 financial year to a successful close on the basis of our Fix – Transform – Innovate strategy announced at the beginning of 2010 and practiced ever since.

## Effects of changes in the composition of the Group.

Changes in the composition of the Group impacted heavily on the development of business in 2010. These effects were mainly attributable to the following issues:

**OTE group.** Hellenic Telecommunications Organization S.A. (OTE/OTE group) has been fully consolidated since February 2009 and was therefore not included in the consolidated income statement for the full 2009 financial year. The OTE group is presented in the Europe operating segment.

**Everything Everywhere joint venture.** On April 1, 2010, Deutsche Telekom and France Télécom S.A. merged T-Mobile UK and Orange UK to create a joint venture called Everything Everywhere in which the two companies hold equal shares of 50 percent. Since then, the assets and liabilities of T-Mobile UK have no longer been shown in the consolidated statement of financial position. Equally, T-Mobile UK's income statement has no longer been included in the consolidated income statement since the same date. Instead, the joint venture is included in the consolidated statement of financial position under investments accounted for using the equity method. The share in the joint venture's profit/loss is reported in the consolidated income statement under profit/loss from financial activities. The new joint venture is presented in the Europe operating segment.

The following table illustrates the impact that Everything Everywhere has on the composition of the Group and, in turn, on our key financial indicators. To this end, we have eliminated the share in the joint venture's/T-Mobile UK's profit/loss attributable to Deutsche Telekom from 2010 and the corresponding prior-year periods (April 1 to December 31) to facilitate comparison.

	Excluding T-Mobile UK			Including T-Mobile UK		
	2010 millions of €	2009 millions of €	2008 millions of €	2010 millions of €	2009 millions of €	2008 millions of €
Net revenue	62,421	62,152	58,815	62,421	64,602	61,666
EBITDA (adjusted for special factors)	19,473	20,168	18,811	19,473	20,668	19,459
Net profit (loss)	1,744	232	1,374	1,695	353	1,483
Net profit (loss) (adjusted for special factors)	3,413	3,259	3,322	3,364	3,390	3,426
Free cash flow (before dividend payments and spectrum investment)	6,163	6,688	6,646	6,543	6,969	7,033
Cash capex	9,851	9,054	8,408	9,851	9,202	8,707

For details of the effects of changes in the composition of the Group, please refer to "Business combinations and other transactions" in the section "Summary of accounting policies" in the notes to the consolidated financial statements.

## Results of operations of the Group.

### Net revenue.

Net revenue in the 2010 financial year was EUR 62.4 billion, down by EUR 2.2 billion compared with the prior year. The aforementioned changes in the composition of the Group had a negative impact of EUR 1.9 billion, while exchange rate effects had a positive impact of EUR 1.2 billion. The exchange rate effects resulted mainly from the translation into euros of U.S. dollars, Polish zlotys, and Czech korunas. Excluding these effects, revenue was down EUR 1.5 billion or 2.4 percent year-on-year.

Our Systems Solutions and United States operating segments both recorded a revenue increase, whereas all others recorded decreases. Revenue in the operating segments developed as follows:

Compared with 2009, our **Germany** operating segment reported a revenue decrease of 1.1 percent in the reporting year. The EUR 0.2 billion revenue increase in mobile communications only partially offset the EUR 0.6 billion decrease in fixed-network revenue.

Our **Europe** operating segment reported a revenue decrease of EUR 2.8 billion or 14.1 percent compared with the prior year, primarily due to the aforementioned negative effects from changes in the composition of the Group. After adjustment for these effects of EUR 2.1 billion and positive exchange rate effects of EUR 0.2 billion, revenue decreased by EUR 1.0 billion or 5.6 percent year-on-year. The decrease in revenue from operations was largely attributable to price reductions resulting in most countries in the segment from the cut in mobile termination charges imposed by regulatory authorities, and from intense competition. Newly imposed or increased special taxes or levies on mobile communications also had a negative impact on total revenue.

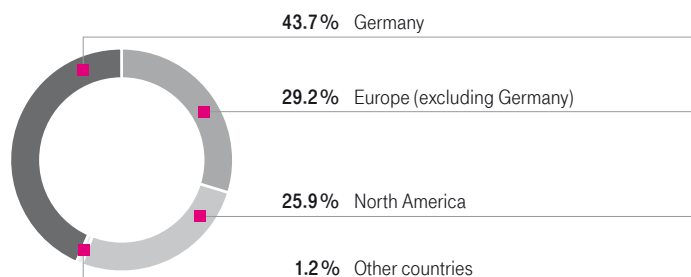
Translated into euros, revenue in the **United States** operating segment increased by 4.0 percent year-on-year. After adjustment for exchange rate effects of EUR 0.8 billion, however, operating segment revenue declined slightly by 1.0 percent.

In 2010 our **Systems Solutions** operating segment reported a revenue increase of 2.9 percent year-on-year, the result of the large number of deals that were closed in both 2009 and 2010. The new deals offset the general negative price trend in IT and communications.

**Contribution of the operating segments to net revenue.**

	2010 millions of €	2009 millions of €	Change millions of €	Change %	2008 millions of €
<b>Net revenue</b>	<b>62,421</b>	<b>64,602</b>	<b>(2,181)</b>	<b>(3.4)</b>	<b>61,666</b>
Germany	25,145	25,423	(278)	(1.1)	26,400
Europe	16,840	19,607	(2,767)	(14.1)	15,932
United States	16,087	15,471	616	4.0	14,957
Systems Solutions	9,057	8,798	259	2.9	9,343
Group Headquarters & Shared Services	2,166	2,410	(244)	(10.1)	2,781
Intersegment revenue	(6,874)	(7,107)	233	3.3	(7,747)

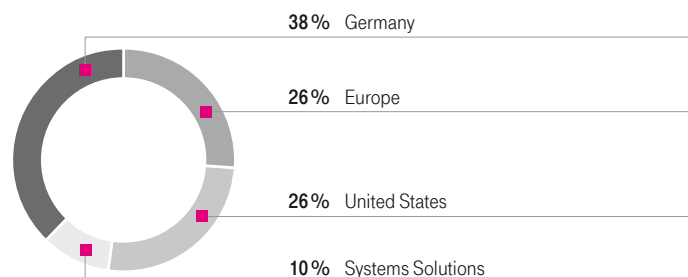
**Breakdown of revenue by region.**



At 38 percent, the **Germany** operating segment provided the largest contribution to the net revenue of the Group in the 2010 financial year. The **Europe** operating segment's share of net revenue decreased by 3.5 percentage points year-on-year owing to effects from changes in the composition of the Group. The **United States** operating segment's share of net revenue increased by 1.9 percentage points, primarily as a result of exchange rate effects. The **Systems Solutions** operating segment's share of net revenue remained virtually stable.

The proportion of net revenue generated outside Germany remained almost constant compared with the prior year. Both domestic and international net revenue decreased. While changes in the composition of the Group largely had a negative impact in Europe (excluding Germany), revenue in North America increased, mainly due to exchange rate effects.

**Contribution of the operating segments to net revenue.**



**EBITDA.**

EBITDA totaled EUR 17.3 billion in the 2010 financial year, down 13.0 percent year-on-year. In addition to a decline in EBITDA from operations, EBITDA was also impacted by T-Mobile UK's deconsolidation and, in turn, the elimination of its contribution to EBITDA of EUR 0.5 billion, and a EUR 1.4 billion year-on-year increase in special factors. These special factors mainly comprised expenses of EUR 1.3 billion in connection with staff-related measures and non-staff-related restructuring, of EUR 0.4 billion for the PTC transaction, and of EUR 0.4 billion attributable to the deconsolidation of T-Mobile UK. This contrasted with positive exchange rate effects amounting to EUR 0.3 billion.

## Consolidated income statement and effects of special factors.

	EBITDA 2010 millions of €	EBIT 2010 millions of €	EBITDA 2009 millions of €	EBIT 2009 millions of €	EBITDA 2008 millions of €	EBIT 2008 millions of €
<b>EBITDA/EBIT</b>	<b>17,313</b>	<b>5,505</b>	<b>19,906</b>	<b>6,012</b>	<b>18,015</b>	<b>7,040</b>
<b>Germany</b>	<b>(509)</b>	<b>(509)</b>	<b>(349)</b>	<b>(356)</b>	<b>(960)</b>	<b>(973)</b>
Staff-related measures	(401)	(401)	(300)	(300)	(772)	(772)
Non-staff-related restructuring	(11)	(11)	(31)	(31)	(23)	(23)
Effects of deconsolidations, disposals and acquisitions	0	0	10	10	0	0
Other	(97)	(97)	(28)	(35)	(165)	(178)
<b>Europe</b>	<b>(606)</b>	<b>(1,297)</b>	<b>(93)</b>	<b>(2,443)</b>	<b>(151)</b>	<b>(440)</b>
Staff-related measures	(209)	(209)	(36)	(36)	(50)	(50)
Non-staff-related restructuring	(5)	(5)	(26)	(26)	(65)	(65)
Effects of deconsolidations, disposals and acquisitions	(355)	(355)	0	0	0	0
Impairment losses	-	(680)	-	(2,345)	-	(249)
Other	(37)	(48)	(31)	(36)	(36)	(76)
<b>United States</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>(57)</b>	<b>(57)</b>
Staff-related measures	0	0	0	0	(11)	(11)
Non-staff-related restructuring	0	0	0	0	(46)	(46)
<b>Systems Solutions</b>	<b>(281)</b>	<b>(289)</b>	<b>(213)</b>	<b>(240)</b>	<b>36</b>	<b>12</b>
Staff-related measures	(113)	(113)	(68)	(68)	(320)	(320)
Non-staff-related restructuring	(170)	(178)	(152)	(179)	(167)	(191)
Effects of deconsolidations, disposals and acquisitions	0	0	7	7	518	518
Other	2	2	0	0	5	5
<b>Group Headquarters &amp; Shared Services</b>	<b>(769)</b>	<b>(769)</b>	<b>(101)</b>	<b>(101)</b>	<b>(312)</b>	<b>(322)</b>
Staff-related measures	(281)	(281)	(109)	(109)	84	84
Non-staff-related restructuring	(100)	(100)	0	0	0	0
Effects of deconsolidations, disposals and acquisitions	(385)	(385)	24	24	(346)	(356)
Other	(3)	(3)	(16)	(16)	(50)	(50)
<b>Group reconciliation</b>	<b>5</b>	<b>5</b>	<b>(6)</b>	<b>(6)</b>	<b>0</b>	<b>0</b>
Staff-related measures	0	0	(16)	(16)	15	15
Non-staff-related restructuring	1	1	10	10	0	0
Effects of deconsolidations, disposals and acquisitions	4	4	0	0	(25)	(25)
Other	0	0	0	0	10	10
<b>Total special factors</b>	<b>(2,160)</b>	<b>(2,859)</b>	<b>(762)</b>	<b>(3,146)</b>	<b>(1,444)</b>	<b>(1,780)</b>
<b>EBITDA/EBIT (adjusted for special factors)</b>	<b>19,473</b>	<b>8,364</b>	<b>20,668</b>	<b>9,158</b>	<b>19,459</b>	<b>8,820</b>
Profit (loss) from financial activities (adjusted for special factors)		(2,724)		(3,125)		(2,936)
Taxes (adjusted for special factors)		(1,898)		(2,102)		(1,889)
Non-controlling interests (adjusted for special factors)		378		541		569
<b>Net profit (adjusted for special factors)</b>		<b>3,364</b>		<b>3,390</b>		<b>3,426</b>



### Adjusted EBITDA.

Our EBITDA adjusted for special factors amounted to EUR 19.5 billion compared with EUR 20.7 billion in the prior year. Exchange rate effects had a positive effect of EUR 0.3 billion, offset by the negative impact of changes in the composition of the Group totaling EUR 0.3 billion, in particular from the deconsolidation of T-Mobile UK. Adjusted for these effects, EBITDA decreased by EUR 1.2 billion or 6.0 percent year-on-year.

Adjusted EBITDA in our **Germany** operating segment increased slightly by 0.1 percent in the reporting period. The positive development in mobile communications offset the decrease in the traditional fixed-network business. A key contribution came from effective cost management measures as part of our Save for Service program. The adjusted EBITDA margin increased by 0.6 percentage points.

In the 2010 financial year, the **Europe** operating segment generated adjusted EBITDA of EUR 5.7 billion. Adjusted segment EBITDA was reduced as a result of the deconsolidation of T-Mobile UK as of April 1, 2010. By contrast, changes in the composition of the Group due to the addition of the OTE group impacted adjusted EBITDA positively. Positive exchange rate effects attributable in particular to the translation from Polish zlotys, Czech korunas, Hungarian forints, Croatian kunas, and pounds sterling also had a positive effect. Adjusted for these effects, adjusted EBITDA declined 7.0 percent. In addition to the aforementioned developments in business operations, this was also mainly attributable to the newly imposed special tax in Hungary that applied retroactively to the full 2010 financial year.

Adjusted EBITDA in our **United States** operating segment declined year-on-year. Aside from slightly lower revenue in U.S. dollar terms, the main reason for the decline was higher costs (in U.S. dollars), which resulted from more extensive customer incentive programs and from the fact that customers tended to opt for costlier 3G handsets. The decline in adjusted EBITDA in euros was curbed by exchange rate effects of EUR 0.2 billion.

Adjusted EBITDA in our **Systems Solutions** operating segment increased by 2.7 percent year-on-year. This was primarily attributable to savings achieved through our comprehensive restructuring and efficiency enhancement program Save for Service.

Besides these developments in our operating segments, adjusted EBITDA at **Group Headquarters & Shared Services** decreased by EUR 0.6 billion compared with the prior year, mainly due to higher income recognized in the prior year from the reversal of provisions and the reclassification of real estate from assets held for sale to non-current assets. Adjusted EBITDA was also negatively impacted by higher personnel costs (at Vivento and other units) and higher marketing and technology costs incurred centrally. Finally, proceeds on the sale of real estate were lower in 2010 than in the prior year.

### Contribution of the operating segments to adjusted Group EBITDA.

	2010	Proportion of adjusted Group EBITDA	2009	Proportion of adjusted Group EBITDA	Change	Change	2008
	millions of €	%	millions of €	%	millions of €	%	millions of €
<b>EBITDA (adjusted for special factors) in the Group</b>	<b>19,473</b>	<b>100.0</b>	<b>20,668</b>	<b>100.0</b>	<b>(1,195)</b>	<b>(5.8)</b>	<b>19,459</b>
Germany	9,618	49.4	9,607	46.5	11	0.1	9,764
Europe	5,748	29.5	6,390	30.9	(642)	(10.0)	4,954
United States	4,156	21.3	4,261	20.6	(105)	(2.5)	4,240
Systems Solutions	948	4.9	923	4.5	25	2.7	826
Group Headquarters & Shared Services	(870)	(4.5)	(315)	(1.5)	(555)	n.a.	(181)
Reconciliation	(127)	(0.6)	(198)	(1.0)	71	35.9	(144)

**EBIT.**

Group EBIT decreased EUR 0.5 billion to EUR 5.5 billion year-on-year. The cumulative negative impact on EBIT stemming from the aforementioned effects was partly offset by depreciation and amortization, which was EUR 0.4 billion lower year-on-year. Depreciation relating to technical equipment and machinery declined mainly because depreciation charges for T-Mobile UK's assets were no longer recognized in the reporting year. In 2009, the Group sustained goodwill impairment losses of EUR 2.3 billion, while in 2010 the annual impairment tests resulted in impairment losses of EUR 0.7 billion to be recognized on goodwill and property, plant and equipment at year-end.

**Profit/loss before income taxes.**

Profit before income taxes at EUR 2.7 billion remained constant compared with the previous year. Reasons included the aforementioned effects, as well as a EUR 0.5 billion decrease in the loss from financial activities. Besides effects from a change in the gain/loss from financial instruments, the strong decrease of EUR 0.6 billion in other financial expense is mainly attributable to lower expenses for the measurement of provisions and liabilities (interest component).

**Net profit.**

Net profit in the 2010 financial year increased by EUR 1.3 billion to EUR 1.7 billion. Aside from the aforementioned effects, the main contributing factor was a decrease in income tax expense of EUR 0.8 billion year-on-year. This, in turn, is the result of partly contrasting effects. In 2010 deferred taxes of EUR 0.5 billion were recognized on temporary differences and loss carryforwards in the Europe operating segment, since it is probable that these temporary differences and loss carryforwards will be used in the future. This was offset by a special tax imposed in Greece, which increased the Group's tax expense in the reporting period. A further factor in the increase in net profit was the lower level of profit attributable to non-controlling interests amounting to EUR 0.4 billion. The aforementioned impairments at the year-end amounting to EUR 0.2 billion relate to the non-controlling interests.

**Save for Service program.**

The Save for Service program generated savings totaling EUR 5.9 billion in the first phase from 2007 to 2009.

On the back of this success, we set ourselves ambitious targets once again for the years 2010 through 2012, aiming to achieve Group-wide savings of an additional EUR 4.2 billion to increase profitability and further enhance the quality of our service.

As in the previous year, we again significantly exceeded our cost-cutting target of EUR 2 billion in 2010. Some of the funds that were released as a result of these efforts were used to enhance the quality of our service. Major savings levers included:

- increasing production and process efficiency
- reducing the number of customer complaints
- improving the terms and conditions of procurement
- standardizing the product portfolio
- shared services in the Finance area.


## Financial position of the Group.


### Consolidated statement of financial position.

	Dec. 31, 2010 millions of €	Dec. 31, 2010 %	Dec. 31, 2009 millions of €	Dec. 31, 2009 %	Change millions of €	Dec. 31, 2008 millions of €	Dec. 31, 2008 %
<b>Assets</b>							
<b>Current assets</b>	<b>15,243</b>	<b>11.9</b>	<b>23,012</b>	<b>18.0</b>	<b>(7,769)</b>	<b>15,431</b>	<b>12.5</b>
Cash and cash equivalents	2,808	2.2	5,022	3.9	(2,214)	3,026	2.4
Trade and other receivables	6,889	5.4	6,757	5.3	132	7,393	6.0
Non-current assets and disposal groups held for sale	51	0.0	6,527	5.1	(6,476)	434	0.4
Other current assets	5,495	4.3	4,706	3.7	789	4,578	3.7
<b>Non-current assets</b>	<b>112,569</b>	<b>88.1</b>	<b>104,762</b>	<b>82.0</b>	<b>7,807</b>	<b>107,709</b>	<b>87.5</b>
Intangible assets	53,807	42.1	51,705	40.5	2,102	53,927	43.8
Property, plant and equipment	44,298	34.7	45,468	35.6	(1,170)	41,559	33.7
Investments accounted for using the equity method	7,242	5.7	147	0.1	7,095	3,557	2.9
Other non-current assets	7,222	5.6	7,442	5.8	(220)	8,666	7.1
<b>Total assets</b>	<b>127,812</b>	<b>100.0</b>	<b>127,774</b>	<b>100.0</b>	<b>38</b>	<b>123,140</b>	<b>100.0</b>
<b>Liabilities and shareholders' equity</b>							
<b>Current liabilities</b>	<b>26,452</b>	<b>20.7</b>	<b>24,794</b>	<b>19.4</b>	<b>1,658</b>	<b>24,242</b>	<b>19.7</b>
Financial liabilities	11,689	9.1	9,391	7.4	2,298	9,584	7.8
Trade and other payables	6,750	5.3	6,304	4.9	446	7,073	5.7
Current provisions	3,193	2.5	3,369	2.6	(176)	3,437	2.8
Liabilities directly associated with non-current assets and disposal groups held for sale	-	0.0	1,423	1.1	(1,423)	95	0.1
Other current liabilities	4,820	3.8	4,307	3.4	513	4,053	3.3
<b>Non-current liabilities</b>	<b>58,332</b>	<b>45.6</b>	<b>61,043</b>	<b>47.8</b>	<b>(2,711)</b>	<b>55,786</b>	<b>45.3</b>
Financial liabilities	38,857	30.4	41,800	32.7	(2,943)	37,010	30.0
Non-current provisions	8,001	6.2	8,340	6.5	(339)	8,461	6.9
Other non-current liabilities	11,474	9.0	10,903	8.6	571	10,315	8.4
<b>Shareholders' equity</b>	<b>43,028</b>	<b>33.7</b>	<b>41,937</b>	<b>32.8</b>	<b>1,091</b>	<b>43,112</b>	<b>35.0</b>
<b>Total liabilities and shareholders' equity</b>	<b>127,812</b>	<b>100.0</b>	<b>127,774</b>	<b>100.0</b>	<b>38</b>	<b>123,140</b>	<b>100.0</b>

**Total assets** remained almost constant compared with the end of 2009. Current assets decreased by EUR 7.8 billion, while non-current assets increased by the same amount. On the liabilities side, current liabilities increased by EUR 1.7 billion, while non-current liabilities decreased by EUR 2.7 billion.


The most important changes in the statement of financial position compared with December 31, 2009 are explained in more detail in the following:

**Cash and cash equivalents** decreased by EUR 2.2 billion compared with December 31, 2009.  For detailed information on this change, please refer to the consolidated statement of cash flows and selected notes to the consolidated statement of cash flows.

The net carrying amounts of the **non-current assets and disposal groups held for sale** and the **liabilities directly associated with non-current assets and disposal groups held for sale** decreased by EUR 5.1 billion. Following the contribution of T-Mobile UK into a joint venture called Everything Everywhere as of April 1, 2010, the assets and liabilities of T-Mobile UK, which were reported as of December 31, 2009 as held for sale, were deconsolidated and Deutsche Telekom's 50-percent holding in the joint venture was reported as **investments accounted for using the equity method**.  For further details, please refer to the notes to the consolidated financial statements.

Other **current assets** increased by EUR 0.8 billion. Inventories, recoverable income taxes and other assets increased by EUR 0.4 billion, while other financial assets increased by EUR 0.4 billion compared with December 31, 2009. In the 2010 financial year, we and France Télécom S.A. provided financing to the Everything Everywhere joint venture in the form of a bond purchased by the two shareholders in equal shares (EUR 0.8 billion each). The measurement of current derivative financial assets, by contrast, resulted in a decrease of EUR 0.2 billion.

The EUR 0.9 billion increase in **intangible assets and property, plant and equipment** was mainly due to additions of EUR 10.8 billion (of which: EUR 2.6 billion in technical equipment and machinery, EUR 1.3 billion as a result of the acquisition of spectrum, and advance payments of EUR 4.0 billion), exchange rate effects of EUR 2.4 billion, and the addition of EUR 0.2 billion in goodwill from the acquisition of STRATO. This was offset in part by depreciation and amortization amounting to EUR 11.8 billion (of which acquired intangible assets accounted for EUR 2.8 billion and technical equipment and machinery for EUR 6.1 billion) and disposals of EUR 0.7 billion.

Current and non-current **financial liabilities** decreased by EUR 0.6 billion compared with the end of 2009. While current financial liabilities increased by EUR 2.3 billion, non-current financial liabilities decreased by EUR 2.9 billion.  For more information, please refer to the following tables and the accompanying explanations.

**Other liabilities** (current and non-current) increased by EUR 1.1 billion, largely due to higher liabilities (EUR 0.4 billion) in connection with early retirement arrangements for civil servants and a EUR 0.5 billion increase in deferred tax liabilities (mainly due to exchange rate effects).

**Provisions** (current and non-current) decreased by EUR 0.5 billion. While provisions for pensions and other employee benefits increased by EUR 0.2 billion, restructuring provisions declined by EUR 0.9 billion compared with December 31, 2009.

**Shareholders' equity** increased by EUR 1.1 billion to EUR 43.0 billion, due to the improvement in other comprehensive income to EUR 3.7 billion (mainly from the currency translation of foreign operations) and profit of EUR 1.8 billion. By contrast, the Group's dividend payments totaling EUR 4.0 billion and Deutsche Telekom AG's capital decrease of EUR 0.4 billion had an offsetting effect.

## Financial liabilities.

	Dec. 31, 2010			
	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				
Non-convertible bonds	23,078	3,894	9,317	9,867
Commercial paper, medium term notes and similar liabilities	15,112	2,843	6,195	6,074
Liabilities to banks	4,190	472	3,284	434
	<b>42,380</b>	<b>7,209</b>	<b>18,796</b>	<b>16,375</b>
Lease liabilities	1,934	142	426	1,366
Liabilities to non-banks from promissory notes	1,164	–	192	972
Other interest-bearing liabilities	1,304	1,056	139	109
Other non-interest-bearing liabilities	3,193	3,176	15	2
Derivative financial liabilities	571	106	457	8
	<b>8,166</b>	<b>4,480</b>	<b>1,229</b>	<b>2,457</b>
<b>Financial liabilities</b>	<b>50,546</b>	<b>11,689</b>	<b>20,025</b>	<b>18,832</b>

## Reconciliation of gross debt.

	Dec. 31, 2010 millions of €	Dec. 31, 2009 millions of €	Change millions of €	Change %	Dec. 31, 2008 millions of €
Financial liabilities (current)	11,689	9,391	2,298	24.5	9,584
Financial liabilities (non-current)	38,857	41,800	(2,943)	(7.0)	37,010
<b>Financial liabilities</b>	<b>50,546</b>	<b>51,191</b>	<b>(645)</b>	<b>(1.3)</b>	<b>46,594</b>
Accrued interest	(1,195)	(1,175)	(20)	(1.7)	(988)
Liabilities from corporate transactions	(1,566)	(1,455)	(111)	(7.6)	(1,641)
Other	(467)	(444)	(23)	(5.2)	(518)
<b>Gross debt</b>	<b>47,318</b>	<b>48,117</b>	<b>(799)</b>	<b>(1.7)</b>	<b>43,447</b>

## Net debt.

	Dec. 31, 2010 millions of €	Dec. 31, 2009 millions of €	Dec. 31, 2008 millions of €
Bonds	38,190	38,508	34,302
Liabilities to banks	4,190	4,718	4,222
Liabilities to non-banks from promissory notes	1,164	1,057	887
Derivative financial liabilities	561	924	1,053
Lease liabilities	1,934	1,909	2,009
Other financial liabilities	1,279	1,001	974
<b>Gross debt</b>	<b>47,318</b>	<b>48,117</b>	<b>43,447</b>
Cash and cash equivalents	2,808	5,022	3,026
Available-for-sale/held-for-trading financial assets	75	162	101
Derivative financial assets	835	1,048	1,598
Other financial assets	1,331	974	564
<b>Net debt</b>	<b>42,269</b>	<b>40,911</b>	<b>38,158</b>

Our net debt increased by EUR 1.4 billion year-on-year to EUR 42.3 billion, driven by dividend payments of EUR 4.0 billion, the acquisition of spectrum for EUR 1.3 billion, the effects of corporate transactions totaling EUR 0.8 billion, exchange rate effects of EUR 0.8 billion, and the share buy-back amounting to EUR 0.4 billion. Free cash flow of EUR 6.5 billion had a reducing effect on net debt.

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.

## The rating of Deutsche Telekom AG.

	Standard & Poor's	Moody's	Fitch
<b>Long-term rating</b>			
Dec. 31, 2008	BBB+	Baa1	A -
Dec. 31, 2009	BBB+	Baa1	BBB+
Dec. 31, 2010	BBB+	Baa1	BBB+
<b>Short-term rating</b>	A-2	P-2	F2
<b>Outlook</b>	Stable	Stable	Stable

## Financial flexibility.

	Dec. 31, 2010	Dec. 31, 2009	Dec. 31, 2008
<b>Relative debt</b>			
Net debt	2.2	2.0	2.0
EBITDA (adjusted for special factors)			
<b>Equity ratio</b>	33.7	32.8	35.0
<b>Gearing</b>			
Net debt	1.0	1.0	0.9
Shareholders' equity			

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

### Condensed consolidated statement of cash flows.

	2010 millions of €	2009 millions of €	2008 millions of €
<b>Net cash from operating activities</b>	<b>14,731</b>	<b>15,795</b>	<b>15,368</b>
Cash outflow for investments in intangible assets (excluding goodwill and before spectrum investment) and property, plant and equipment ( <b>cash capex</b> )	(8,532)	(9,202)	(8,707)
Proceeds from disposal of intangible assets (excluding goodwill) and property, plant and equipment	344	376	372
<b>Free cash flow (before dividend payments and spectrum investment)</b>	<b>6,543</b>	<b>6,969</b>	<b>7,033</b>
<b>Net cash used in investing activities</b>	<b>(10,711)</b>	<b>(8,649)</b>	<b>(11,384)</b>
<b>Net cash used in financing activities</b>	<b>(6,369)</b>	<b>(5,123)</b>	<b>(3,097)</b>
Effect of exchange rate changes on cash and cash equivalents	50	58	(61)
Changes in cash and cash equivalents associated with non-current assets and disposal groups held for sale	85	(85)	–
Net increase (decrease) in cash and cash equivalents	(2,214)	1,996	826
<b>Cash and cash equivalents</b>	<b>2,808</b>	<b>5,022</b>	<b>3,026</b>

**Free cash flow.** Free cash flow of the Group amounted to EUR 6.5 billion, EUR 0.4 billion less than in the prior year.

Net cash from operating activities in the 2010 financial year decreased by EUR 1.1 billion compared with the prior-year period to EUR 14.7 billion. Aside from effects from business operations, this decrease was primarily due to the following effects: lower year-on-year cash inflows from factoring amounting to EUR 0.6 billion and higher net outflows of EUR 0.4 billion for additions to inventories. This was partially offset by higher inflows from dividends received amounting to EUR 0.4 billion – mainly from an interim dividend paid out by the Everything Everywhere joint venture. The remaining changes in net cash from operating activities consisted of various partially offsetting effects.

Cash outflow for investments in intangible assets (excluding goodwill and before spectrum investment) and property, plant and equipment decreased by EUR 0.7 billion year-on-year, whereas inflows remained at the prior-year level.

**Net cash used in investing activities.** Net cash used in investing activities totaled EUR 10.7 billion as compared with EUR 8.6 billion in the previous year. This development was due in part to the addition of the cash and cash equivalents of the OTE group amounting to EUR 1.6 billion in the prior year, compared with the overall effect of the deconsolidation of T-Mobile UK amounting to EUR 0.4 billion. In addition, Deutsche Telekom invested EUR 0.8 billion in 2010 in a bond issued by the Everything Everywhere joint venture and posted higher outflows for intangible assets amounting to EUR 1.4 billion, which is mainly attributable to the outflows of EUR 1.3 billion for the acquisition of mobile communications licenses (spectrum) in Germany.

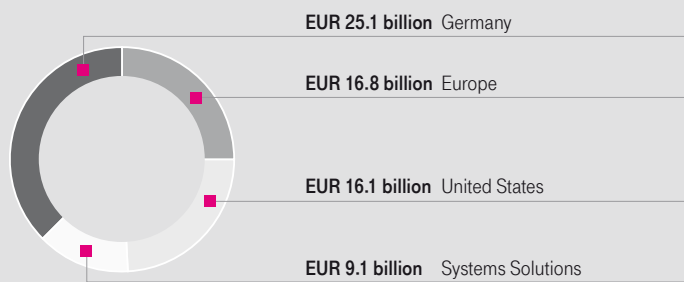
Outflows for property, plant and equipment (EUR 0.7 billion) and acquisitions (EUR 0.6 billion) both decreased and thus had an offsetting effect. Net cash outflows from the change in short-term investments and marketable securities and receivables, by contrast, increased by EUR 0.8 billion.

**Net cash used in financing activities.** Net cash used in financing activities amounted to EUR 6.4 billion, compared with EUR 5.1 billion in the prior year. This is attributable to a net issuance of non-current financial liabilities of EUR 3.1 billion (2009: EUR 5.3 billion) and outflows for the share buy-back totaling EUR 0.4 billion. These factors were offset by the net repayment of current financial liabilities which decreased by EUR 1.3 billion, and the dividends paid out by OTE and Slovak Telekom which declined year-on-year by EUR 0.2 billion and EUR 0.1 billion respectively.

For a more detailed explanation of the consolidated statement of cash flows, please refer to the notes to the consolidated financial statements.

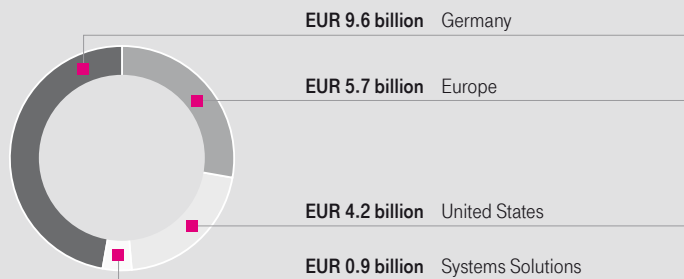
# Development of business in the operating segments.

## Share of operating segments in net revenue of the Group.



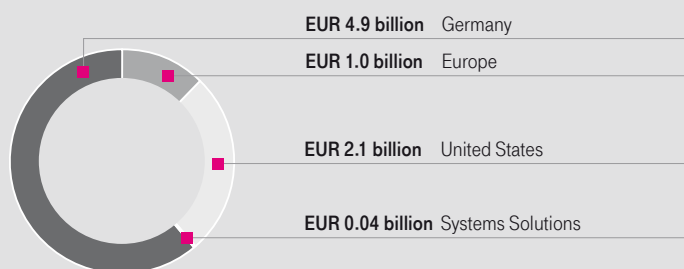
Share of Group Headquarters & Shared Services of EUR 2.2 billion and reconciliation of EUR -6.9 billion.

## Share of operating segments in adjusted EBITDA.



Share of Group Headquarters & Shared Services of EUR -0.9 billion and reconciliation of EUR -0.1 billion.

## Share of operating segments in EBIT.



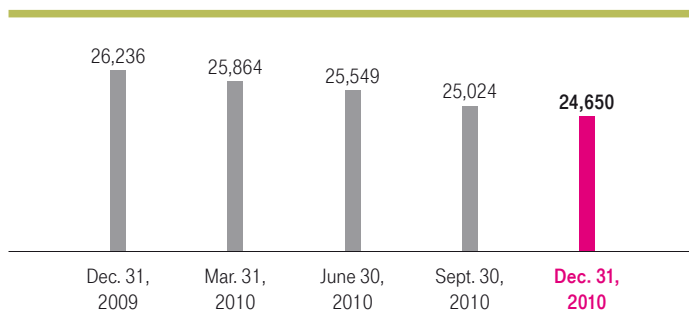
Share of Group Headquarters & Shared Services of EUR -2.5 billion and reconciliation of EUR -0.1 billion.



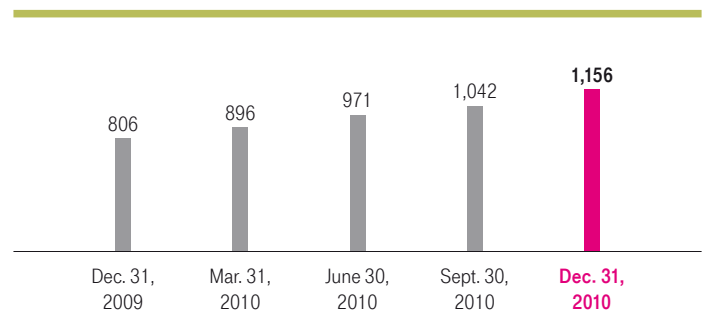
# Germany.

## Customer development.

Fixed-network lines. ('000)

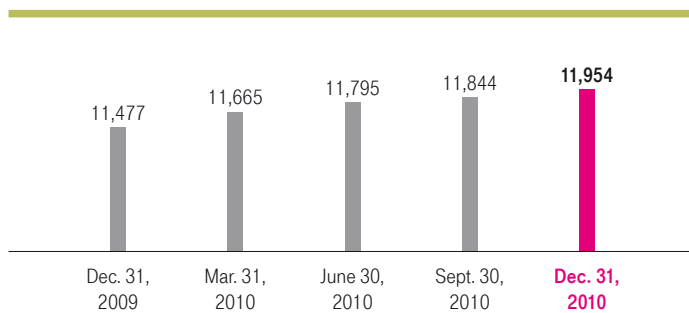


IPTV.\* ('000)

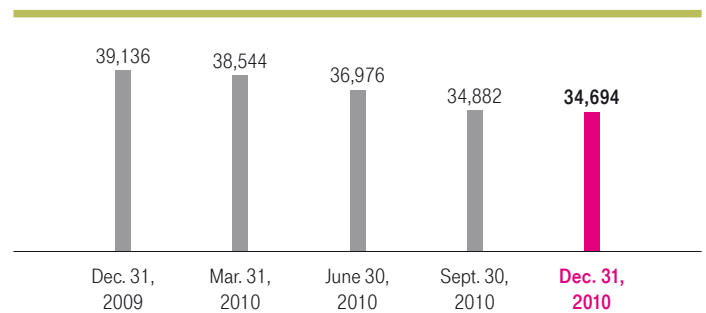


\* Customers connected.

Retail broadband lines. ('000)



Mobile customers.\* ('000)



\* Deregistration of inactive prepaid customers' cards: 4.4 million in FY 2009, 1.5 million in Q1 2010, 2.5 million in Q2 2010, 3.1 million in Q3 2010, 1.2 million in Q4 2010. On April 1, 2010, Telekom Deutschland GmbH began to automatically terminate prepaid cards that have not been topped up for two years and have been inactive for three months.

	Dec. 31, 2010 millions	Dec. 31, 2009 millions	Change millions	Change %	Dec. 31, 2008 millions
<b>Fixed network</b>					
Fixed-network lines	24.7	26.2	(1.5)	(5.7)	28.3
Retail broadband lines	12.0	11.5	0.5	4.3	10.6
Wholesale bundled lines	1.0	1.6	(0.6)	(37.5)	2.5
Unbundled local loop lines (ULLs)	9.5	9.1	0.4	4.4	8.3
Wholesale unbundled lines	1.0	0.6	0.4	66.7	0.2
<b>Mobile communications</b>					
Mobile customers *	34.7	39.1	(4.4)	(11.3)	39.1

\* On April 1, 2010, Telekom Deutschland GmbH began to automatically terminate prepaid cards that have not been topped up for two years and have been inactive for three months.

## Total.

In the Germany operating segment, we bundle all kinds of mobile communications, broadband and fixed-network telephony services. Over the past few years, we have constantly faced new challenges. Regulatory decisions, increasingly saturated markets, and well-positioned competitors have intensified competition. But our German business has affirmed its position in all markets.

## Fixed network.

### Connected worlds: telephone, Internet and television.

As of the end of 2010, our share of the German broadband market remained stable at 46 percent. We gained some 0.5 million new customers for retail lines, increasing the total number of lines to 12.0 million. Furthermore, more than half a million people chose to purchase our television service Entertain in the reporting period. As of December 31, 2010, 1.6 million Entertain packages had been sold in total. The customer base increased by 0.4 million in the reporting year to around 1.2 million.

As of December 31, 2010, some 24.7 million people had a fixed-network line provided by Deutsche Telekom. In other words, the number of lines decreased by around 5.7 percent or more than 1.5 million in 2010, but we lost 0.5 million fewer than in the prior year. For comparison: We had lost 2.1 million lines at the end of 2009 and 2.5 million lines at the end of 2008. Line losses primarily resulted from customers switching to cable companies, network infrastructure providers, and mobile operators.

By contrast, the figures increased for various wholesale products provided for competitors, such as unbundled local loop lines (ULLs) and unbundled bitstream access (IP-BSA). The number of ULLs grew by 4.4 percent year-on-year to 9.5 million lines. The number of our bundled wholesale lines

declined by around 0.6 million in 2010 to 1.0 million. We expect this trend to continue for the next few years, mainly as a result of the fact that our competitors are switching from bundled to unbundled wholesale products in order to optimize their own service. Hence we recorded a growth of around 0.4 million in unbundled products.

## Mobile communications.

### At the heart of life everywhere: mobile telephony and data applications.

Our mobile business once again was revenue market leader in Germany in 2010, and we increased our market share. Our strategy of focusing this business on high-value contract customers was therefore a success. The number of mobile customers decreased by some 11.3 percent to 34.7 million, however this was due to the streamlining of our customer database, which we systematically carried out once again in the financial year, deactivating around 8.3 million inactive prepay customers' cards. This helps us to reduce our administrative expenses. Since these SIM cards had been inactive for some time, they were not contributing to our revenues. The number of contract customers remained stable at 17.2 million, which we attribute to two reasons:

- Our customers take advantage of our extensive offer of attractive and innovative smartphones, like the Windows Phone 7, numerous Android devices and, as before, the Apple iPhone.
- Since November 2010, we have offered our customers improved integrated rate plans for telephony and data usage. We thus continue to focus on sustainable and in particular value-driven growth with contract customers.

## Development of operations.

	2010 millions of €	2009 millions of €	Change millions of €	Change %	2008 millions of €
<b>Total revenue</b>	25,145	25,423	(278)	(1.1)	26,400
Fixed network	18,177	18,736	(559)	(3.0)	19,782
Mobile communications	8,349	8,109	240	3.0	8,069
Profit from operations (EBIT)	4,916	5,062	(146)	(2.9)	4,624
EBIT margin %	19.6	19.9			17.5
Depreciation, amortization and impairment losses	(4,193)	(4,196)	3	0.1	(4,180)
EBITDA	9,109	9,258	(149)	(1.6)	8,804
Special factors affecting EBITDA	(509)	(349)	(160)	(45.8)	(960)
<b>EBITDA (adjusted for special factors)</b>	9,618	9,607	11	0.1	9,764
Fixed network	6,061	6,247	(186)	(3.0)	6,400
Mobile communications	3,559	3,373	186	5.5	3,364
EBITDA margin (adjusted for special factors) %	38.3	37.7			37.0
Fixed network %	33.3	33.3			32.4
Mobile communications %	42.6	41.6			41.7
<b>Cash capex</b>	(4,765)	(3,158)	(1,607)	(50.9)	(3,038)
<b>Average number of employees</b>	79,364	84,584	(5,220)	(6.2)	89,961
Fixed network	73,614	78,507	(4,893)	(6.2)	83,932
Mobile communications	5,750	6,077	(327)	(5.4)	6,029

The figures for fixed-network and mobile communications generally show the unconsolidated view, and do not take consolidation effects at operating segment level into consideration.

### Total revenue.

Total revenue generated by our Germany operating segment in 2010 amounted to EUR 25.1 billion. The year-on-year decrease of 1.1 percent is primarily due to the losses in our fixed-network arm, which were partially compensated by revenue from our mobile business. Despite regulatory decisions and strong competition, both in mobile communications and in the fixed network, we once again reduced the year-on-year decline in total revenue compared with the prior year (revenue decrease in 2009: 3.7 percent).

Revenue from our **fixed-network business** was down by 3.0 percent to EUR 18.2 billion. Besides the aforementioned regulatory intervention, this is due to continuing line losses. This year, declining revenues were partially compensated by the positive effects of our first-time consolidation of STRATO and Firstgate (ClickandBuy), growth in ULLs and unbundled lines, and growth in our broadband retail line business.

In **mobile communications**, we increased our total revenue in the financial year by 3.0 percent to EUR 8.3 billion. In 2009, revenue grew by 0.5 percent, and the fact that this increase continued in 2010 confirms the positive signs from prior years.

This success is again due in large part to increased service and data revenues. During the past financial year, service revenues grew by 4.4 percent to EUR 7.3 billion, while data revenues increased by as much as 35.7 percent. This positive trend is primarily the result of the growing popularity of innovative smartphones. We still have the highest revenues of any mobile company in the German market.

Although the 49-percent cut in mobile termination charges as of November 30, 2010 already had a negative impact on our revenue and EBITDA in December, the consequences were not yet of any significant magnitude. We expect the negative effects to be considerably stronger in 2011.

### EBITDA, adjusted EBITDA.

In 2010 our EBITDA, adjusted for special effects, amounted to EUR 9.6 billion, which was on a par with the prior-year level despite lower revenue. Adjusted EBITDA as a percentage of total revenue – the adjusted EBITDA margin – increased by 0.6 percentage points to 38.3 percent.

Notwithstanding the aforementioned decline in revenue in fixed-network business, adjusted EBITDA remained stable at EUR 6.1 billion. In mobile communications, we increased adjusted EBITDA by 5.5 percent to EUR 3.6 billion. This increase was largely attributable to our large-scale projects, such as Save for Service, aiming for better service and effective cost management. Examples include the optimization of our customer service and the sending of invoices by e-mail. Furthermore, we increased the efficiency of our advertising and communication activities and optimized our use of office and warehouse space. Despite investments in growth areas (such as the STRATO acquisition) or the intensified marketing of smartphones, we reduced our operating costs by approximately EUR 0.5 billion in 2010 through a range of initiatives in business areas such as production, sales, service, marketing, and IT.

### EBIT.

Profit from operations amounted to EUR 4.9 billion in 2010, down 2.9 percent from EUR 5.1 billion in the prior year. This decrease was mainly due to special factors of EUR 0.5 billion, which were EUR 0.2 billion higher than in the prior year and the majority of which can be attributed to our staff-related expenses.

### Cash capex.

For years, we have been systematically investing in broadband in Germany. As a result, our capital expenditure increased by 50.9 percent year-on-year to EUR 4.8 billion. This increase was largely due to the mobile frequency spectrum we bought at auction in May 2010 to roll-out LTE, a vital basis for the future expansion of mobile Internet, especially in rural areas. We also increased expenditure in the market-oriented upgrade of our mobile network, providing high-bit-rate connections for the base stations of our UMTS network, accelerating the roll-out of high-quality transmission paths, safeguarding network operation, and rolling out all-IP.

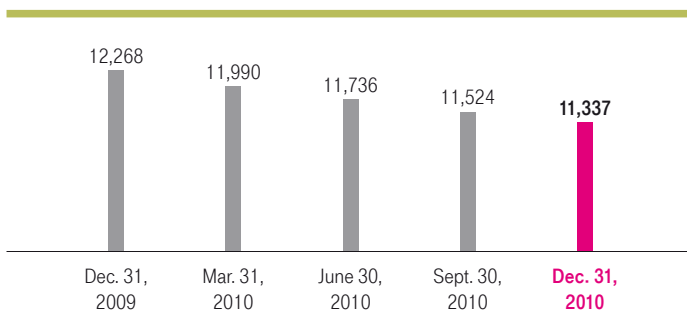
### Employees.

In 2010, we employed an average of 79,364 people, making us one of the largest employers in Germany. Despite the new hires resulting from the first-time consolidation of STRATO and ClickandBuy, our headcount decreased by 6.2 percent, mainly due to our socially responsible measures to reduce and restructure the workforce.

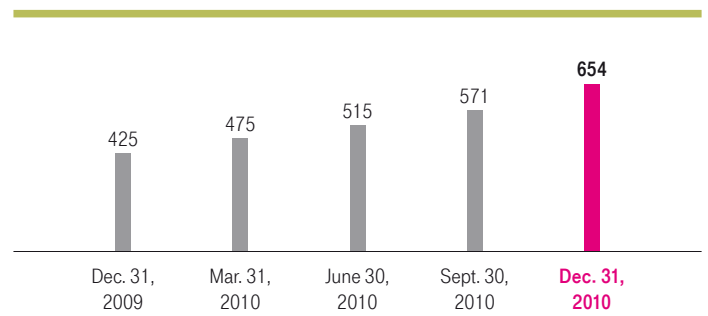
# Europe.

## Customer development.

Fixed-network lines. ('000)



IPTV. ('000)



Retail broadband lines. ('000)



Mobile customers. ('000)



		Dec. 31, 2010 millions	Dec. 31, 2009 millions	Change millions	Change %	Dec. 31, 2008 millions
<b>Europe, total</b> <sup>a, b</sup>	Fixed-network lines	11.3	12.3	(1.0)	(8.1)	13.2
	Retail broadband lines	4.4	3.9	0.5	12.8	3.3
	Wholesale bundled lines	0.2	0.2	-	-	0.3
	Unbundled local loop lines (ULLs)	1.5	1.1	0.4	36.4	0.7
	Mobile customers	60.1	61.6	(1.5)	(2.4)	59.0
<b>Greece</b> <sup>b</sup>	Fixed-network lines	3.7	4.2	(0.5)	(11.9)	4.6
	Broadband lines	1.1	1.1	-	-	1.0
	Mobile customers	8.0	9.2	(1.2)	(13.0)	7.9
<b>Romania</b> <sup>b, c</sup>	Fixed-network lines	2.6	2.8	(0.2)	(7.1)	3.0
	Broadband lines	1.0	0.8	0.2	25.0	0.7
	Mobile customers	6.8	7.3	(0.5)	(6.8)	5.9
<b>Hungary</b>	Fixed-network lines	1.7	1.8	(0.1)	(5.6)	2.0
	Broadband lines	0.8	0.8	-	-	0.8
	Mobile customers	5.2	5.1	0.1	2.0	5.4
<b>Poland</b>	Mobile customers	13.3	13.5	(0.2)	(1.5)	13.3
<b>Czech Republic</b>	Fixed-network lines	0.1	0.0	0.1	n.a.	-
	Broadband lines	0.1	0.0	0.1	n.a.	-
	Mobile customers	5.5	5.5	-	-	5.4
<b>Croatia</b>	Fixed-network lines	1.4	1.5	(0.1)	(6.7)	1.6
	Broadband lines	0.6	0.6	-	-	0.5
	Mobile customers	2.9	2.9	-	-	2.7
<b>Netherlands</b>	Fixed-network lines	0.3	0.3	-	-	0.3
	Broadband lines	0.3	0.3	-	-	0.3
	Mobile customers	4.5	4.6	(0.1)	(2.2)	5.3
<b>Slovakia</b>	Fixed-network lines	1.1	1.1	-	-	1.1
	Broadband lines	0.4	0.4	-	-	0.3
	Mobile customers	2.4	2.4	-	-	2.3
<b>Austria</b>	Mobile customers	3.8	3.4	0.4	11.8	3.4
<b>Other</b> <sup>b, d</sup>	Fixed-network lines	0.5	0.5	-	-	0.6
	Broadband lines	0.2	0.2	-	-	0.1
	Mobile customers	7.7	7.7	-	-	7.4

<sup>a</sup> 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.

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

<sup>c</sup> Including the Romanian company Zapp since November 1, 2009.

<sup>d</sup> Other: national companies of Bulgaria, Albania, the F.Y.R.O. Macedonia, and Montenegro.

## Total.

Customer development in our Europe operating segment was impacted in the 2010 financial year by the strained economic situation, especially in Greece and Romania, and intense competition in all countries. In the traditional fixed network, the number of lines decreased compared with 2009. We partially offset these losses with increases in retail broadband lines and in the innovative IPTV business. In mobile operations, the total customer base decreased slightly in the same period.

## Fixed network.

### Connected worlds: telephone, Internet and television.

In the traditional fixed network, we had a total of 11.3 million lines as of the end of 2010, a year-on-year decrease of 8.1 percent. But the rate of line losses slowed substantially from quarter to quarter throughout 2010 – with the lowest loss yet in the fourth quarter. These line losses are mainly attributable to customers switching to other network operators, cable companies and mobile operators. However, the major growth potential for the future lies in broadband business, as reflected in the number of our broadband lines: As of December 31, the total of retail lines as well as bundled and unbundled wholesale lines increased year-on-year to 4.6 million, with all countries in our Europe operating segment contributing to this result. The greatest increases were in Romania and Hungary. Strong growth also continued in IPTV business. Thanks to successful marketing, we achieved growth of 54 percent compared with 2009. The most significant contributors here were Croatia and Hungary. This development confirms our strategy: The decision to focus marketing in some European countries on broadband and television business by offering innovative products such as quad-play packages is the right course to success.

## Mobile communications.

### At the heart of life everywhere: mobile telephony and data applications.

The total customer base in the Europe operating segment decreased by 2.4 percent to 60.1 million mobile customers. Greece, Romania, Poland, and the Netherlands accounted for the majority of these customer losses. Austria and Hungary recorded net customer additions, thereby offsetting the overall decline in customer numbers. All other countries in our Europe operating segment maintained their positions in their hard-fought markets and stabilized their customer base. The main reason for the year-on-year decrease in total customer numbers is the development in the prepay segment, which accounts for 56 percent of the total customer base. In Greece, Romania, Poland, and the Netherlands, the number of prepay customers decreased by around 2 million. In Poland and the Netherlands, the prepay customer figures decreased due to a greater focus on high-value contract customer business. Lower prepay customer numbers in the Netherlands and Romania were also a result of the deregistration of inactive prepay customers. In Greece, prepay customer figures decreased in particular as a result of the new registration requirements introduced in November 2009.

High-value contract customer business was once again the growth driver for our Europe operating segment in the reporting year. The number of contract customers increased year-on-year in almost all European companies, except for Romania and Macedonia. Of the total 1.1 million net contract additions, around 0.6 million were won in the Netherlands, Hungary, and Bulgaria. This positive trend was also reflected in the proportion of the total customer base in our Europe operating segment that is accounted for by contract customers. This proportion has grown by 2.8 percentage points since the end of 2009 to just under 44 percent. We achieved this positive result thanks to our strategic focus on winning and retaining high-value customers, for example, through attractive calling plans with minute buckets, flat-rate plans, and new hardware offered in conjunction with a fixed-term contract. As part of our connected life and work strategy, we successfully targeted new groups of customers with innovative data and content services for the mobile Internet and innovative mobile devices. Smartphones played a particularly significant role here. The successful marketing of the Apple iPhone 4, for example, which was introduced in all European markets, made a significant contribution to a growing contract customer base.

## Development of operations.

	2010 millions of €	2009 millions of €	Change millions of €	Change %	2008 millions of €
<b>Total revenue</b>	16,840	19,607	(2,767)	(14.1)	15,932
Of which: Greece	3,876	3,899	(23)	(0.6)	-
Of which: Romania	1,165	1,104	61	5.5	-
Of which: Hungary	1,517	1,682	(165)	(9.8)	2,006
Of which: Poland	1,839	1,757	82	4.7	2,260
Of which: Czech Republic	1,157	1,191	(34)	(2.9)	1,329
Of which: Croatia	1,148	1,161	(13)	(1.1)	1,223
Of which: Netherlands	1,767	1,807	(40)	(2.2)	1,806
Of which: Slovakia	934	974	(40)	(4.1)	994
Of which: Austria	983	1,038	(55)	(5.3)	1,085
Of which: United Kingdom	783	3,390	(2,607)	(76.9)	4,051
Of which: Other *	1,937	1,885	52	2.8	1,331
<b>Profit from operations (EBIT)</b>	985	140	845	n.a.	1,412
EBIT margin %	5.8	0.7			8.9
Depreciation, amortization and impairment losses	(4,157)	(6,157)	2,000	32.5	(3,391)
<b>EBITDA</b>	5,142	6,297	(1,155)	(18.3)	4,803
Special factors affecting EBITDA	(606)	(93)	(513)	n.a.	(151)
<b>EBITDA (adjusted for special factors)</b>	5,748	6,390	(642)	(10.0)	4,954
Of which: Greece	1,433	1,447	(14)	(1.0)	-
Of which: Romania	281	293	(12)	(4.1)	-
Of which: Hungary	567	675	(108)	(16.0)	820
Of which: Poland	691	616	75	12.2	785
Of which: Czech Republic	551	614	(63)	(10.3)	634
Of which: Croatia	507	525	(18)	(3.4)	557
Of which: Netherlands	461	430	31	7.2	352
Of which: Slovakia	403	439	(36)	(8.2)	427
Of which: Austria	283	283	-	-	285
Of which: United Kingdom	167	611	(444)	(72.7)	888
Of which: Other *	426	446	(20)	(4.5)	199
EBITDA margin (adjusted for special factors) %	34.1	32.6			31.1
<b>Cash capex</b>	(2,012)	(2,489)	477	19.2	(2,018)
<b>Average number of employees</b>	65,435	69,277	(3,842)	(5.5)	39,174

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

\* Other: national companies of Bulgaria, Albania, the F.Y.R.O. Macedonia, and Montenegro, as well as ICSS (International Carrier Sales and Services), Europe Headquarters, and up to the end of May 2010, T-Mobile International UK.



### Total revenue.

Our Europe operating segment generated total revenue of EUR 16.8 billion in the 2010 financial year, down by 14.1 percent or EUR 2.8 billion compared with the prior year. The net decline is primarily the result of two offsetting effects. On the one hand, segment revenue was reduced as a result of the deconsolidation of T-Mobile UK effective April 1, 2010. On the other, the change in the composition of the Group resulting from the full consolidation of the OTE group in February 2009 had a positive effect on revenue. The positive development of exchange rates against the euro improved segment revenue. This effect was mainly attributable to the Polish zloty, the Czech koruna, the Hungarian forint, the pound sterling, and the Croatian kuna. Adjusted for these factors, total revenue was reduced by just 5.6 percent. The decrease in revenue from operations was largely attributable to price reductions resulting in most countries in the segment from the cut in mobile termination charges imposed by the regulatory authority, and from intense competition. The special tax imposed by the Hungarian government in October 2010 also decreased total revenue by EUR 0.1 billion retroactively for the full year 2010. In addition, the tax on mobile services in Croatia and the difficult economic situation, especially in Southern and Eastern European countries, had a substantial negative impact on total revenue. Greece, Romania and Hungary were particularly impacted. They account for more than 64 percent of the decline in revenue from operations. This was contrasted by strong revenue growth in the fixed network from wholesale, broadband and television business.

**Greece.** In Greece, revenue totaled EUR 3.9 billion in 2010, remaining on a par with the prior-year level. Adjusted for the effects of changes in the composition of the Group attributable to the Greek OTE group, revenue decreased by 9.7 percent, with fixed-network and mobile operations being affected in approximately equal measure. Revenue losses in traditional fixed-network business were almost fully offset by a positive trend in wholesale and broadband revenues. In mobile communications, the reduced termination charges and intense price competition impacted negatively on service revenues. In addition, the prepay registration requirements once again resulted in a loss of customers in the prepay segment, and consequently in lower revenue. The slight increase in sales of terminal equipment year-on-year mitigated the revenue decline.

**Romania.** In Romania, revenue increased by 5.5 percent year-on-year in 2010, mainly due to the positive effect of changes in the composition of the Group attributable to the Romanian operations of the OTE group. Revenue from fixed-network operations decreased due to the difficult economic situation and extremely intense price competition on the Romanian telecommunications market. The huge customer growth in broadband contributed to an increase in broadband and television revenues, which, however, only partially offset the adverse effects of declines in traditional fixed-network business. Revenue from mobile operations, by contrast, fell just short of double-digit growth, mainly as a result of higher service and terminal equipment revenues. A slight increase in the proportion of contract customers, partly due to the first-time consolidation of the mobile communications provider Zapp effective November 1, 2009, had a further positive effect on revenue.

**Hungary.** Revenue in Hungary declined by 9.8 percent compared with 2009 to EUR 1.5 billion. The special tax imposed by the Hungarian government in October 2010 reduced revenue by around EUR 0.1 billion. Without this tax, revenue would only be 4.4 percent lower. The positive exchange rate effect from the translation of the Hungarian forint to euros, by contrast, had a favorable impact on revenue. Adjusted for these two effects, the decline in revenue from operations is largely attributable to the general economic situation. Fixed-network business was affected to a greater extent than mobile communications, despite growth in broadband television lines and the resulting increase in revenue. Service revenues from mobile operations decreased mainly as a result of reduced mobile termination charges. Increases in non-voice revenues partially offset this decline.

**Poland.** Positive exchange rate effects from the translation of the Polish zloty to euros increased revenue at PTC by 4.7 percent, compensating for the decline in revenue from operations which is attributable in particular to service revenues. Higher levels of non-voice revenues only partially compensated the revenue losses in voice telephony. These revenue losses were primarily the result of a decrease in average per-minute rates.

**Czech Republic.** At T-Mobile CZ, revenue decreased by 2.9 percent year-on-year to EUR 1.2 billion. Positive exchange rate effects from the translation of the Czech koruna to euros partly compensated for the decrease in revenue from operations, which was mainly driven by a year-on-year decline in service revenues. This, in turn, was largely attributable to a positive one-time effect recorded in the second quarter of 2009. In addition, the cut in termination charges imposed by the regulatory authority had a negative impact on revenue. Fixed-network revenue resulting from the acquisition of the retail business of České Radiokomunikace in December 2009 partially compensated for these effects.

**Croatia.** In Croatia, only a minor decrease in revenue was recorded compared with the prior year. Positive exchange rate effects from the translation of the Croatian kuna to euros mitigated the decline in revenue in local currency. The decline in revenue from operations was mainly attributable to the macroeconomic situation; mobile operations were impacted much more strongly than the fixed network. In mobile communications, service revenues decreased. Slight net additions to the mobile customer base were not sufficient to compensate for the decrease in revenue from mobile voice telephony and in the non-voice area. In addition, the mobile communications levy on revenues that was introduced in August 2009 had a greater impact in 2010 than in 2009 as it was applicable for the full financial year. The development of fixed-network business, on the other hand, was encouragingly constant. The positive contributions from broadband and television revenues coupled with effects of changes in the composition of the Group almost completely offset the losses from traditional fixed-network business.

**Netherlands.** T-Mobile Netherlands reported a slight decrease in revenue year-on-year in 2010, due mainly to lower MVNO and online revenues. This was contrasted by positive service revenues. The increase in the contract customer share of the total customer base resulted in growth in revenue from outgoing calls. This, combined with higher non-voice revenues, offset the regulation-induced negative effects.

**Slovakia.** In Slovakia, the year-on-year decline in revenue was largely attributable to the trend in mobile business. Reduced termination charges and price reductions as a result of more intense competition had a significant negative impact on service revenues. Higher MVNO revenues had an offsetting effect. In contrast to mobile communications, revenue in the fixed-network business increased due to growth in broadband lines and the successful marketing of the television products IPTV and satellite TV. Changes in the composition of the Group also had a positive impact on revenues.

**Austria.** Revenue at T-Mobile Austria declined in the reporting year, mainly due to lower service revenues. Revenue from voice telephony decreased due to a competition-induced reduction in minute prices and the cut in termination charges imposed by the regulatory authority. These negative effects were partially offset by growth in non-voice revenues and sales of terminal equipment.

#### EBITDA, adjusted EBITDA.

In the 2010 financial year, the Europe operating segment generated adjusted EBITDA of EUR 5.7 billion. The year-on-year decrease of 10 percent is primarily due to two offsetting effects. Segment EBITDA declined as a result of the deconsolidation of T-Mobile UK effective April 1, 2010, whereas changes in the composition of the Group due to the addition of the OTE group impacted EBITDA positively. Adjusted EBITDA decreased year-on-year as a consequence of the newly imposed special tax in Hungary that applied retroactively to the entire 2010 financial year. Positive exchange rate effects attributable in particular to the translation from Polish zlotys, Czech korunas, Hungarian forints, Croatian kunas, and pounds sterling also had a positive effect. Adjusted for these effects, EBITDA declined 5.5 percent.

**Greece.** Adjusted EBITDA remained almost stable in 2010 in the Greek mobile and fixed-network operations at EUR 1.4 billion overall, due in particular to the positive effect of changes in the composition of the Group. Excluding this effect, adjusted EBITDA decreased on account of the negative revenue trend. This decline was intensified by higher customer acquisition costs in response to intense mobile competition. Savings in overheads were insufficient to offset these effects.

**Romania.** In Romania, adjusted EBITDA decreased year-on-year in 2010, mainly as a result of lower revenue from the fixed-network business. In addition, savings on other cost items did not fully compensate higher spending on television rights. By contrast, adjusted EBITDA in mobile operations increased year-on-year, as a result of higher revenue and lower customer acquisition costs.

**Hungary.** Adjusted EBITDA decreased in 2010 compared with the prior year by EUR 0.1 billion to EUR 0.6 billion. The levy of a new special tax had a significant adverse effect on the development of EBITDA. The positive exchange rate effects from the translation of the Hungarian forint to euro mitigated this decline. Excluding the aforementioned effects, adjusted EBITDA from mobile communications increased slightly. Efficiency-enhancing measures only partially compensated for the decrease in revenue from fixed-network operations.

**Poland.** In Poland, adjusted EBITDA increased to EUR 0.7 billion in 2010. Excluding the positive exchange rate effects, adjusted EBITDA increased slightly. Lower customer retention costs and savings in overhead costs, especially in the technology and marketing units, helped compensate the negative effects of the revenue decline. A positive one-time effect recorded in the fourth quarter of 2010 contributed further to the increase.

**Czech Republic.** T-Mobile CZ reported lower adjusted EBITDA in 2010. Positive exchange rate effects from the translation of the Czech koruna to euros only partially offset the decreases in local currency, which were primarily due to positive one-time effects in the second quarter of 2009 that had not been recorded to the same extent in the reporting year. Furthermore, measures taken to improve processes had a positive impact on adjusted EBITDA. Lower customer acquisition and retention costs contrasted with a year-on-year increase in overhead costs from the acquisition of the retail business of České Radiokomunikace and from the significant expansion of the 3G network.

**Croatia.** In Croatia, adjusted EBITDA amounted to EUR 0.5 billion in the 2010 financial year, down by 3.4 percent. This trend is primarily attributable to mobile operations. Lower customer acquisition and retention costs and savings in overhead costs did not offset the negative effects from the decline in mobile revenue. By contrast, fixed-network business recorded an increase in adjusted EBITDA, due to savings in general and administrative expenses and the successful implementation of efficiency-enhancing measures.

**Netherlands.** T-Mobile Netherlands substantially increased adjusted EBITDA in 2010. This improved result was attributable to lower customer acquisition costs and a one-time effect in the second quarter of 2010. Growth in adjusted EBITDA was due to significant savings in overhead costs, following the completed integration of Orange.

**Slovakia.** Adjusted EBITDA declined in the reporting year, due in particular to negative revenue effects in the mobile business. These negative effects were only partially offset by lower customer acquisition and retention costs and savings in overhead costs. Adjusted EBITDA in the fixed-network business also declined.

**Austria.** In Austria, adjusted EBITDA remained stable compared with 2009. Savings in overhead costs and a one-time effect in the fourth quarter of 2010 offset the negative effects from revenue losses and higher customer acquisition and retention costs.

## EBIT.

In our Europe operating segment, EBIT increased to EUR 1.0 billion as of the end of 2010, mainly due to a EUR 2.3 billion goodwill impairment loss recognized in the prior year, of which EUR 1.8 billion related to the cash-generating unit T-Mobile UK. This was contrasted by impairment losses of EUR 0.7 billion to be recognized as of the end of 2010 on goodwill and property, plant and equipment in the fixed-network businesses of Greece and Romania and the mobile communications businesses of Romania and Albania. EBIT was also positively impacted by the fact that, between September 2009 and March 2010, T-Mobile UK was classified as held for sale, and as a result, depreciation charges were not recognized. These effects more than compensated for the decrease in EBITDA.

## Cash capex.

As of December 31, 2010, our Europe operating segment reported total cash capex of EUR 2.0 billion. This represents a reduction of 19.2 percent or EUR 0.5 billion against the prior year, despite the effects of changes in the composition of the Group due to the addition of the OTE group. The deconsolidation of T-Mobile UK also contributed to lower cash capex figures. Furthermore, the difficult market situation combined with the special tax in Hungary and the levy on mobile communications in Croatia led to restraint in investment in these countries.

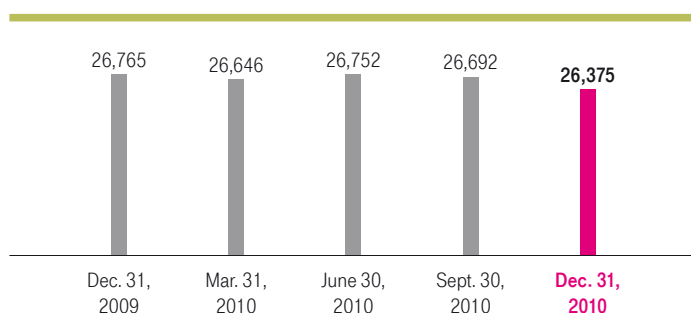
## Employees.

Average headcount in our Europe operating segment declined by 5.5 percent in 2010 to a total of 65,435. The increase in the number of employees resulting from the first-time full consolidation of the OTE group in early February 2009 was partially offset by the deconsolidation of T-Mobile UK effective April 1, 2010. Downsizing programs as part of efficiency enhancement measures in several countries also reduced the average headcount. By contrast, some smaller-scale acquisitions added to the headcount.

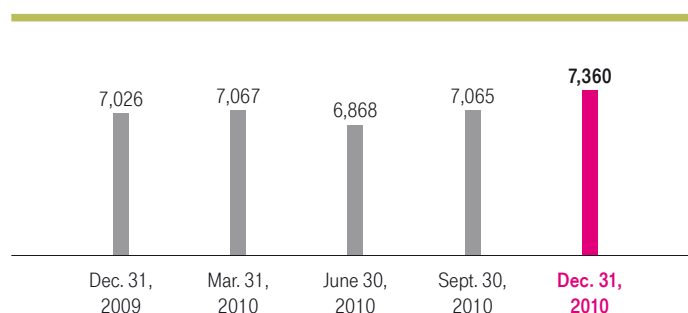
# United States.

## Customer development.

Contract customers. ('000)



Prepay customers. ('000)



	Dec. 31, 2010 millions	Dec. 31, 2009 millions	Change millions	Change %	Dec. 31, 2008 millions
<b>United States</b>					
Mobile customers	33.7	33.8	(0.1)	(0.3)	32.8

At December 31, 2010, the United States operating segment (T-Mobile USA) had 33.7 million customers, a net decrease in customers of 56,000 for 2010 compared to 1.0 million net customer additions in 2009. Net customers decreased year-on-year, with growth in wholesale customers (MVNO and connected devices) being more than offset by losses in branded customers (total customers excluding MVNO and connected devices). In 2010, T-Mobile USA lost 390,000 net contract customers compared to 42,000 net contract customers lost in 2009. This year-on-year development in net contract customer losses was due primarily to a decline in FlexPay contract gross additions, which was partially offset by strong connected device growth. Connected device customers totaled 1.9 million at December 31, 2010. Net prepaid customers increased

by 334,000 in 2010, compared to 1.1 million net prepaid customers added in 2009. The change in prepaid customer additions in 2010 was due primarily to higher deactivations from MVNO and traditional prepaid customers. At December 31, 2010, T-Mobile USA had 2.8 million MVNO customers.

T-Mobile USA's blended churn increased to 3.4 percent per month in 2010 from 3.2 percent per month in 2009. During the year, blended churn increased due primarily to higher prepaid churn from MVNO customers. Contract churn remained high as intense competition continued to impact churn.

## Development of operations.

	2010 millions of €	2009 millions of €	Change millions of €	Change %	2008 millions of €
<b>Total revenue</b>	16,087	15,471	616	4.0	14,957
Profit from operations ( <b>EBIT</b> )	2,092	2,233	(141)	(6.3)	2,299
EBIT margin	% 13.0	14.4			15.4
Depreciation, amortization and impairment losses	(2,064)	(2,028)	(36)	(1.8)	(1,884)
EBITDA	4,156	4,261	(105)	(2.5)	4,183
Special factors affecting EBITDA	-	-	-	-	(57)
<b>EBITDA (adjusted for special factors)</b>	4,156	4,261	(105)	(2.5)	4,240
EBITDA margin (adjusted for special factors)	% 25.8	27.5			28.3
<b>Cash capex</b>	(2,121)	(2,666)	545	20.4	(2,540)
<b>Average number of employees</b>	37,795	38,231	(436)	(1.1)	36,076

### Total revenue.

Total revenue in the United States operating segment (T-Mobile USA) grew by 4.0 percent year-on-year to EUR 16.1 billion in 2010 compared to EUR 15.5 billion in 2009 as a result of currency fluctuations. In U.S. dollars, annual revenues of T-Mobile USA declined slightly by 1.0 percent year-on-year, due primarily to the decrease in T-Mobile USA branded customers (total customers excluding MVNO and connected devices) causing voice revenues to decline. Additionally, variable voice revenues decreased year-on-year due to an increase in the proportion of customers on unlimited rate plans and lower roaming revenues. These decreases were offset partially by strong growth in data revenues from customers using smartphones which utilize mobile broadband data plans. The number of customers using 3G and 4G smartphones (which include UMTS/HSPA/HSPA+ enabled smartphones) more than doubled to 8.2 million at the end of 2010 from 3.9 million at the end of 2009. Additionally, T-Mobile USA's total revenue benefited towards the end of 2010 from T-Mobile USA launching its own handset protection insurance program.

### EBITDA, adjusted EBITDA.

EBITDA decreased year-on-year by 2.5 percent to EUR 4.2 billion in 2010. In U.S. dollars, EBITDA fell due to slightly lower revenues, as discussed above, and an increase in operating expenses. Operating expenses were higher year-on-year due primarily to an increase in the cost of equipment sales as T-Mobile USA offered a variety of handset incentives encouraging

the adoption of smartphones with mobile broadband data plans. Additionally, higher fixed line costs related to running the HSPA+ network were offset partially by lower outsourcing and roaming expenses. Lower commissions costs resulting from fewer T-Mobile USA branded customer gross additions also partially offset increases in operating costs in 2010.

### EBIT.

EBIT (profit from operations) declined by EUR 141 million or 6.3 percent to EUR 2.1 billion in 2010 driven by the factors described above.

### Cash capex.

Cash capex decreased year-on-year to EUR 2.1 billion in 2010 from EUR 2.7 billion in 2009. The primary reason for lower capex in the year relates to the 2009 build-out of the national UMTS/HSPA network. In 2010, network capex spend has been driven by continued network investment including coverage expansion and the upgrade to HSPA+. T-Mobile USA now offers customers America's largest 4G network with HSPA+ service available in 100 metropolitan areas reaching 200 million people from coast to coast.

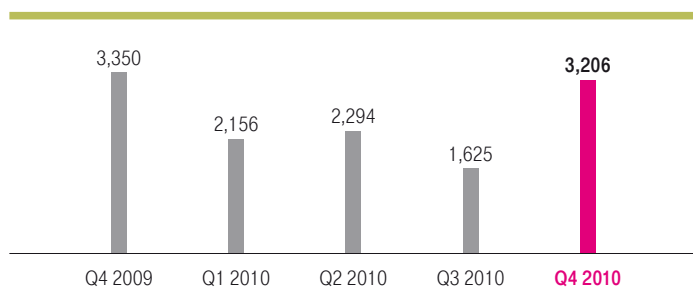
### Employees.

The average number of employees decreased slightly year-on-year in 2010, as a decrease in customer support employees driven by lower customer care call volumes was offset partially by an increase in employees related to retail distribution growth.

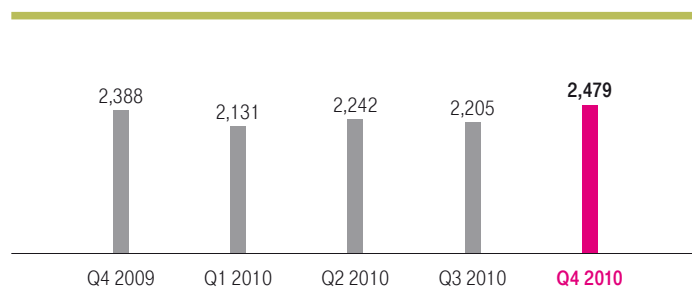
# Systems Solutions.

## Selected KPIs.

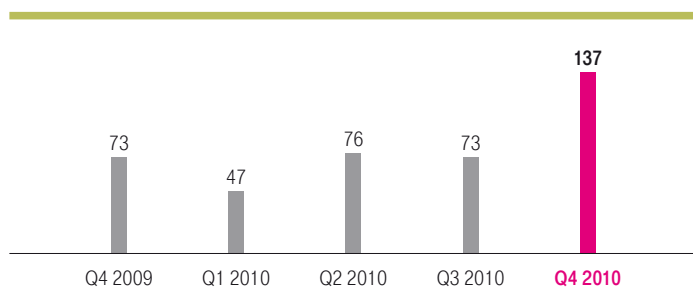
**New orders.** (millions of €)



**Revenue.** (millions of €)



**Adjusted EBIT.** (millions of €)



		Dec. 31, 2010	Dec. 31, 2009	Change	Change %	Dec. 31, 2008
<b>New orders</b>	millions of €	9,281	9,364	(83)	(0.9)	10,235
<b>Computing &amp; Desktop Services</b>						
Number of servers managed and serviced	units	58,073	47,092	10,981	23.3	56,734
Number of workstations managed and serviced	millions	1.95	1.86	0.09	4.8	1.51
<b>Systems Integration</b>						
Hours billed	millions	9.2	9.6	(0.4)	(4.2)	10.7
Utilization rate	%	84.0	81.3		2.7p	80.9

## Development of business.

In the 2010 financial year, our Systems Solutions operating segment (T-Systems) secured strategically significant new deals in the ICT corporate customer market. In particular, we are experiencing high demand in dynamic computing, a new growth area. Dynamic computing allows customers to receive broadband, computing capacity, and memory on demand, pay for what they use and share the infrastructure. Companies increasingly use software from what are known as cloud services to manage their business processes (private cloud). In eight months, T-Systems doubled these dynamic resources from the Net.

The number of servers managed and serviced increased by 23.3 percent in the year under review compared with 2009, primarily as a result of an increase in demand for dynamic computing services. The number of workstations managed and serviced also increased significantly, mainly due to new orders. In addition, Systems Integration developed positively, despite the continuing cost pressure from competition. Although fewer hours were billed, this effect was offset by a higher utilization rate. It is also encouraging that more and more energy providers are demanding services relating to smart electricity grids, in addition to traditional ICT services. We secured new deals in 2010, most recently with the city of Emden's municipal utilities, concerning the recording, transmission and processing of energy data.

## Development of operations.

	2010 millions of €	2009 millions of €	Change millions of €	Change %	2008 millions of €
<b>Total revenue</b>	9,057	8,798	259	2.9	9,343
Profit (loss) from operations (EBIT)	44	(11)	55	n.a.	81
Special factors affecting EBIT	(289)	(240)	(49)	(20.4)	12
EBIT (adjusted for special factors)	333	229	104	45.4	69
EBIT margin (adjusted for special factors) %	3.7	2.6			0.7
Depreciation, amortization and impairment losses	(623)	(721)	98	13.6	(781)
EBITDA	667	710	(43)	(6.1)	862
Special factors affecting EBITDA	(281)	(213)	(68)	(31.9)	36
<b>EBITDA (adjusted for special factors)</b>	948	923	25	2.7	826
EBITDA margin (adjusted for special factors) %	10.5	10.5			8.8
<b>Cash capex</b>	(725)	(681)	(44)	(6.5)	(823)
<b>Average number of employees</b>	47,588	45,328	2,260	5.0	46,095

### Total revenue.

Total revenue in our Systems Solutions operating segment in the financial year amounted to EUR 9.1 billion, a year-on-year increase of 2.9 percent. This positive development is the result of the numerous contracts concluded this year and in the prior year. The new deals offset the general negative price trend in IT and communications. Revenue generated with Deutsche Telekom's other operating segments amounted to EUR 2.6 billion in the reporting period, a decrease of 2.5 percent. As a service provider for our Group, T-Systems plays a key role in optimizing Deutsche Telekom's IT costs. T-Systems standardized and improved the IT environment for the Group, making a major contribution to the Save for Service program.

### Net revenue.

T-Systems substantially expanded business with customers outside the Deutsche Telekom Group, reflecting the success of T-Systems' new growth course. The operating segment generated net revenue of EUR 6.4 billion, 5.4 percent more than in the prior year. On the one hand, this positive development is attributable to Computing & Desktop Services. Many customers are already opting for so-called cloud services, which is how we already provide two thirds of SAP services for our customers. This development is complemented by growth of 1.3 percent in Systems Solutions business, particularly at Application Management & Development. Agreements signed with TUI Travel and E.ON also made positive contributions to our telecommunications business, where business is decreasing as a result of price factors.

**EBITDA, adjusted EBITDA.**

In the financial year, our Systems Solutions operating segment generated EBITDA of EUR 0.7 billion. The decline of 6.1 percent compared with 2009 was primarily attributable to the higher cost of goods and services purchased as a result of start-up costs in connection with the new deals. The higher costs were partially offset by savings under Save for Service, the Company's comprehensive restructuring and efficiency enhancement program. EBITDA was negatively affected by special factors totaling EUR 0.3 billion, largely arising from restructuring measures. Adjusted EBITDA totaled EUR 0.9 billion in 2010, an increase of 2.7 percent.

**EBIT, adjusted EBIT.**

Adjusted EBIT increased by 45.4 percent year-on-year, also as a result of Save for Service, the comprehensive restructuring and efficiency enhancement program. It was also positively affected by lower depreciation and amortization owing to the extension of the economic useful lives of several assets such as high-performance servers. The adjusted EBIT margin increased from 2.6 percent in 2009 to 3.7 percent in the reporting period.

**Cash capex.**

At EUR 0.7 billion, cash capex in the reporting period increased year-on-year. Apart from expanding its dynamic computing platform, T-Systems invested in new deals and customer relationships in 2010. Positive effects of the efficiency enhancement measures, e.g., more standardized ICT platforms, were partially offset by the addition of assets taken on under the new deals.

**Employees.**

The average number of employees grew by 2,260 in 2010 to 47,588, a year-on-year increase of 5.0 percent. While the average number of employees in Germany decreased by 452 or 1.8 percent to 25,095, internationally the average increased by 2,712 or 13.7 percent. This reflects the staff restructuring measures in Germany, in particular at Systems Integration, as well as offshoring activities at Computing & Desktop Services. The increase is also attributable to the fact that employees were taken over under the terms of large-scale contracts and to the increased use of company employees from nearshore and offshore countries.



# Group Headquarters & Shared Services.

Vivento, our personnel service provider consistently supported us once again in 2010 in staff restructuring in the Group. The focus was on securing external employment opportunities for civil servants and employees, predominantly in the public sector. Vivento paid particular attention to transferring employees, especially to the Federal Employment Agency. In addition, Vivento offers Group employees employment opportunities at Vivento Customer Services GmbH.

As of December 31, 2010, Vivento had a workforce of about 8,900, including around 3,600 employees who were deployed externally, mainly in the public sector, for example at the Federal Employment Agency. Another 3,300 or so employees were employed within the Group, especially in service centers. About 2,000 employees were placed in Vivento's operational

and strategic units or continued to be managed by Vivento. Vivento took on a total of around 2,200 employees from our Group in 2010, while around 2,800 employees left Vivento in the reporting period to pursue new employment opportunities. Vivento found permanent public-sector positions for around 800 of them, some 700 of which were at the Federal Employment Agency.

Property management continued to focus in 2010 on streamlining and improving the Company's real estate portfolio. Deutsche Telekom closed a total of 196 property sales deals in the reporting year, involving 149,000 square meters of floor space and 1.5 million square meters of land. Cash inflows from the disposal of real estate totaled EUR 0.1 billion. We reduced leased floor space by another 106,000 square meters thanks to the ongoing drive to optimize floor space and corporate sites. Overall, leasing and facility management costs in 2010 remained at the prior-year level.

## Development of operations.

	2010 millions of €	2009 millions of €	Change millions of €	Change %	2008 millions of €
<b>Total revenue</b>	2,166	2,410	(244)	(10.1)	2,781
Loss from operations (EBIT)	(2,479)	(1,249)	(1,230)	(98.5)	(1,266)
Depreciation, amortization and impairment losses	(840)	(833)	(7)	(0.8)	(773)
EBITDA	(1,639)	(416)	(1,223)	n.a.	(493)
Special factors affecting EBITDA	(769)	(101)	(668)	n.a.	(312)
<b>EBITDA (adjusted for special factors)</b>	(870)	(315)	(555)	n.a.	(181)
<b>Cash capex</b>	(406)	(449)	43	9.6	(426)
<b>Average number of employees</b>	22,312	20,181	2,131	10.6	23,581
Of which: Vivento *	8,900	9,600	(700)	(7.3)	8,200

\* Number of employees at the reporting date, including Vivento's own staff and management; figures rounded.

**Total revenue.**

Total revenue at Group Headquarters & Shared Services declined by 10.1 percent year-on-year in 2010, mainly due to the decline in revenue in the Real Estate Services unit in connection with the more efficient use of floor space by the operating segments, especially for technical facilities. The reduction in cost allocations from technical functions within the Group and the decline in revenue from service center activities at Vivento due to lower volumes also impacted negatively on the revenue trend. Added to this was a decline in revenues at DeTeFleetServices GmbH, mainly resulting from lower proceeds from vehicle sales and a lower average number of fleet vehicles.

**EBITDA, adjusted EBITDA.**

Adjusted EBITDA at Group Headquarters & Shared Services decreased by EUR 0.6 billion year-on-year in the reporting period, mainly due to higher income recorded in the previous year from the reversal of provisions and the reclassification of real estate from assets held for sale to non-current assets. Adjusted EBITDA was also negatively impacted by higher personnel costs (at Vivento and other units) and higher marketing and technology costs incurred centrally. Added to this were the decline in revenue at Vivento and lower earnings from the disposal of real estate. Overall, EBITDA was negatively impacted by special factors of EUR 0.8 billion in 2010, primarily as a result of expenses relating to the settlement of the disputes between Deutsche Telekom AG, Vivendi, and Elektrim concerning the ownership of the Polish mobile communications company Polska Telefonia Cyfrowa (PTC) and expenses for staff-related measures. By comparison, in 2009 special factors of EUR 0.1 billion had a negative effect on EBITDA – mainly as a result of expenses for staff-related measures.

**EBIT.**

Loss from operations (EBIT) increased by EUR 1.2 billion year-on-year due to the increase in negative special factors and the development of adjusted EBITDA.

**Employees.**

The average number of employees during the reporting period was 22,312. The increase of 2,131 employees compared with 2009 was primarily attributable to the headcount increase at Vivento and staff employed at the units that were integrated into Group Headquarters & Shared Services as part of the Group-wide realignment of the management structure.

# Development of business at Deutsche Telekom AG.

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

As the headquarters of the Deutsche Telekom Group, we perform strategic and cross-segment management functions and provide services for other Group companies. The profits and losses of our subsidiaries and Group financing measures have a material effect on our financial position and results of operations. For Deutsche Telekom AG, the 2010 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 income after taxes for the 2010 financial year of EUR 3.0 billion. The development of business in the reporting year was marked by a number of very different effects, arising from both the company's day-to-day operations and income related to subsidiaries, associated and related companies, as well as from the restructuring activities carried out in the 2010 financial year.

These activities included spinning off our fixed-network business (hereinafter referred to as the T-Home business unit) to Telekom Deutschland GmbH with accounting effect as of January 1, 2010. The fixed-network business activities that were spun off include voice and data communication based on fixed-network and broadband technology. On account of the spin-off of the T-Home business unit, the figures are not comparable with the amounts for the previous year.

The German Accounting Law Modernization Act was applied in full for the first time in the reporting year. Pursuant to § 265 (2) sentence 3 HGB and Art. 67 (8) sentence 2 of the Introductory Act to the German Commercial Code (Einführungsgesetz zum Handelsgesetzbuch – EGHGB), prior-year figures were not restated.

The balance sheet of the T-Home business unit under German GAAP at the time of the spin-off is presented below in condensed form:

	millions of €
<b>Assets</b>	
Non-current assets	13,254
Current assets	1,205
Prepaid expenses and deferred charges	56
<b>Total assets</b>	<b>14,515</b>
<b>Shareholders' equity and liabilities</b>	
Shareholders' equity	2,232
Accruals	1,015
Liabilities	11,232
Deferred income	36
<b>Total shareholders' equity and liabilities</b>	<b>14,515</b>

Deutsche Telekom AG's carrying amount in Telekom Deutschland GmbH increased by the amount of the net assets spun-off (EUR 2.2 billion).

## Results of operations of Deutsche Telekom AG.

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

	2010 millions of €	2009 millions of €	Change millions of €	Change %	2008 millions of €
<b>Net revenue</b>	<b>4,269</b>	<b>18,220</b>	<b>(13,951)</b>	<b>(76.6)</b>	<b>18,201</b>
Changes in inventories and other own capitalized costs	7	37	(30)	(81.1)	56
<b>Total operating performance</b>	<b>4,276</b>	<b>18,257</b>	<b>(13,981)</b>	<b>(76.6)</b>	<b>18,257</b>
Other operating income	5,146	7,160	(2,014)	(28.1)	5,284
Goods and services purchased	(1,596)	(6,935)	5,339	77.0	(6,411)
Personnel costs	(3,394)	(3,979)	585	14.7	(3,871)
Depreciation, amortization and write-downs	(525)	(3,526)	3,001	85.1	(3,565)
Other operating expenses	(6,081)	(9,160)	3,079	33.6	(8,682)
<b>Operating results</b>	<b>(2,174)</b>	<b>1,817</b>	<b>(3,991)</b>	<b>n.a.</b>	<b>1,012</b>
Financial income (expense), net	4,738	3,183	1,555	48.9	1,064
<b>Results from ordinary business activities</b>	<b>2,564</b>	<b>5,000</b>	<b>(2,436)</b>	<b>(48.7)</b>	<b>2,076</b>
Extraordinary income (loss)	(24)	(329)	305	92.7	-
Taxes	443	(161)	604	n.a.	(72)
<b>Income after taxes</b>	<b>2,983</b>	<b>4,510</b>	<b>(1,527)</b>	<b>(33.9)</b>	<b>2,004</b>

Operating results are not comparable with the prior-year figure on account of the spin-off of the T-Home business unit.

One of the effects of this spin-off has therefore been a shift in our results of operations between operating results and net financial income, as significant parts of Deutsche Telekom AG's business were transferred to Telekom Deutschland GmbH and, due to the transfer of its profits, the earnings from this business are now recognized in financial income for the first time.

Thus operating results decreased by EUR 4.0 billion year-on-year, mainly due to declining revenue as a result of the spin-off of the T-Home business unit, contrasted however by lower cost of goods and services purchased, depreciation, amortization and write-downs, and other operating expenses. Special factors of around EUR 0.5 billion also negatively impacted on operating results. In contrast to the prior year, revenue included in particular income from hiring out employees, renting and leasing out property, and offering training services.

Financial income improved year-on-year by EUR 1.6 billion to EUR 4.7 billion. This was due essentially to the development of the income related to subsidiaries, associated and related companies contained therein, amounting to EUR 6.9 billion (2009: EUR 5.5 billion), which, as in the prior year, was influenced by special and other factors, particularly the EUR 1.8 billion profit transfer from T-Mobile Global Zwischenholding GmbH (2009: EUR 3.5 billion). The income related to subsidiaries, associated and related companies increased primarily as a result of the EUR 5.3 billion profit transfer (2009: EUR 2.2 billion) from Telekom Deutschland GmbH. Write-downs on financial assets of around EUR 1.0 billion had an offsetting effect on financial income in 2010.

The results from ordinary business activities decreased year-on-year due particularly to lower positive special factors in financial income, as well as to special factors in operating results.

Taking extraordinary expenses of EUR 24 million and tax income of EUR 443 million and the aforementioned factors into account, income after taxes amounted to EUR 3.0 billion in the financial year.

## Financial position of Deutsche Telekom AG.

### Balance sheet of Deutsche Telekom AG under German GAAP.

	Dec. 31, 2010 millions of €	Dec. 31, 2010 %	Dec. 31, 2009 millions of €	Change millions of €	Dec. 31, 2008 millions of €
<b>Assets</b>					
Intangible assets	206	0.2	1,275	(1,069)	1,030
Property, plant and equipment	5,034	5.0	17,282	(12,248)	18,815
Financial assets	80,876	80.8	75,759	5,117	83,277
<b>Non-current assets</b>	<b>86,116</b>	<b>86.0</b>	<b>94,316</b>	<b>(8,200)</b>	<b>103,122</b>
Inventories, materials and supplies	10	0.0	84	(74)	88
Receivables	11,571	11.6	9,356	2,215	3,344
Other assets	869	0.9	1,112	(243)	803
Marketable securities	14	0.0	226	(212)	206
Cash and cash equivalents	754	0.8	2,732	(1,978)	960
<b>Current assets</b>	<b>13,218</b>	<b>13.3</b>	<b>13,510</b>	<b>(292)</b>	<b>5,401</b>
Prepaid expenses and deferred charges	738	0.7	516	222	536
Difference from allocation of assets	12	0.0	-	12	-
<b>Total assets</b>	<b>100,084</b>	<b>100.0</b>	<b>108,342</b>	<b>(8,258)</b>	<b>109,059</b>
<b>Liabilities and shareholders' equity</b>					
Capital stock and reserves	53,310	53.3	53,715	(405)	53,713
Unappropriated net income	6,018	6.0	6,421	(403)	5,297
<b>Shareholders' equity</b>	<b>59,328</b>	<b>59.3</b>	<b>60,136</b>	<b>(808)</b>	<b>59,010</b>
Accruals for pensions and similar obligations	2,662	2.7	2,769	(107)	2,630
Tax accruals	124	0.1	547	(423)	179
Other accruals	2,903	2.9	4,598	(1,695)	5,049
<b>Accruals</b>	<b>5,689</b>	<b>5.7</b>	<b>7,914</b>	<b>(2,225)</b>	<b>7,858</b>
Debt	6,711	6.7	6,195	516	6,308
Other liabilities	28,031	28.0	33,891	(5,860)	35,833
<b>Liabilities</b>	<b>34,742</b>	<b>34.7</b>	<b>40,086</b>	<b>(5,344)</b>	<b>42,141</b>
Deferred income	325	0.3	206	119	50
<b>Total shareholders' equity and liabilities</b>	<b>100,084</b>	<b>100.0</b>	<b>108,342</b>	<b>(8,258)</b>	<b>109,059</b>

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

The decrease in the balance sheet total compared with the prior year is largely attributable to the spin-off of the T-Home business unit.

This reduced our assets by a total of EUR 8.2 billion year-on-year.

This was mainly due to the decrease of EUR 12.2 billion in property, plant and equipment, which was partially offset by an increase of EUR 5.1 billion in financial assets. Property, plant and equipment accounts for 5.0 percent of total assets (December 31, 2009: 16.0 percent); this item declined year-on-year primarily due to the spin-off of the T-Home business unit. Financial assets constitute 80.8 percent of total assets (December 31, 2009: 69.9 percent) and mainly comprise investments in subsidiaries of EUR 74.5 billion and loans to subsidiaries of EUR 6.3 billion.

Financial assets increased by EUR 5.1 billion year-on-year, primarily as a result of additions to loans to subsidiaries owing to the transfer of financial contracts as part of the spin-off of the T-Home business unit to Telekom Deutschland GmbH.

Receivables from and liabilities to subsidiaries amounted to EUR 10.6 billion (December 31, 2009: EUR 8.6 billion) and EUR 22.2 billion (December 31, 2009: EUR 28.5 billion), respectively. The decrease in liabilities was mainly the result of the spin-off of the T-Home business unit.

Shareholders' equity decreased by EUR 0.8 billion year-on-year, due in particular to the net income after taxes of EUR 3.0 billion, the profit distribution of EUR 3.4 billion for the previous year, and the buy-back of Deutsche Telekom AG shares of EUR 0.4 billion. The equity ratio increased by 3.8 percentage points to 59.3 percent (December 31, 2009: 55.5 percent).

#### Statement of cash flows.

	2010 millions of €	2009 millions of €	Change millions of €
Income after taxes	2,983	4,510	(1,527)
Net cash provided by operating activities	751	5,442	(4,691)
Net cash used for investing activities	(329)	(2,903)	2,574
Net cash used for financing activities	(2,400)	(767)	(1,633)
<b>Net change in cash and cash equivalents</b>	<b>(1,978)</b>	<b>1,772</b>	<b>(3,750)</b>
Cash and cash equivalents, at beginning of period	2,732	960	1,772
<b>Cash and cash equivalents, at end of period</b>	<b>754</b>	<b>2,732</b>	<b>(1,978)</b>

The reduction in net cash provided by operating activities largely resulted from the decline in income after taxes and the spin-off of the T-Home business unit. The change in net cash used for investing activities is primarily attributable to the spin-off of the T-Home business unit.

Net cash used for financing activities includes a cash outflow of EUR 3.4 billion for the dividend payment, EUR 0.4 billion for the buy-back of the company's own shares, and cash inflows from the build-up of intercompany financial liabilities. Combined, these cash flows resulted in a decrease in cash and cash equivalents in the financial year to EUR 0.8 billion.

#### 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.

Responsible corporate governance // Climate protection activities // Sustainability ratings and awards

## Responsible corporate governance.

We aim to be a world leader in corporate responsibility (CR) by 2015, having assumed this position in many areas already. Since 2008, we have been working towards this goal within the framework of our Group-wide CR strategy with its three central fields of activity "Connected life and work," "Connect the unconnected" and "Low carbon society." We set the milestones for our ambitious CR goal with a new internal project: We began by using external benchmarks and internal SWOT analyses to determine the status quo of the integration of CR in Group processes and the Company's specific performance vis-à-vis third parties in terms of content. Our CR unit used the findings to not only derive criteria for achieving our goal, but also to develop specific recommendations for action. We put the first measures into practice in 2010. We will monitor and control each recommended measure until 2015. We will likewise review existing KPIs until 2015 on the basis of the findings of the internal project.

### Climate protection activities and new climate protection targets.

**Climate protection activities.** Climate protection was a special focus of our CR activities in the 2010 reporting year and involved not only reducing harmful greenhouse gases in our own operations, but also helping our customers to reduce emissions through the use of our products and solutions. In our own operations, we concentrated – among other aspects – on sustainable mobility. In accordance with the new Green Car Policy, for example, the CO<sub>2</sub> emissions of new cars throughout the entire vehicle fleet will average 110 grams per kilometer by 2015. This corresponds to an average consumption of 4.2 liters of diesel per 100 kilometers. This figure is actually below the climate protection targets of 120 grams per kilometer that the European Union hopes to achieve by 2015.



With more than 33,000 cars and service vehicles in Germany, our company fleet is one of the largest in Europe. Our fleet was analyzed in detail by the TÜV Rheinland technical inspection agency in 2010 and awarded the Blue Fleet certificate for carbon-aware fleet management. This certificate will be reviewed every twelve months.

Furthermore, Deutsche Telekom employees travel carbon-free with Deutsche Bahn. Our staff travel some 128 million kilometers by train each year. Deutsche Bahn feeds the power needed for this directly into its grid from renewable energy sources. This agreement with Deutsche Bahn alone allows us to play our part by avoiding emissions of around 5,700 tons of carbon dioxide every year.

With the services we provide, our customers can also make a sizeable contribution to climate protection and the sustainable use of resources, for example through smart metering, an intelligent technology that helps make energy consumption more transparent and thus save energy, in both in companies and private households.

Smart grids are indispensable for connecting local energy generation plants efficiently. They enable energy providers to feed only the power needed at the time into their grid – or buy it in the required quantity. Using smart grids could avoid 23.6 megatons of carbon emissions by 2020 in Germany alone (source: Smart 2020 study, Germany Addendum).

**New climate protection targets.** Our commitment to climate protection dates back to 1995. Today, climate change is happening faster than people thought back then. Yet, a great deal of progress has been made in the field of information and communication technology in recent years as regards performance and energy efficiency. In 2005, our climate protection strategy envisaged cutting the Group's carbon emissions in Germany by 20 percent between 1995 and 2020. We now believe that this goal is not ambitious enough. Last year, we therefore began to overhaul our climate protection strategy on the basis of data collected in 2008 and are now working to reduce carbon emissions at Deutsche Telekom in Germany by 30 percent by 2020. Compared with the level in 1995, this represents a total reduction of 40 percent.

The reductions in the coming years will primarily be achieved through the changeover of the network to the more energy-efficient Internet protocol (all-IP), the new Green Car Policy, and savings in buildings and mobility (e.g., carbon-neutral business trips by train). The next milestone we set will involve internationalizing our climate protection strategy and defining specific targets for the different countries.

## Sustainability along the entire supply chain.

Our corporate responsibility spans the entire value chain. We have a footprint in more than 50 countries as an international ICT services provider with the corresponding supplier relationships. That is to say, we also purchase goods and services directly and indirectly in developing and emerging economies. Often, the production conditions in these countries do not meet our environmental and social requirements. This is one of the reasons why we support the promotion and safeguarding of corresponding standards. We are also committed to ensuring our suppliers respect human rights.

In addition, we take steps in industry initiatives to make our supplier relationships sustainable. In mid-2010, we initiated a Joint Audit Commission as part of an agreement with France Télécom and Telecom Italia to conduct joint social audits of suppliers around the world. These joint audits are conducted by external audit firms on the basis of precisely defined, standardized criteria to establish and safeguard environmental, social and governance standards among our suppliers. We already carried out 26 audits at our suppliers in the reporting year (2009: 4); this figure is expected to reach 200 by 2012.

## New channels for stakeholder communication.

**Utopia cooperation.** utopia.de is one of the most important online platforms for sustainable consumption in German-speaking regions.  This platform has featured our company profile, including a blog, since October 2009. In early 2010, we expanded our partnership with Utopia to a strategic partnership with the aim of driving forward the change in awareness for sustainable consumption through social dialog. This partnership is based on the Change-maker Manifesto of the Utopia Foundation, a voluntary commitment to sustainability in ten points. René Obermann was the first CEO of a DAX company to sign this manifesto in April 2010, directly before taking part in the first social dialog – a live chat on the Net with the Utopia user group.

**Sustainability drive.** We also want to specifically involve our customers in sustainable action. We took the first step in 2009, when we launched our multi-year sustainability drive "Big changes start small." One focus of this drive in 2010 was on taking back old cell phones. There are some 60 million old cell phones no longer in use in Germany that contain not only recyclable material but also harmful substances. We called for people to hand in old cell phones in a number of campaigns, including a major prize draw, and a Facebook campaign featuring pop star Katy Perry, all of which helped collect almost 250,000 old cell phones in the reporting year.

**Twittmob.** Another example of the new channels for stakeholder communication is the MachMitMob online demonstration voluntarily organized by Deutsche Telekom employees in their spare time. Under the motto "140 characters for sustainability," a call went out on the online platform Twitter in the run-up to July 16, 2010 for tweets on the subject of sustainability, e.g., tips, information, appeals, and initiatives. The response exceeded all expectations: On this day, sustainability was far and away the most tweeted subject in Germany.





For further information on the CR strategy and core CR topics, please refer to the printed CR report for 2010 and the online CR report at [www.cr-report.telekom.de](http://www.cr-report.telekom.de).\*

## Further achievements: sustainability ratings and awards.

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

Rating agency	Indexes/ratings/ranking	Successfully listed in index			
		2010	2009	2008	2007
SAM	DJSI World	✓	✓	✓	✓
	DJSI Europe (until 2009 STOXX®)	✓	✓	✓	✓
Oekom	"Prime"	(✓)	✓	(✓)	✓
VIGEO	ASPI	✓	✓	✓	✓
	ESI	✓	✓	✓	✓
imug/EIRIS	FTSE4Good	✓	✓	✓	✓
Sarasin	DAX Global Sarasin Sustainability	(✓)	(✓)	✓	✓
CDP	Carbon Disclosure Leadership Index	X	X	X	✓
	Carbon Performance Leadership Index (new since 2010)	✓	n.a.	n.a.	n.a.
RiskMetrics	FTSE KLD Global Climate 100	✓	✓	✓	✓
	FTSE KLD Global Sustainability	X	X	X	✓
Newsweek Green Rankings Global 100	Rank Germany #1, Global #7, Technology #3	✓	n.a.	n.a.	n.a.

- ✓ = Successfully listed.
- ( ) = Multi-year cycle.
- X = Not listed.

In the past year, we scored high again in terms of sustainability, for example in the renowned SAM (Sustainable Asset Management) rating. We requalified for a listing in the relevant Dow Jones Sustainability Indexes. In a peer comparison with other mobile companies, we achieved an excellent second place in the reporting year, after having been rated as sector leader in the prior year. The continuous listing in the indexes based on the VIGEO and imug/EIRIS analyses also confirms our achievements with regard to investors interested in socially responsible investment (SRI). As of the beginning of 2010, we took second place in the well-known ranking of Oekom and Wirtschaftswoche of DAX companies – another strong result.

A new development was the commendation of the U.S. news magazine Newsweek: In a ranking of the 100 largest companies in the world according to environmental friendliness, we came seventh – and were the best German company. In the category of technology companies, we ranked behind IBM, HP, and Sony.

**New: huge increase in interest in sustainable investment.** According to research by the Sustainable Business Institute (SBI), the volume of the 354 sustainable funds authorized for public sale in Germany, Austria and Switzerland at year-end 2010 comprised approximately EUR 34 billion, thus continuing the growth of sustainable public funds in the fourth quarter of 2010. At the end of 2009, only 313 funds were registered with the SBI. All funds that claim to take particular account of ecological, social and governance (ESG) criteria are included.

These funds continue to show high interest in shares of Deutsche Telekom. In 2009, 9 percent of Deutsche Telekom shares were held by investors who, at least to some extent, take SRI/ESG criteria into account when making investment decisions. 2 percent of T-Shares are held by investors who give priority to SRI/ESG aspects when managing their funds (source: Ipreo).

\* Where the management report refers to Internet pages, the content of these pages does not constitute part of the management report.

# Innovation and product development.

## Connected life drives innovation

### Innovation drives product networking forward.

The vision of connected life and work is the leitmotif of our innovation process. After all, our products are connected with each other. We view and develop them from the customer's perspective, because in our opinion, every customer should be able to decide his or her personal digital lifestyle. And we want to help them to do so. However, connected life and work is not only relevant for our products, it also plays an important role in innovation and product development, creating close links between our experts, external partners, and also customers.

Our Products & Innovation unit is responsible for innovation and product development – from Group-wide research & development as well as innovation management and marketing, through to product development and management, and management of our product portfolio. The aim is to develop innovative and competitive products, services and business models. We are pursuing the joint mission of Superior User Experience & Simplicity drawing on broad knowledge of markets and customers in conjunction with innovation and technology expertise. Customer focus, simplicity, an outstanding user experience, a high-quality product portfolio, and sustainable profitability play a key role in this context.

### Everything starts with an idea.

When it comes to innovation, we act according to the principles of open innovation and user-driven innovation. We develop innovations together with customers and partners – always focusing closely on the needs of our customers. One instrument, for example, is the Creation Center, which develops product ideas and concepts for all units of the Group. Together with researchers, we quite literally look into customers' living rooms and develop consistent concepts for consumers together with the product managers.

Our Group's research and development activities are brought together at Deutsche Telekom Laboratories (T-Labs), a private scientific institute affiliated to the Berlin University of Technology (TU Berlin). Around 180 scientists as well as 180 experts from Deutsche Telekom work in Berlin, Darmstadt, Beer Sheva (Israel), and Los Altos (California, United States) to develop prototypes for innovative products and services. T-Labs primarily works on projects and new technologies that are expected to be marketable or launched in 18 months to five years.

We participate in national and international forums and committees to help shape future products and services, incorporating our interests and the wishes of our customers. Our T-Labs are networked with international partners from industry and renowned research institutions.

In order to find out what customers want, T-Labs set up the Innovation Forum: More than 900 Berlin households help in product tests, surveys, and on-site research. T-Labs also holds workshops in order to identify needs better and faster, some with specific target groups, such as senior citizens or young women. Those responsible for product development and design use these findings and put them into practice.

Business ideas generated by T-Labs that we do not adopt into our product portfolio, but which demonstrate a clear benefit for customers and are predicted to succeed in the market are spun off from our Group as independent companies. Providers of venture capital, such as T-Venture, give these spin-off companies not only the necessary equity capital, but also important expertise to then operate independently in the market. So far there have been four spin-offs from T-Labs, the most recent being YOOCHOOSE and wahwah.fm. To increase the number of spin-offs, we perform what is known as incubation management, which develops good ideas into marketable products faster and more systematically. The Entrepreneurs program at T-Labs has been devised to support internal and external start-up teams in unlocking potential from disruptive technologies by providing seed funding, for instance.



### Ever shorter innovation cycles.

Innovation cycles are getting shorter all the time. For us in the telecommunications industry, this means that new products need to be developed in ever shorter periods. This requires new concepts, which is why we hold to the principles of open innovation. Allowing all those who are interested in the solution to a problem to work together openly and intensively means marketable products can be developed much faster. One of our examples of this is the Android project to further develop an open platform for cell phones. However, innovations for our customers also result from open competitions, such as the IPTV Competition to further develop our Entertain product. Our Developer Garden portal addresses the software developer community, offering them our toolboxes to bring new software solutions for Internet applications to market maturity. By 2012, T-City Friedrichshafen will have been transformed into a city that is a living example of the quality of life and community amenities in the future. Numerous innovations – from caring for people with cardiac problems through to remote reading of electricity meters – are being tested using state-of-the-art fixed-line and mobile infrastructure.

### Patents and awards.

**Patents.** In the market for mobile and fixed-network telephony, intellectual property rights are extremely important, both nationally and internationally. We are therefore applying ourselves intensely to in-house development and the acquisition of rights. The number of patent applications increased in 2010 by 28.1 percent year-on-year to 913. At the end of 2010, the Group held 7,434 intellectual property rights (inventions, patent applications, patents, utility models, and design models). The portfolio is reviewed on a regular basis, and the rights that are no longer relevant are eliminated. When managing these intellectual property rights, we specifically consider cost/benefit aspects.

**Awards.** The success of our innovation work is also reflected in numerous awards won by the Company, its products and its employees. In 2010, for instance, T-Labs received the Open Innovation Award in the research and development category. Since opening, T-Labs has already received over 50 prizes and awards, such as the Berlin Science Award in 2008, the Johann Philipp Reis Award in 2009, Convergor of the Year 2009 and, most recently, the Leibniz Award in 2011, Germany's most coveted prize for scientific research. For several years in a row, our developments have received the Voice Award for the best interactive voice response systems, i.e., voice-controlled telephone services.

**Public Private Partnership Innovation Award.** The German Aerospace Center (Deutsches Zentrum für Luft- und Raumfahrt) and T-Systems received the Public Private Partnership Innovation Award for their ten-year ICT services outsourcing partnership. In addition to the innovation factor, the judges also took account of cost-effectiveness, efficiency and an appropriate distribution of risks between the partners.

**Award for an innovative solutions portfolio.** According to Cisco and IDG Global Solutions, T-Systems is the first provider to create a service that optimizes applications in global corporate networks. For the Application Performance Management solution T-Systems won the award in the Most Innovative Service Offering category. This service enables international corporations to boost the performance of their worldwide corporate network and multi-site applications – by a factor of up to 50.

**New Product Innovation Award for T-Systems.** Each year, the international consultancy Frost & Sullivan grants the New Product Innovation Award to companies with innovative products and cutting-edge technologies. T-Systems received the award for a new electronic toll collection solution.

### Research and development results.

It is important to us that the results of our work are transferred to our Group units, which can use them to put new products and services on the market for our customers.

One example of such a transfer is the recommendation system from the Cologne-based start-up company YOOCHOOSE. Their Recommender Engine for Web services is based on technologies and patents originating from our T-Labs. What makes this solution stand out from other recommendation systems is the extraordinarily precise selection of relevant content; product information is tailored precisely to the individual user. The solution has been designed in such a way that it can be quickly adapted to different areas of application, e.g., for Musicload, Gamesload, and other portals. We will install Recommender Engine on other portals, such as Videoload, and offer the recommendation service across all portals. Thus when customers use our portals, they will automatically receive additional recommendations for other suitable Deutsche Telekom products.

Another example is the SEE ICT project (Solutions for Energy Efficient Information Communication Technology) in which solutions are developed for reducing the energy requirements of Deutsche Telekom's network platforms. After all, it takes more than the output of one large power plant to operate these platforms. Based on the findings of the project, the power consumption of network components has become one of the procurement criteria. Together with our subsidiary Power and Air Solutions, model calculations are being used to develop incremental concepts, for example for power supply at operating sites, including factors such as the aging of items of equipment. In mobile communications, an industry whose power requirements are considerable due to the simultaneous operation of three different transmission technologies, it was possible to reduce energy consumption of base stations in the short term.

Many mobile devices have movement sensors and navigation capability that can also be used for mobile multiplayer games. Thanks to intelligent software, the games can also be adapted to specific situations. A Software Development Kit (SDK) is being designed as part of the Adaptive Mobile Gaming project to support developers in the creation of mobile multiplayer games. A cell-phone version of the board game Scotland Yard was created as a demonstrator. The Mister X Mobile game, which was developed in collaboration with the University of Bonn, met with a very positive media response in the reporting year and is available from Gamesload or as an app from the iTunes Store. The results obtained in the project form the basis for the further evolution of the Software Development Kit.



## Innovative products, high-speed networks and ongoing developments.

In the past financial year, we developed a number of new products and brought ongoing developments to market maturity. These innovations include:

**Roll-out of the 3G network on the basis of HSPA+.** We upgraded our 3G networks to the HSPA+ standard in Germany, Austria, the Czech Republic, the Netherlands, Poland and Greece. With HSPA+, T-Mobile USA now offers transmission rates that are even comparable to a 4G network – with better coverage than all its competitors. We also substantially simplified data roaming; customers in the United Kingdom can now book roaming passes by text message or on the Internet and know right from the start what the services cost.

**DeutschlandLAN.** DeutschlandLAN is the network-based solution for all business communication in the office and on the go. A standardized user interface acts as a communication center to integrate all communication channels such as telephony, e-mail, text messaging, and instant messaging for connected work.

**Cloud services.** T-Systems is world leader when it comes to standards for new services such as cloud computing, i.e., the use of data and software from the Internet. Since T-Systems complies with German data security regulations, which are strict by global comparison, it has a clear competitive edge in the international market. For years, T-Systems has successfully supplied customers around the world with cloud computing services under the name Dynamic Services, which enable companies to cost-effectively procure, add, and cancel IT resources at all their locations at short notice. They can thus push IT projects or establish new business models quickly without taking any investment risk. They only use and pay for what they really need. Dynamic Services can be integrated seamlessly into any existing ICT landscape, providing considerable protection for investments. Beyond “traditional” cloud computing, T-Systems also integrates network services, applications and desktops.

**Tapping into future markets with intelligent networks.** In the area of intelligent networks, T-Systems focuses on the connected car, healthcare and efficient energy management. Examples include the use of the Internet in the car, satellite-based toll collection systems, automatic calls to emergency services, and voice-controlled e-mail. In the healthcare sector, T-Systems connects the various areas securely and conveniently. In addition,



T-Systems supports what is known as integrated healthcare, where patients benefit from interdisciplinary care and treatment – from hospital doctors, GPs, specialized therapists and rehabilitation clinics. A solution is already available for efficient energy use in the form of smart metering, which creates the necessary transparency by providing to-the-minute readings of power consumption in private households. T-Systems is currently working on a solution for the electricity grids of the future, so-called smart grids that reconcile fluctuating production (from wind or solar power) with consumption. T-Systems benefits from its expertise in operating complex networks and its industry expertise in the energy sector.

**Mobile Enterprise.** Companies are becoming increasingly mobile. T-Systems supports them in this process and made considerable advances in the reporting year in the Mobile Enterprise service portfolio, in which T-Systems bundles all services mobile terminal equipment for corporate use – whether traditional cell phones or more modern tablets. This portfolio includes connection issues and the management of the equipment including the corresponding security services – as fully managed services or, alternatively, as services from the cloud.

**LIGA total! goes interactive.** The “personalized soccer coverage” function. This function allows our customers, for example, to select only those broadcasts of Bundesliga games being played simultaneously on a any given match day that they are interested in. The trial add-on option LIGA total! Spieltagskarte gives Entertain customers the opportunity to enjoy the soccer broadcasts on any given match day of their choice and thus test the LIGA total! service without having to subscribe to it for a fixed term.

**MyPhonebook.** MyPhonebook targets the mass market, providing all customers with a secure, easy-to-use network-based address book which can be accessed on a variety of terminal equipment and screens. In addition to telephony, text messaging, e-mail, and voice mail, other services such as the Media Center or new communications services will increasingly build on this function in the future. Visual Voice Mail (VVM) and Mobilbox Pro already provide customers with a user-friendly voice mail service.

**DT One Music Platform.** A uniform platform for music download services was successfully rolled out in the Group in November 2010, allowing us to generate synergies in the operation of the services and a uniform presence for fixed-network and mobile customers. The DT One Music Platform hosts the German site Musicload as well as the music download shops of Deutsche Telekom companies in other countries.

**New PayTV portfolio, launch of an HD package.** The entire Entertain PayTV portfolio was restructured in 2010. Our Entertain customers now have a choice of six PayTV packages from various genres. We also significantly increased the number of HD (high definition) channels in 2010.

**Machine-to-machine competence center.** In February 2010, we established the machine-to-machine competence center (M2M CC) to tap another forward-looking business area. The M2M CC integrates smart services into retail products on the basis of strategic alliances. For example, BMW's Connected Drive service now provides additional benefits for the driver via the next-generation mobile network, such as the eCall emergency service function, traffic information, and personal communication via e-mail. Technical and commercial structures established by the M2M CC made it possible to market segment-specific customer solutions worldwide. In addition, the M2M service quality was specially researched to define new standards which can minimize the consequences of faults in critical applications, for example in the healthcare sector.

**Innovation Center in Munich.** Hands-on future: T-Systems opened its first Innovation Center in the Bavarian capital to bring innovations alive. Companies will be able to test new information and telecommunications solutions in a realistic working environment on a test site covering approximately 450 square meters on the Euroindustriepark in Munich. Customers can contribute their own ideas for the further development of solutions and tailor them to their own requirements. The Innovation Center's research partner is the Ludwig Maximilian University in Munich.

## Expenditure and investment in research and development.

Research and development expenditure in the narrower sense relates to pre-production research and development, such as the search for alternative products, processes, systems, and services. However, we do not include under this item expenses for the development of system and application software aimed at enhancing productivity. In the 2010 financial year, research and development expenditure in the Deutsche Telekom Group amounted EUR 0.1 billion, which is less than in prior years. The parent company, Deutsche Telekom AG, accounts for the majority of research and development expenditure in the Group. Here too, expenditure decreased year-on-year.

Deutsche Telekom's investments in internally generated intangible assets to be capitalized totaled EUR 0.2 billion (2009: EUR 0.2 billion). These investments primarily relate to internally developed software, mainly for the Germany operating segment. In the reporting year, over 2,200 employees were involved in projects and activities to create new products and market them more efficiently.

# Employees.

Competitive workforce // Service culture // Talent agenda // HR@2012

## Fix – Transform – Innovate.

**HR Big 4 to support our strategy and growth areas.** To have an outstanding portfolio of products and services worldwide in our current core business and in our growth areas, we need effective, efficient, integrated company and workforce structures we constantly have to optimize. Our HR department supports us as a “partner for business” with its four strategic dimensions, called the HR Big 4: competitive workforce, service culture, talent agenda, and the HR-specific quality and efficiency program HR@2012. Our goal is

to promote a corporate culture that is based on entrepreneurial co-responsibility and creates a balance between being a highly-efficient service company and being a creative driver of innovation. We are also constantly improving our internal and external image as an employer and our talent management. We take steps to ensure that the Group has competent, dedicated employees at all times. With our diversity strategy we are trail-blazers of a forward-looking HR and talent policy that combines a wide variety of personalities, talents and styles in a value-based corporate culture and taps this potential in a profitable manner.

### Headcount development.

Employees in the Group	Dec. 31, 2010	Dec. 31, 2009	Dec. 31, 2008
<b>Total</b>	<b>246,777</b>	<b>259,920</b>	<b>227,747</b>
Of which: Deutsche Telekom AG <sup>a</sup>	35,855	49,122	44,645
Germany operating segment	76,478	81,336	85,637
Europe operating segment	63,338	71,163	39,140
United States operating segment	37,760	40,697	38,031
Systems Solutions operating segment	47,707	46,021	45,862
Group Headquarters & Shared Services	21,494	20,703	19,077
<b>Breakdown by geographic area</b>			
Germany	123,174	127,487	131,713
International	123,603	132,433	96,034
Of which: other EU Member States	68,941	76,196	45,115
Of which: rest of Europe	9,991	10,061	7,908
Of which: North America	38,467	41,235	38,621
Of which: rest of world	6,204	4,941	4,390
<b>Productivity trend <sup>b</sup></b>			
Net revenue per employee	thousands of € 247	251	263

<sup>a</sup> On account of the spin-off of the fixed network business, the figures are not comparable with the amounts for the previous year.

<sup>b</sup> Average number of employees.



## Personnel costs.

	2010 billions of €	2009 billions of €	2008 billions of €
Personnel costs in the Group	15.1	14.3	14.1
Special factors	1.0	0.5	1.1
Personnel costs in the Group adjusted for special factors	14.1	13.8	13.0
Net revenue	62.4	64.6	61.7
<b>Adjusted personnel cost ratio</b>	<b>22.5</b>	<b>21.4</b>	<b>21.1</b>
	%		
<b>Personnel costs at Deutsche Telekom AG under German GAAP</b>	<b>3.4</b>	<b>4.0</b>	<b>3.9</b>

Special factors: expenses for staff-related measures (■ for detailed information, please refer to the section "Development of business in the Group").

## HR Big I: Competitive workforce.

**Total Workforce Management: optimized deployment of human resources worldwide.** Acting not only as a pioneer in our industry but also as a trend-setter among large corporations, we started introducing Total Workforce Management (TWM), initially in Germany, in 2008/2009. Based on our business strategy, TWM enables us for the first time to determine, plan and systematically improve the quality and quantity of our own workforce and necessary third-party providers. In 2010, we also rolled out TWM in Poland and Hungary and prepared the ground for introducing the system in the other national companies. This will allow us to effectively plan and manage strategy-based skills, value creation, quantity, and the cost of our own workforce and of third-party providers worldwide from 2011 onwards. As in Germany, we will for instance be able to use the system to analyze the costs and expertise of our internal and external workforce and tailor our HR structures to make our operations even more efficient. In 2010, integrated skill and cost comparison under TWM generated substantial efficiency gains in Hungary, for example, through optimum employment of external resources, internal retraining, and an improved organizational structure. Our Group-wide Global Labor Cost Management project has been running since summer 2010 with the goal by 2012 of creating the organizational and technical platform for planning, managing, and monitoring our HR costs across borders, even between cycles. Total Workforce Management also provides the foundation for longer-term upscaling plans and talent management.

**New hires, junior staff retention, and training.** We need wide-ranging new skills to exploit our opportunities not only in our core businesses but also in innovation and growth areas. In addition to training our existing staff further, we are therefore planning to hire approximately 10,400 new, appropriately qualified employees in Germany, and around 18,000 in Europe by 2012 (excluding hirings in the Operational Systems (OS) business outside Germany). Attracting high-caliber experts from outside the Group and promoting our own talented employees is the mix that will make our Company fit for the future. It is therefore logical that in Germany, for example, more than half of the hires will come from the ranks of our own internally trained junior staff. In 2010, we took on more than 2,000 junior staff from internal training programs; 91 of them were students from cooperative degree courses. We once again improved the indisputably high take-on rate achieved in prior years. In total, we hired 3,998 new employees in Germany in the reporting year, around 1,990 of whom were external university graduates and experts with professional experience. On the external labor market, we primarily recruit software developers, IT architects, business administrators, product managers and business analysts. We again offered around 3,300 young people in Germany the opportunity to take up high-quality vocational training in the Group. We are one of Germany's largest training providers with 9,952 trainees and students on cooperative degree courses.

**Staff restructuring: successful track record.** In addition to creating knowledge-oriented jobs that are viable for the future, we continued our efforts for socially responsible staff restructuring in various units in 2010 to keep Deutsche Telekom on track in a challenging economic environment. Continuing intense competition and advances in technology mean that a number of areas in our Company will have fewer employees in the future, and some of them will have different skills. In order to meet our responsibility to our employees and to the Company, we have not only implemented extensive re-training programs but, in particular, also provided opportunities to leave the company on a voluntary basis. These include early retirement programs for civil servants and employees (from the age of 55), the ongoing partial retirement arrangements, as well as special redundancy programs put in place for specific units.

Vivento has further strengthened its position as a specialist service provider for workforce restructuring in Germany. The focus in 2010 was on providing permanent employment alternatives in the public sector in cooperation with the Federal Employment Agency. This strategy's success is reflected in the higher number of permanent jobs on offer in 2010 for the first time; around 700 vacancies were filled on a permanent basis with employees from Deutsche Telekom. In addition, at the end of the 2010 financial year, some 2,600 Deutsche Telekom employees were employed on Federal Employment Agency projects. Furthermore, Vivento placed around 100 staff in other positions in the public sector.

**Health & safety.** A purely reactive healthcare management system is not acceptable to us. In a constantly changing industry, we want to be pioneers of a proactive healthcare culture. And we are well on the way to achieving our goal. In the reporting year, we received the Corporate Health Award sponsored by the Federal Ministry of Labor and Social Affairs for our efforts to protect the mental health of our workforce. In the biannual employee survey conducted in the fourth quarter of 2010, we included for the first time around 50 questions on the psychological workload and health. In doing so, we want to encourage debate among employees and executives on the issues of work organization, stress levels, and coping with change processes. The aim is also to identify risks in good time. Independent of the employee survey, we are promoting health literacy and health awareness among all employees with our healthcare management function and its preventive offerings, for example, the frequently used personal and telephone-based counseling service for executives and employees.

We support this strategic focus throughout the Group using a standardized international health and safety management system. We have already begun putting this system into operation at eleven international subsidiaries, laying the foundations for defining consistent global standards for occupational health and safety. The system is based on the international standards OHSAS 18001, ISO 14001 and ISO 9001 for occupational health and safety, environmental protection and quality. By defining minimum standards and the corresponding KPIs, we create not only greater transparency and better comparability at an international level, but also identify further potential for improvement. Consistent standards and KPIs are also part of and the basis for our long-term pandemic prevention planning with which we specifically intend to protect our employees to the greatest extent possible, ensuring at the same time that our Company is capable of keeping its global telecommunications infrastructure up and running even in a crisis. Based on the experience we have gained, we will implement the health and safety management system in another ten Group units in 2011 and 2012.

## HR Big II: Service culture.

**One Company to support a shared service culture.** Whether in Germany, Croatia, Slovakia or Hungary: The customer-oriented integration of our fixed network and mobile operations is making rapid, target-oriented progress. The next step is to bring the transformation to One Company to life in a shared corporate culture focused on the customer – at all levels of the hierarchy and in all areas of our Company.

Professional and high-quality Group-wide change management, which also encompasses employees' emotional and subjective involvement, will promote the idea of One Company and helps take our employees with us through the radical, sometimes difficult changes toward the New Telekom and embed the new structures and the new culture in everyday working life. In 2009 and 2010, our HR department mainly focused on actively supporting One Company integration.

We have pooled our change tools and initiatives under the term Change House. Since 2010, Change House has helped us establish efficient, consistent Group-wide change management that also takes specific regional and local conditions into account.

**Implementation of our Guiding Principles.** On Guiding Principles Day, when we focused on our corporate values, a wide range of creative employee initiatives showed that our Guiding Principles have been taken on board globally. In the next step, we successfully demonstrated in 19 languages, 34 countries and 50 business units how our Guiding Principles are being





actively implemented. This sent a clear message that these principles play an important role in the development of our Company now and in the future. To further embed the Guiding Principles in the entire Group, their sustained validity has to be underlined, with our executives serving as role models. To this end, we have updated our Code of Conduct and started its international roll-out in Germany in January 2011 to illustrate what the Guiding Principles mean for employees and executives in everyday work, and to establish a code of conduct that can be put into practice across the entire Group. This ensures that all our employees worldwide work and behave according to the same principles.

We call on our executive staff to set an example of the conduct we expect from our employees. We specifically support our executive staff in their role as multipliers of the Group's strategy, Guiding Principles and Code of Conduct. At Telekom Deutschland GmbH, for example, half of all German executives had already taken part in the workshops of the multi-stage program "Initiative 2010 Germany. Strategy and Integration – Guiding Principles and Leadership" by September 2010.

**Top excellence in customer service.** We want our customer service to be outstanding and continue to focus on this goal. One example of an international service initiative is the three-stage service culture program of the Croatian company Hrvatski Telekom. From 2009 to 2011, its technical staff are being trained in all aspects of service culture. The aim is to delight customers. In Germany we also continue to work on intensive service training. In our three service companies alone, employees completed more than 100,000 service training days in the reporting year. In addition, the workforce in the Germany operating segment overall participated in around 360,000 training days and over 14,500 days of IT/IP training. In other words, we offered each employee around 4.5 days of training every year, investing more than EUR 72 million in expanding the expertise of our workforce.

2009/2010 also saw the successful implementation of our human resources development initiative Service Career, i.e., a new career path precisely tailored to all three service companies. It offers our high potentials another valuable opportunity to develop professionally – through top performance in service. A total of 1,100 employees have commenced their training to prepare for their additional role, or new function or activity as part of Service Career. The training phase takes no more than ten months and qualifies employees for a range of activities in Sales and Service in Germany, for instance, as a customer service representative, team leader, top agent or workforce manager. With this initiative, we want to improve both our employees' personal development opportunities and the solution and service competency of our employees for our customers.

To give our executives a better understanding of good service, we have built on the success of the German Service Academy, whose courses were attended by 1,913 executives in 2010.

**Ideas management.** Lively identification with the Company and creative, innovative exchange means active integration of employees. Ideas and proposals submitted by employees – ideally regardless of hierarchies – can lead to improvements in customer service, internal processes, and even product innovations. In 2010, we started two additional key, central activities in ideas management. First, we launched and expanded the Germany-wide standardized IT tool "genial@telekom." It is now much simpler and easier to submit ideas – and the entire process has been made more transparent – from submission to evaluation. This is also reflected in the level of participation: 4,992 employees submitted ideas in 2010, taking the total number of ideas submitted to 10,498, a year-on-year increase of 88 percent. In addition, we supported the Group-wide sustainability initiative "Big changes start small." These initiatives have made today's ideas management an important element of employee participation in driving the Company forward. With its interactive tools, ideas management also shows how Deutsche Telekom can open up even more, both internally and to the world outside.

**Enterprise 2.0.** We want to connect and enhance the knowledge of our employees, and to democratize access to such knowledge, entirely in keeping with an integrated Enterprise 2.0 strategy. To this end, we will also use comprehensive dialog and contact that is unrestricted in terms of time and space, e.g., with the Ideas Garden to be launched in 2011. In this virtual communication space, people can communicate and further develop rough ideas and approaches within a community.

**Business excellence.** In terms of customer satisfaction as well as the quality and efficiency of processes, we have also successfully employed the Six Sigma and Lean Management/Office Lean methods since 2006. The Six Sigma working group acts in close cooperation with the change management community. Several hundred employees throughout the Group have trained to become Six Sigma project managers and over 750 process managers were trained to use the Six Sigma tools. All business excellence courses include a certification concept, which was harmonized throughout the Group in the reporting year. The certification concept is to be integrated in the expert career system and in the performance review in the coming year.

## HR Big III: Talent agenda.

**Our image as an employer.** We are right on track to join the Top 10 local employers and talent companies within each of our national companies outside Germany. This is also confirmed by a host of awards received by our entities and shareholdings worldwide in 2010 for being outstanding employers. Some Group companies have even spent years among the top 3 employers in their respective countries, thanks both to their culture and to their innovative, requirements-oriented HR management. The rest of the Group now has to enter into a best practice exchange with them to learn from the best. In Germany, we are the most popular employer in the telecommunications industry and we significantly improved our positions in relevant employer rankings overall. And we are well on our way to becoming one of the Top 30 most attractive employers in Germany once again. One of the reasons for this is our innovative talent recruitment. Deutsche Telekom is now considered a pioneer among the DAX 30 companies for its use of social media to recruit talent. The versatile and innovative measures employed by our central Recruiting & Talent Services (RTS) set the standard. The growing standing we enjoy as an employer is also due to our excellent internal training and many years of commitment as a proponent of the Bologna Process. Under the motto The Great Experience, we are currently developing unique selling propositions that unmistakably convey the qualities of our employer brand.

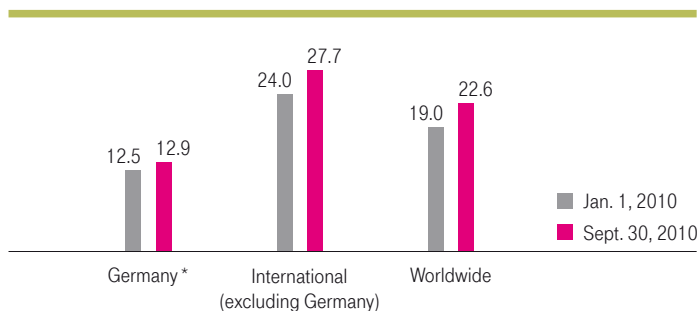
**Top training company.** We are one of the largest providers of training in Germany. In the 2010/2011 training year, there were more than 10,000 trainees and students, around 1,000 of whom were on cooperative degree courses. On top of this, more than 200 students are directly enrolled at our own University of Applied Sciences (Hochschule für Telekommunikation – HfTL) in Leipzig. We have a program for disadvantaged young people to promote young talent. The “entry-level training scheme” gives youngsters, largely from uneducated backgrounds, a solid chance to start a career. 50 of the 61 participants in the program were awarded a traineeship. We also encourage our employees to engage in life-long learning in our Group programs such as Bologna@Telekom and provide them with opportunities for academic development. Starting in the 2010/2011 winter semester, some 200 employees each year can take a bachelor’s or master’s degree program at one of our partner universities alongside their job and with the Group’s support.

**Diversity management.** To us, diversity means productive variety: We believe in a broad mix of personalities, talents, and styles as a source of business success, creativity, and innovation. Diversity is one of the main drivers of change in our corporate culture – from a mono-culture to an open company. Through diversity, we offer talented individuals at different stages of their lives all kinds of opportunities to develop their professional potential. We create attractive work environments and flexible working conditions for women and men alike. We embed diversity in our Company with practical measures around the world and continue to refine it as a factor in business success. In 2009, we took the first step of defining the business cases for diversity. In the reporting year, we then embedded diversity even more firmly in our Company with a plethora of practical measures. Two of the numerous initiatives stand out in particular: the start of the new Group-wide program to put the women’s quota into practice and our existing “work-life@telekom” program that we expanded to include additional initiatives and offers.

**Fair Share program.** We have set ourselves the ambitious target of appointing women to 30 percent of middle and upper management positions throughout the entire Group by the end of 2015. To achieve this target, we are systematically managing our program to implement the women’s quota with targets along the entire talent pipeline. One year after the introduction of the women’s quota, we are seeing our first successes. We have recruited many women, especially for top management positions and key human resources development programs:

- The percentage of women in middle and upper management positions worldwide has increased from 19 percent to 22.6 percent.
- Since March 2010, the number of women in our 67-strong management team below the Group Board of Management, the Business Leader Team, has increased from two to six.
- We have appointed ten female supervisory board members at our German first- and second-tier subsidiaries. This brings the number of women holding a seat on Deutsche Telekom supervisory boards to 14.
- The proportion of women among newly hired top junior staff increased from 33 percent at the start of 2010 to 52 percent at the end of the year.
- The proportion of women on management development programs increased from 18 percent in 2009 to 31 percent in 2010.

### Women in middle and upper management. (%)



\* Upper management only.

**Harmonized human resources development.** The Performance & Potential Review (PPR) plays a significant role in making the individual human resources development processes more substantial, transparent and consistent throughout the Group. In 2010, we not only successfully used this instrument to further develop our senior executives in Germany, but also for more than 2,700 executives and managers in Germany who are not covered by collective agreements, and for over 2,000 further executives outside of Germany. Overall, our executives are very satisfied with the PPR as the platform for personalized management development. The overwhelming majority of executives and HR business partners have confirmed in surveys that the PPR effectively supports performance and potential reviews. Feedback from our surveys also allowed us to further improve the IT tool, which was introduced for the first time in 2009. And we are staying on the ball: At the start of 2011, we will conduct another survey to find out how satisfied respondents are with the implementation of the PPR process.

### Expert career path throughout the entire Deutsche Telekom Group.

As an alternative to a traditional management career, we have introduced a development program for experts (Go Ahead!) in the Company. Around 33,000 employees are currently on the Go Ahead! program, in particular at T-Systems in Germany and its national companies, at the European fixed-network and mobile subsidiaries, in areas that are critical for competition, such as technology, information and communication technology, and project management. In addition, more than 20,000 experts from T-Systems took part in the strategic CAMPUS training programs for expert development in 2010. At T-Mobile Austria, the development program for professionals has already been fully implemented for around 1,700 experts. The expert career has also been introduced in the Netherlands, in the Czech Republic, and at Hrvatski Telekom in Croatia for select groups of experts. Initial preparations are underway at Magyar Telekom (Hungary) and PTC (Poland). We are making steady progress with international roll-out in the Czech Republic, Slovakia, the Netherlands and Greece. The experts network with each other and with top management in various advancement programs.

## HR Big IV: HR@2012

**Quality and efficiency for the best possible HR service and excellent HR products.** The fundamental building blocks for giving our customers the best possible experience are also the cornerstones of our international organizational structure and our HR culture. We are strengthening the service culture in our HR department and its position as a “partner for business” within Deutsche Telekom.

We have established a new, three-pronged organization consisting of HR business partners, competence centers and shared services as part of HR@2009. To increase the quality of HR services, we are currently refining this structure with our new HR@2012 program. Furthermore we are increasing our HR performance by automating and further simplifying our processes to the benefit of the user. That has allowed us to make our HR organization even more efficient.

Quality and efficiency of HR work go hand-in-hand with a functional, user-oriented process and IT environment. As customers of the HR department, the employees of Deutsche Telekom expect suitable HR products and services to support them in the best possible way in their day-to-day work. Our support is a decisive factor of how satisfied HR’s customers are. We therefore plan to establish a Global HR Service Architecture (GHSA) to improve the quality of the services offered by the HR department. This architecture also allows the HR department to respond very flexibly to organizational changes within the Group, while at the same time standardizing processes and systems at national and international level.

**Having the best employees lets us offer HR’s customers an excellent experience.** The demands Deutsche Telekom makes of its HR department, and which are anchored in its HR “partner for business” mission statement, are high. If we are to meet the expectations of our customers on the one hand and improve the competitiveness of our company overall on the other, we need not only the optimum organizational structure, but also in-depth expertise and a professional service culture among the members of our HR department. The intention of Best HR People, one of our top HR projects, is therefore to further promote HR staff in terms of their own development. In 2010, the project was focused on honing the role of HR business partners in Germany, particularly by promoting qualifications in the field of total workforce management (TWM). Other key points of this project include talent management and the development of junior staff for the future in the HR department, as well as offering the members of the HR department a broad range of qualifications via HR CAMPUS.

# Risk and opportunity management.

Risk early warning system expanded and improved // PTC arbitration proceedings and court cases settled

## Risk management system.

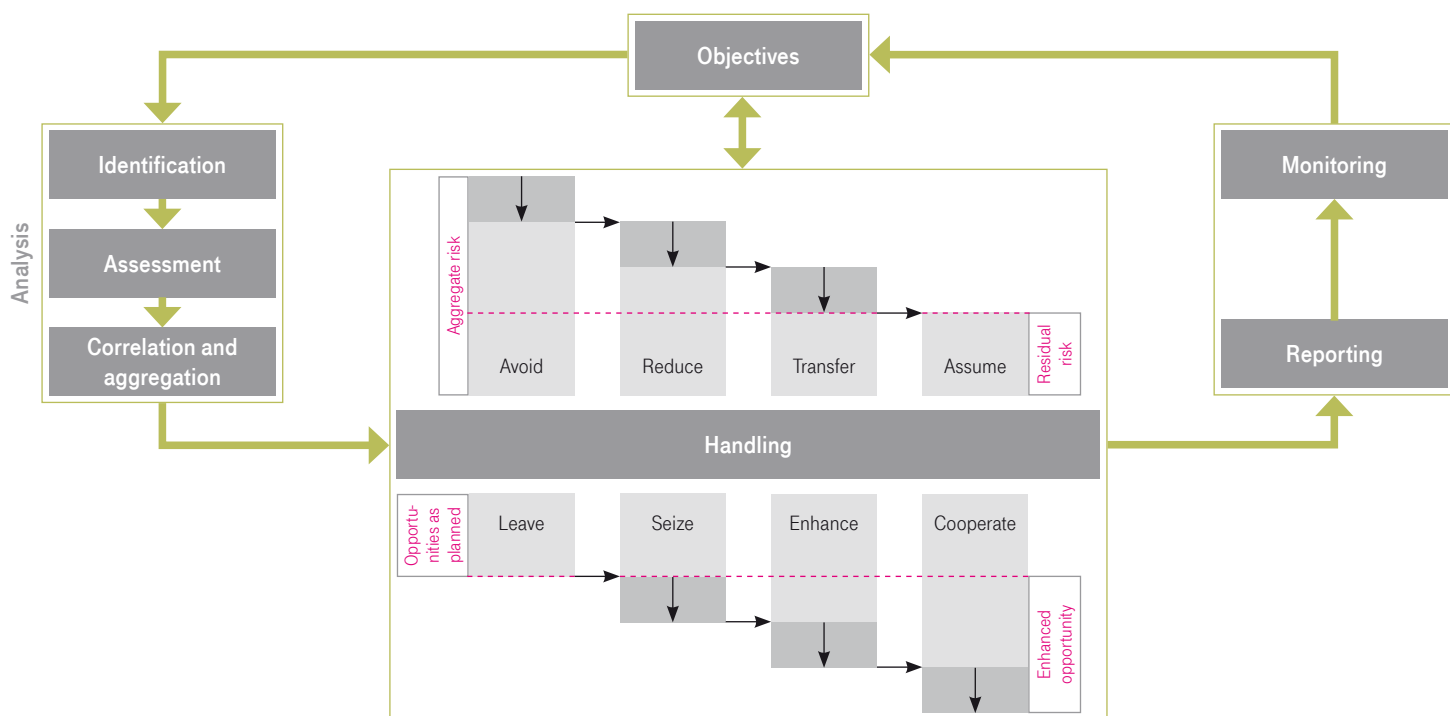
Our environment is characterized by rapid technological progress, increasingly intense competition, and far-reaching regulatory decisions in mobile and fixed-network communications. We master these challenges by systematically managing risks and opportunities using a holistic risk early warning system.

Our Group-wide risk management system covers all strategic and organizational control and monitoring measures for managing risks, focusing on

early identification and assessment of risks and opportunities. Only in this way are we able to introduce measures for preventing and responding to risks at an early stage.

We regularly analyze risks and opportunities, both in our operating segments and in our central Group units. The early warning systems used for identifying risks at an early stage are based on prescribed Group-wide methods and are tailored to specific requirements. Risks are identified in the form of scenarios, for example, and assessed on the basis of their size and probability of occurrence. The reference variables for the potential scope are our target values (e.g., EBITDA).

### The risk management system (RMS).





Our risk management system aggregates essential EBITDA-assessed individual risks, using combination and simulation processes and taking probabilities of occurrence and correlations into account. In addition, it analyzes issues that could adversely affect our reputation and image. These components are factored into the assessment of the aggregate risk position.

Our risk management unit regularly reports to the Board of Management on risks and their development. The Board of Management in turn informs the Supervisory Board. The Audit Committee of the Supervisory Board examines the quarterly risk report at its meetings. Principal opportunities and risks are reported quarterly, with additional ad hoc reports generated in the event of unexpected risks. Materiality thresholds for risks are defined for each reporting level. In addition, a so-called risk cockpit is regularly prepared at Group level for the Board of Management. It aggregates and analyzes KPIs relevant to the telecommunications industry collected from sources within and outside of the Group. This instrument is being developed further on an ongoing basis and, as a supplementary early warning system, it lets us focus on selected risk areas that are critical for the Group.

The Group Risk Management/Insurance unit is in charge of the methods and systems used for this form of independent reporting that has been standardized across the Group. It also ensures that the risk early warning system works efficiently.

We attach particular importance to managing risks arising from individual financial positions. All financial transactions, in particular the use of derivatives, are subject to the principle of risk minimization. To this end, we record all financial transactions and risk items in a central system. The Group management is informed about these positions on a regular basis. We use derivatives to hedge interest rate and currency exposures that could have an effect on cash flow as well as other price risks.

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 amount of the current risk exposure. We use simulations to assess the impact of various market developments, which involves devising a series of market and worst-case scenarios. We use selected derivative and non-derivative hedging instruments to hedge market risks. However, we only hedge risks that affect cash flows. We use derivatives exclusively as hedging instruments; not for trading or other speculative purposes.

Where accounting risks are concerned, our risk management system links in with our internal control system to ensure that all accounting-related risks are recorded in the risk management system. The internal control system as well as clear regulations and guidelines within the Group ensure the compliance of the consolidated financial statements. Risks that could present an obstacle to compliance with regulations are to be identified at an early stage, assessed, and promptly communicated and minimized. This is exactly what risk management ensures.

Internal Audit regularly verifies whether our risk management processes are working effectively. The external auditors mandated by law to audit the Company's annual financial statements examine whether the risk management system is able to identify at an early stage risks and developments that could jeopardize the Company's future. The system's effectiveness is ensured.

In addition, our risk management system helps us recognize business opportunities and risks early on. It complies with the statutory requirements for risk early warning systems and conforms to German corporate governance principles.

## The risks.

Of all the risks identified for the Group, the following section examines those risk areas or individual risks 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.

### Economic environment.

The global economy recovered further in 2010. However, after a marked upswing in the first half, the growth lost a little of its momentum in the last six months of 2010. Risks to the economic development result from the still volatile financial and foreign currency markets, pressure on private consumption owing to high unemployment in some countries, and the dangers arising from high levels of national debt in many countries. Operations in some countries of our Europe operating segment also face potential risks as a result of the challenging macroeconomic situation, ongoing intense competition, and the taxes on mobile revenues that were recently imposed or raised in some of these countries. Economic developments in Greece, Romania and Croatia entail particular uncertainties. Risks may also result from the strong fluctuation in exchange rates, in particular between the U.S. dollar and the Southern and Eastern European currencies.

### Industry and competition.

Prices for voice and data services decreased again in 2010 in the fixed network and in mobile communications, due to continually strong competition and technological progress. There is a general risk that price reductions cannot be compensated by corresponding volume growth.

Competition-induced pressure, particularly in the fixed network, could increase even further, for example, if (regional) telecommunications carriers significantly expand their market coverage and the trend toward bundled products continues. Competition is also intensifying due to technological innovations and the increasing substitution of fixed-network by mobile communications. Moreover, previously pure-play mobile communications providers in Germany are increasingly offering fixed-network and DSL products. Rival DSL providers sell bundled products integrating broadband and VoIP that do not require a separate telephone line.

Cable operators also intensify competition, since they can provide private homes and smaller companies throughout Germany with telecommunications products that require them to neither build out their own network nor lease unbundled local loop lines from Deutsche Telekom. These companies are expanding their range of services to include triple-play products and products with high transmission rates, for example. In certain regions competitors are extending their own fiber-optic network to the home so that they are independent of our network there, too. Another significant competitive trend is that we have to compete with players from outside the telecommunications sector as such, including major consumer electronics and Internet companies. We are therefore exposed to the risk of a further loss of market share, beyond the loss already suffered, and falling margins.

The anticipated renewed decline in prices in mobile voice telephony and mobile data could have a negative effect on our mobile revenue. Among the reasons for the decrease in prices are discount operators that are expanding in Germany and elsewhere in Europe.

In the United States we are challenged by the fact that we are the smallest of the four national wireless carriers. T-Mobile USA has to continue driving its product and service quality and pricing.

The ICT market in our Systems Solutions operating segment is also experiencing intense competition, falling prices, restraint in the awarding of projects, and long sales cycles. This creates a potential risk of revenue losses and declining margins for T-Systems. On the one hand, the situation has fundamentally improved due to the economic upturn, especially in Germany. On the other, the market for big deals has become even more challenging, which could adversely affect T-Systems' ICT business.

### Products, services, and innovations.

As a result of rapid technological progress and ongoing technological convergence, 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 data services will be new sources of mobile Internet revenue.

Where broadband demand is concerned, the German market is expected to approach saturation level at some point. Market growth already began to slow down in 2010, which may negatively affect the continued successful sale of IPTV products such as Entertain. We are improving the market opportunities for mobile Internet by continuously expanding our high-performance mobile network. Should, however, mobile data applications not develop as expected, revenue targets may be missed. Furthermore, investments in network construction and build-out and in existing and future mobile communications licenses may take longer to pay off than expected.

### Regulation.

Deutsche Telekom is subject to sector-specific market regulation in cases where national regulatory bodies consider it to have "significant market power" in the relevant telecommunications market. Hence we still face ex-post control of anti-competitive practices in the German market for fixed-network telephone lines and related packages. Furthermore, we have to offer our competitors cost-based upstream services such as access to the local loop, bitstream access, and fixed-network and mobile termination in wholesale markets. Our other European subsidiaries are also subject to corresponding regulatory regimes in the fixed-network and mobile areas.



The regulator has extensive powers to intervene in product design and pricing, with significant effects on our operations. We can only to a limited extent anticipate such interventions, which may intensify existing price and competitive pressure. There are concerns that regulatory interventions in Germany and other European countries may impact the revenue trend in the core fixed-network market and in the mobile communications market in the medium and long term.

Investments in next-generation access (NGA) require a modified and investment-friendly regulatory framework that provides, for example, for a fair distribution of risk among investors and access seekers while allowing for the necessary price flexibility. Otherwise, there is risk that these investments will not be as cost effective as planned.

The German Telecommunications Act, which forms the main legal framework for regulation, must be amended by the end of May 2011, primarily to reflect the revised EU Directives that apply in the industry. The Directives were amended to encourage operators to invest in new high-speed networks. It is also expected that the Act will be amended to reflect new consumer protection requirements.

We re-applied for rates for the unbundled local loop (ULL) line on January 20, 2011. We expect a decision in March 2011. We applied for a rate of EUR 12.90 for access to the most important line, the ULL. The level of the ULL rate is a decisive factor in the profitability of a nationwide infrastructure. It also generates incentives for a further expansion of broadband, particularly the roll-out of new fiber-optic networks.

The rulings on the ULL monthly charges from 1999 and on the ULL one-time charges from 2001 and 2002 were revoked with final and binding effect. The Federal Network Agency must now decide again on these charges. The court has not formally stipulated preliminary rates with which the Federal Network Agency has to agree, so it is generally not clear whether and to what extent rates will be changed. The Federal Network Agency re-approved the one-time ULL rates for the period April 2002 through June 2003 in its decision dated January 20, 2011. The rates were cut compared with the decision in 2002 – by 3 to 8 percent for the most important provisioning and take-over options and by 11 to 15 percent for termination options. The rates decision applied only for plaintiffs who prevailed in the court case. This is because, under the Telecommunications Act in its 2002 form, the rates only applied to individual agreements.

**Net neutrality.** To this day, there is still no generally accepted and at the same time technically appropriate definition of this term 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.

The translation of the new provisions of the European Directives into national law gives national regulatory authorities the power to impose minimum quality of service requirements. We are currently not aware of any regulatory intervention in Germany that goes beyond the implementation of the Directives. The Federal Ministry of Economics believes that functioning competition and the planned obligations to maintain transparency are sufficient to meet the Directives' requirements.

#### Personnel.

In 2010, we once again used socially responsible measures to restructure the workforce in the German part of 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. We will continue our workforce restructuring program on the required scale in the future. If it is not possible to implement the corresponding measures as planned or at all, this may have negative effects on our financial targets and profitability.

When Group units that employ civil servants are disposed of, it is generally possible to continue to employ them at the Group unit 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 from the unit sold to Deutsche Telekom, for example, after the end of their temporary leave from civil servant status. There are currently some 3,000 civil servants who are entitled to return to Deutsche Telekom in this way. This risk can be reduced by compensation payments, for example, but not completely ruled out.

**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 – PostPersRG), 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). This Act was reviewed at several court instances. In December 2008, the Federal Administrative Court decided to refer the case to the Federal Constitutional Court for a judicial review pursuant to Art. 100 of the Basic Law. A Federal Constitutional Court decision is expected in early 2011. If the court rules that the abolition of the bonus payment was unconstitutional, a supplementary payment for the period 2004 to June 2009 may have to be made.

**Reduced pay tables.** With the entry into force of the reform of civil service law 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), this does not apply for civil servants employed by the Deutsche Bundespost successor companies. Some civil servants also appealed the new, reduced pay tables. The Stuttgart Administrative Court has submitted two cases to the Federal Constitutional Court for it to evaluate whether this was constitutional. Depending on the outcome, supplementary payments may have to be made for the period beginning July 2009.

#### **IT/NT infrastructure.**

Information technology (IT) and network technology (NT) infrastructure comprises all buildings (network nodes), communication services (network), and hardware and software used for information processing. Our IT/NT resources and structures represent the Group's organizational and technical backbone. IT/NT is both the core foundation of the gigabit society, and the basis for innovative new telecommunications products and services.

We want to minimize the risks resulting from the operation and architecture of the IT/NT infrastructure. Hence we consider costs/benefits, quality, and security, and exploit their full potential.

We again launched comprehensive programs in 2010 to adapt our IT systems and IT infrastructure to changing customer needs and new organizational structures resulting from the One Company project. These Group-wide programs are being further pursued in 2011. Inadequate planning and management of these programs could lead to disruptions in business processes, resulting in revenue losses or increased costs.

Six Group-wide Next Generation IT (NG IT) programs form the framework for all IT-related components in the Group's transformation programs. NG IT helps us realize our IT strategy and implement the Group's target IT architecture with a focus on harmonizing, standardizing and consolidating our applications and infrastructure. Group-wide projects prepare solutions, for instance for forward-looking, comprehensive customer relationship management, convergent-products billing, and future IT support for the finance, human resources, and procurement functions. All of these IT programs are designed to simplify our IT architecture and improve, among other things, network stability and reduce the risk of downtimes as the network becomes more efficient.

We are replacing all the different heterogeneous architectures, access types and services with a standardized architecture – with shared aggregation, transport and access levels. Risks in this area may affect all IT/NT systems and products that require Internet access. Since the IT/NT landscape is highly complex, any problems, for instance between new and existing IT/NT systems, could disrupt our business processes and products in mobile telephony and otherwise.


We counteract risks from hacker attacks, spam mail/calls, viruses/trojan software and network downtimes with a wide range of measures including firewalls, virus scanners, technical early warning systems (e.g., development of data volumes) and redundant systems and data centers. We also have organizational and technical emergency procedures in place to minimize damage. Furthermore, we have Group-wide insurance cover for insurable risks.

#### **Data privacy and data security.**

The security and privacy of customer data are our top priority. After all, they are a vital precondition of a trusting relationship between the Company and its customers. Just how important these issues are for us is demonstrated by the fact that we created a separate Board of Management department for Data Privacy, Legal Affairs and Compliance in 2008, and put together a comprehensive action package for improving data privacy, increasing data security, and enhancing transparency. This department standardizes and implements the necessary data privacy, security, and compliance measures throughout the Group. We also set up an external Data Privacy Advisory Council comprising leading data privacy experts and representatives from politics, academia, industry and independent organizations. The Council met a total of five times in 2010; further meetings have been scheduled for 2011.






 For information on the current status of data privacy at Deutsche Telekom, please refer to [www.telekom.com/datenschutz](http://www.telekom.com/datenschutz) (site available in German only).

To guarantee the highest standards in operational data privacy, we have launched comprehensive action plans and pressed on with existing measures. To enhance data privacy even further, we introduced a “list review tool” in 2010. It ensures that personal data can only be used for as long as is absolutely necessary – and only by a defined group of people. We also introduced personalized one-time passwords for a sales partner portal, which significantly improves the authentication of sales partners, makes it much more difficult for unauthorized third parties to access the system, and reduces the risk of misuse. We have planned further measures for 2011 to improve access protection for sensitive data, including a pilot project for a mobile transaction authentication number (mTAN), which protects access to the contract data of fixed-network customers. Sales partners can only access customer data once the customer has authorized them to do so using an mTAN sent to their cell phone.

With regard to internal system development processes, we have improved the security and privacy of personal data. The Privacy & Security Assessment ensures that security and privacy requirements are considered at an early stage when designing new systems and applications. We have set up a uniform interface for system development processes that enables us to optimally assess risks inherent to the system and to effectively manage them using appropriate data privacy and security measures and activities. Security and data privacy have thus become a design criterion for new systems.

We want to further raise the awareness of our employees, especially our executives, of the issue of data privacy and data security. For this reason, we have increased the depth of the existing training and annual data audits.

Our goal is the sustainable optimization of transparency in the area of data privacy. We regularly publish a voluntary report on the status of data privacy/data security, which we submit to our Supervisory Board and the Federal Commissioner for Data Protection. It is also made available to the public. The first data privacy reports were published in April 2009 and May 2010.  In October 2008, we launched the website [www.telekom.com/datenschutz](http://www.telekom.com/datenschutz)\* that provides information on the current status of data privacy at Deutsche Telekom in Germany and on current and critical data privacy incidents. We therefore go beyond the legal requirement to provide information prescribed by the legislator on September 1, 2009 with the amendment to § 42a of the Federal Data Protection Act.

We minimize the occurrence of data security and data privacy incidents by optimizing the combination of preventive and reactive measures.

## Health and the environment.

Electromagnetic fields (EMFs) are associated with potential environmental and health damage. There is intense public debate of this issue. Existing public acceptance problems relate both to the networks and the use of terminal equipment. In mobile communications, for instance, these problems particularly impact on the roll-out of mobile communications networks. In the fixed network, they affect sales of cordless DECT phones and devices that use WiFi technology. Apart from the legal risks, there may be regulatory initiatives, for example, the implementation of preventive measures in mobile communications. The World Health Organization (WHO) has declared that, on the basis of current scientific knowledge, there are no known adverse effects on health, provided internationally acknowledged threshold levels are not exceeded. Nor does the WHO expect any serious dangers to arise in the future, though it does recommend continued research due to ongoing scientific uncertainties.

We aim to overcome doubts among the general public by pursuing an objective, scientifically well-founded, and transparent information policy. For instance, we are an active contributor to an industry initiative by German mobile communications enterprises – Informationszentrum Mobilfunk – a broad-based platform for information and dialog for the general public. Our efforts to provide state-of-the-art technologies also include supporting scientific research that aims to detect potential risks at an early stage. Aside from long-term involvement in the Research Association for Radio Applications (Forschungsgemeinschaft Funk – FGF), for us this specifically entails funding the Federal Government’s research activities within the scope of the German Mobile Telecommunications Research Programme and the Environmental Research Plan. A recent development is the foundation of the EMF scientific forum (Wissenschaftsforum), an important research platform that fills the gap opened up by the dissolution of the Research Association for Radio Applications. We are one of the co-founders and financial supporters of the scientific forum. In addition, when T-Mobile adopted its EMF policy in 2004 it introduced measures for all national companies to promote transparency and information, encourage involvement in the issue, and contribute research funding. These measures aim to minimize potential legal and regulatory issues as well as problems of acceptance among the general public.

\* Where the management report refers to Internet pages, the content of these pages does not constitute part of the management report.

### Procurement.

As a service provider and an operator and provider of IT/telecommunications 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 a large number of organizational, contractual, and procurement strategy measures to counteract such risks. Measures we have introduced include a supplier evaluation system, based on KPIs some of which have a certain predictive quality. In this way we can identify supplier risks as early as possible and introduce risk management measures in good time.

### OTE.

Deutsche Telekom holds 30 percent plus one share in OTE and has management control under the terms of a shareholder agreement. The now ruling socialist party in Greece, PASOK, had expressed criticism of the partial sale of OTE to us ahead of its success in the elections on October 4, 2009. Nevertheless, the risk that the government may seek to renegotiate aspects of the shareholder agreement is very small as, under normal circumstances, amendments to the shareholder agreement can only be made by consensus.

### Legal risks.

**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.

- **Lawsuit on prospectus liability.** There are around 2,600 ongoing lawsuits from around 16,000 alleged buyers of T-Shares sold on the basis of the prospectuses published on May 28, 1999 and May 26, 2000. The amount in dispute totals approximately EUR 80 million. Some of the actions are also directed at Kreditanstalt für Wiederaufbau (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) relating to the DT2 and DT3 public offerings and has temporarily suspended the initial proceedings. The last hearing in the DT3 model proceedings was held on December 15, 2010. The parties have the opportunity to respond again in writing. The Court has announced it will issue a ruling in the second quarter of 2011. To all intents and purposes, the proceedings for a preliminary ruling on DT2 are currently suspended.

Around 12,000 additional supposed buyers of T-Shares had initiated conciliatory proceedings with a state institution in Hamburg, the "Öffentliche Rechtsauskunfts- und Antragsstelle der Freien und Hansestadt Hamburg (ÖRA)." Around 8,000 of these proceedings have been completed and the remaining 4,000 or so that had not yet been fully completed were stopped by ÖRA in a letter to Deutsche Telekom AG dated March 4, 2010 based on a ruling by the Hamburg Higher Regional Court issued on February 10, 2010.

- **Toll Collect.** In the arbitration proceedings between the principle members of the Toll Collect consortium (Daimler Financial Services AG, Deutsche Telekom and the consortium company Toll Collect GbR) on the one hand and the Federal Republic of Germany on the other regarding disputes relating to the truck toll collection system, Deutsche Telekom received the Federal Republic's statement of claim on August 2, 2005. In the statement of claim, the Federal Republic maintained its claim to lost toll revenues of approximately EUR 3.51 billion plus interest for the delayed commencement of operations on September 1, 2003. The total claim for contractual penalties amounted to EUR 1.65 billion plus interest. The contractual penalties are based on alleged violations of the operator agreement (lack of consent to subcontracting, 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 minimally by EUR 169 million. The new claim is approximately EUR 3.3 billion plus interest. The main claims by the Federal Republic (including contractual penalties) amount to around EUR 4.99 billion.



The defendants responded on June 30, 2006. The plaintiff responded in writing on February 14, 2007. Following further exchanges of submissions between the parties, a first hearing took place in June 2008 during which the arbitration court discussed legal issues with the parties, yet shed no light on the possible outcome of the case. The parties have submitted further written responses since then. Various witnesses and experts were heard at another hearing in December 2010. A further deadline of May 20, 2011 was set for the parties to respond in writing.

- **Arbitration proceedings and court cases relating to the acquisition of shares in PTC (Polska Telefonia Cyfrowa Sp.z o.o.; PTC).** Deutsche Telekom AG reached an agreement with Vivendi (France), Elektrim (Poland), and Elektrim's creditors in December 2010 regarding the various legal disputes about the interests in PTC in Poland, giving it full and undisputed ownership of PTC. Deutsche Telekom and its subsidiaries paid approximately EUR 1.4 billion to Elektrim and Vivendi in January 2011 under the terms of the agreement. Settlement of all legal disputes between the parties was also agreed, including the arbitration proceedings filed by Vivendi SA in Geneva, Switzerland, and various other court cases and arbitration proceedings. Claims for damages by Vivendi SA in Paris, France, and Vivendi SA in Seattle, United States, were already rejected with legally binding effect in 2010.
- **telegate AG/Harisch.** On October 19, 2005, following enforcement proceedings, Deutsche Telekom AG received a claim for damages of approximately EUR 86 million plus interest from telegate AG. telegate alleges that Deutsche Telekom AG charged excessive prices for the provision of subscriber data between 1997 and 1999, which resulted in telegate AG having insufficient funds available for marketing measures and preventing it from achieving its planned market share. Following enforcement proceedings, Deutsche Telekom AG received a claim for damages of approximately EUR 329 million plus interest from Dr. Harisch, also on October 19, 2005. 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, thereby diluting their remaining shareholdings. The plaintiff has now increased his claim by approximately EUR 283 million. The amount in dispute has thus risen to approximately EUR 612 million. The action is still pending before the Cologne Regional Court in the first instance.
- **Claims for damages due to price squeeze.** Competitors have claimed for damages from Deutsche Telekom on the grounds of a price squeeze between local-network wholesale and retail prices that the European Commission had identified in 2003 as part of a decision to impose fines. Vodafone (formerly Arcor) is seeking damages of currently EUR 223 million plus interest. This case was suspended until the European courts issued a final decision relating to the fine ruling by the European Commission. On April 10, 2008, the European Court of First Instance dismissed Deutsche Telekom AG's claim for reversal of the fine ruling. The appeal filed by Deutsche Telekom AG against this ruling was rejected by the European Court of Justice (ECJ) on October 14, 2010. The European Commission's decision, which requires Deutsche Telekom to pay a fine of EUR 12.6 million plus interest, is therefore final and non-appealable. The national court will not be permitted to issue any ruling that would be contrary to the ECJ's decision in the continued proceedings for damage compensation. The amount of the loss suffered by competitors was not the subject of the case brought before the ECJ. Versatel and EWE Tel in 2011 filed claims for damages against Telekom Deutschland GmbH for around EUR 70 million and around EUR 82 million respectively, and NetCologne for around EUR 73 million, plus interest. HanseNet has filed proceedings for a declaratory judgment obligating Deutsche Telekom AG and Telekom Deutschland GmbH to reimburse HanseNet for all damage caused by the price squeeze as established by the European Commission. Another competitor has filed a claim for damages of around EUR 27 million plus interest.
- **Rates for unbundled local loop lines.** In November 2008, the Cologne Administrative Court revoked the rates approval for the unbundled local loop line (ULL) from 1999 with regard to the monthly charges. Both Deutsche Telekom AG and the Federal Network Agency filed complaints against non-allowance of appeal. In a ruling dated October 5, 2009, the Federal Administrative Court rejected these complaints because the points raised relate to the previous legal situation. The rulings of the Cologne Administrative Court revoking the approvals thus became final and binding and the rate approval proceedings from 1999 applied again, i.e., the Federal Network Agency must decide again on ULL monthly charges for the period from February 1999 to March 2001.

Regarding the 2001 ULL rate approvals, the Federal Administrative Court in its ruling on June 23, 2010 upheld an appeal relating to the ULL monthly charges against the ruling of the Cologne Administrative Court on August 27, 2009 on the complaints against non-allowance of appeal filed by Deutsche Telekom AG and the Federal Network Agency. Relating to the ULL one-time charges for the period April 2001 through March 2002, the court rejected the complaint against non-allowance of appeal. The ruling of the Administrative Court revoking the approvals thus became final and binding and the Federal Network Agency has to decide again on the ULL one-time charges.

On June 30, 2010, the Federal Administrative Court dismissed the complaints against non-allowance of appeal filed by Deutsche Telekom AG and the Federal Network Agency against the ruling by the Cologne Administrative Court on November 19, 2009 relating to the 2002 approval of ULL one-time charges for the period April 2002 through June 2003. In a ruling dated January 19, 2011, the Federal Network Agency approved new charges for the plaintiffs for the period specified.

All other rulings of the Federal Network Agency on ULL rates since 1999 have been challenged and, apart from the 1999 ULL one-time charges, are therefore not final.

- **Review of contracts in the F.Y.R.O. Macedonia and Montenegro.** The audit of the financial statements of Magyar Telekom for the 2005 financial year identified contracts for which it was not possible at the time to fully ascertain an appropriate business background. The Audit Committee of Magyar Telekom commissioned an independent law firm with investigating the lawfulness of these contracts. Magyar Telekom informed the U.S. authorities (the Department of Justice and the SEC), who then initiated investigations into potential breaches of the Foreign Corrupt Practices Act (FCPA). Magyar Telekom and Deutsche Telekom as the parent company of the Group cooperated fully with these investigations and reviewed and improved their compliance programs. Magyar Telekom's and Deutsche Telekom's legal representatives are currently in talks with the U.S. authorities about the status of the investigation

and the possibility of bringing the proceedings to a close. The outcome of these talks cannot be foreseen. It is also not foreseeable at present whether the U.S. authorities will take action and if so what kind, if an agreement cannot be reached to conclude the proceedings. The public prosecutors' office in Bonn has launched its own investigations having received a request for legal assistance from the U.S. authorities.

- **IPR risks.** Like many other large telecommunications/Internet providers, Deutsche Telekom is exposed to an increasing number of IPR (intellectual property rights) 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.
- **IPR proceedings against ADSL technology.** Deutsche Telekom AG is facing four proceedings alleging patent infringements relating to DSL data transmission processes. Specifically, the patents concerned relate to special processes used to check the quality of DSL channels, to code data, to set transmission rates, and to correct transmission errors. The German Federal Patent Court upheld Deutsche Telekom's first-instance claim regarding two of the patents and declared them void. A nullity suit is pending against another of the patents and a fourth nullity suit is in preparation but has not yet been filed. Two proceedings before the German infringement court have been suspended and the other two are unscheduled, meaning no hearings have been set for the allegations of violations.
- **OTE Lannet case.** In May 2009, Lannet Communications SA filed a lawsuit claiming compensation for damages of EUR 176 million arising from the allegedly unlawful termination of services (mainly interconnection services, unbundling of ULLs, and leasing of dedicated lines) by OTE. A court hearing is set for February 17, 2011.

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



### Anti-trust proceedings.

- **Proceedings by Anti-Monopoly Commission in Poland.** The Polish Anti-Monopoly Commission (UOKiK) initiated several legal proceedings in 2010 against a number of Polish telecommunications companies, including PTC. The providers are suspected of collusion. The UOKiK also accuses PTC of infringing customer interests in various ways. Under Polish law, the maximum fine for both cases is set at 10 percent of the revenues from telecommunications services or 10 percent of taxable revenues.
- **European Commission investigates Slovak Telekom.** In April 2009, the European Commission started an investigation into allegedly abusive behavior of Slovak Telekom in the retail and wholesale broadband market in Slovakia. According to the European Commission, such an infringement could consist of refusing access to the unbundled local loop, margin squeeze situations in these products as well as other discriminating behavior. In December 2010, the European Commission formally extended the investigation to include Deutsche Telekom as Slovak Telekom's parent company, allowing the European Commission to also hold Deutsche Telekom liable for Slovak Telekom's alleged infringements. Should the investigation of the European Commission arrive at finding an infringement of European competition law, it could impose fines against Slovak Telekom and Deutsche Telekom.

### Financial risks.

Most of our financial risks arise from liquidity, credit, currency, and interest rate risks. Risky investments by subsidiaries in Southern and Eastern Europe in particular 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.

As of December 31, 2010, 21 banks had granted us credit lines totaling EUR 12.6 billion. The situation on the international financial markets eased considerably in 2009 and, in particular, toward the end of 2010. From today's perspective, access to the international debt capital markets is not jeopardized. The 2010 financial year was marked by substantial new issuances. Throughout 2010, we raised EUR 3.1 billion in debt capital in various markets.

Although a number of banks declined to extend credit lines in 2008, partly due to lending restrictions, and partly due to the crisis-induced consolidation in the banking sector, all existing bilateral lines, with one exception, were extended after January 2009. In addition, a new line of credit was agreed in 2010 and another credit line that had been withdrawn in 2008 was extended once more.

At December 31, 2010, 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 and its subsidiaries is reviewed periodically. In addition to the regular annual measurements, specific impairment tests may be carried out when, for example, changes in the economic, regulatory, business or political environment could impact negatively on the value of goodwill, intangible assets or items of property, plant and equipment. These tests may lead to the recognition of impairment losses that do not, however, result in disbursements. This could impact to a considerable extent on our results, which in turn may negatively influence the T-Share price.

### Sales of shares by the Federal Republic or KfW.

As of December 31, 2010, the Federal Republic and KfW jointly held approximately 32.0 percent in Deutsche Telekom AG, while the Blackstone Group held 4.4 percent. On April 24, 2006, the Blackstone Group purchased an interest in Deutsche Telekom AG's share capital from KfW.

The Federal Republic may continue its privatization policy 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 exchangeables 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 and 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. This 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 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.

### Aggregate risk position.

The assessment of the aggregate risk position is based on a consolidated review of all significant risks or risk areas. The Company's aggregate risk position did not change significantly in 2010 compared with the prior year, despite severe competition and price pressure, the regulatory framework, the economic environment, and major challenges in terms of staff restructuring and service quality. As it stands today, there is no risk to our Company's continued existence as a going concern.

### The opportunities.

In March 2010, we introduced our new Fix – Transform – Innovate strategy, with which we aim to broaden our revenue mix by focusing on new pockets of growth in addition to the traditional access business in fixed-network and mobile communications. Through our five strategic action areas (please refer to the section "Group strategy and Group management"), we intend to specifically focus on the challenges and opportunities in the market and safeguard our successful positioning in the long term. The results of operations and financial position of Deutsche Telekom AG are also indirectly affected via the results of its subsidiaries.

In countries where we offer mobile communications services, we will further enhance our performance and invest specifically in next-generation technologies. Furthermore, we will develop innovative services and expand our portfolio of high-quality mobile handsets. We will also systematically continue to integrate fixed-network and mobile communications, which will enable us to further improve customer service, leverage synergies from integration in marketing, distribution and customer service, and open up additional cross-selling revenue potential. Thanks to new innovative services and calling plans we have been able to set ourselves apart from our competitors more clearly.

We believe the mobilization of data services and, in particular, mobile Internet access, offer the best growth opportunities in our industry. Another strategic opportunity is to offer innovative, non-device-specific and convergent services. Besides our own services and solutions, we are also entering into selected cooperative ventures and positioning ourselves long-term as a strategic partner for key players in other sectors, e.g., as an exclusive online content partner or for the marketing of innovative terminal equipment such as the Windows Phone 7, the T-Mobile G2 in the United States, and Apple iPhone and iPad.

We are forecasting a rapid increase in global data traffic in the coming years. Our goal is therefore to continue to transform operations by becoming more efficient, but also by supplying the greater bandwidth required. At T-Systems, we are pushing ahead with restructuring and increasing profitability at sector level. T-Systems offers unrivaled expertise and a unique product portfolio on the basis of its global infrastructure of data centers and networks.



# Accounting-related internal control system.

Deutsche Telekom AG's internal control system (ICS) is based on the internationally recognized COSO (The Committee of Sponsoring Organizations of the Treadway Commission) Internal Control – Integrated Framework. The Audit Committee of Deutsche Telekom monitors the effectiveness of the ICS – as required pursuant to the German Accounting Law Modernization Act 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 in charge of independently reviewing the effectiveness of the ICS in the Group and at Deutsche Telekom AG, and, to comply with this task, has comprehensive information, audit and access rights. It is generally true of any ICS that regardless of how it is specifically structured there can be no absolute guarantee that it will achieve its objectives. Regarding the accounting-related ICS, there can therefore only ever be relative certainty, but no absolute certainty, that material accounting misstatements can be prevented or detected.

The accounting-related ICS, which is continuously refined, comprises the principles, methods, and measures used to ensure compliant accounting.

The accounting-related ICS 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 (EU), 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.

Group Accounting manages the processes for the preparation of the consolidated financial statements and the management report. Laws, accounting standards and other pronouncements are continuously analyzed as to whether and to what extent they are relevant and how they impact on financial reporting. The relevant requirements are defined in the Group Accounting Manual, for example, communicated to the relevant units and, together with the financial reporting calendar that is binding throughout the Group, forms the basis of the financial reporting process. In addition, supplementary process directives, standardized reporting formats, IT systems, as well as IT-based reporting and consolidation processes support the process of uniform and compliant Group accounting. Where necessary, we also draw on the services of external service providers, for example, for measuring pension obligations. Group Accounting uses appropriate processes to ensure these requirements are complied with consistently throughout the Group. The staff involved in the accounting process receive regular training. Deutsche Telekom AG and the Group companies are responsible for ensuring that Group-wide guidelines and procedures are complied with. They also ensure the compliance and timeliness of their financial reporting-related processes and systems. They are supported and monitored by Group Accounting.

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, change management, and the monitoring of such systems.

Since the 2006 financial year, we have had a consistent 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. To this end, first certain high-risk elements are selected, for which successive self-assessments are performed by all parties involved in the process, including those with lead responsibility for the accounting process through to the Board of Management. Internal Audit is closely involved in all stages of the process in order to ensure the high quality of the accounting-related ICS. For this purpose, it also performs independent spot-checks on the self-assessments.

## Significant events after the reporting period.

### Ministerial Decision on IKA-ETAM social security fund.

The Greek Ministry of Labor and Social Affairs issued a Ministerial Decision and informed OTE that it may, subject to an audit, be required to make additional payments to cover a deficit in the fund. OTE has appealed the Ministerial Decision. In January 2011, the Greek Ministry of Labor and Social Affairs submitted a demand for payment of EUR 130 million to OTE. Before taking additional legal steps, OTE will again submit an objection against the demand for payment. The issue has been taken account of in the consolidated financial statements. OTE believes its chances of winning its case by filing an action are good.


### Agreement concluded with French company Vivendi, Polish company Elektrim and the creditors of Elektrim.

The agreement on ownership of the Polish mobile communications company PTC was signed on January 14, 2011. Deutsche Telekom paid EUR 1.4 billion in January 2011, and has now secured undisputed ownership of PTC. Deutsche Telekom holds all shares in PTC.



## Other disclosures.

### Corporate Governance Statement in accordance with § 289a HGB.

The Corporate Governance Statement in accordance with § 289a HGB forms part of the combined management report.  It is available to the public on Deutsche Telekom's website ([www.telekom.com](http://www.telekom.com)).

### 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 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."

# Development of revenue and profits.<sup>1</sup>

## Economic outlook.

The positive trend in the global economy is expected to continue in 2011, albeit with slightly less momentum. Leading indicators, such as the OECD's composite leading indicators and the international purchasing managers indexes, continue to show a consistent and sustained upward trend. It will again be the emerging markets that will enjoy above-average growth, supported by the continued solid trend in Germany and slowly, but steadily improving growth in the United States.

For our core markets the economic outlook is varied: The German economy is currently expected to remain robust compared with other European economies and continue to develop positively in 2011. While the upturn in 2010 was primarily export-driven, increasing support is expected from domestic demand in 2011. In its 2010 Autumn Report for Germany, the Joint Economic Forecast Project Group (Projektgruppe Gemeinschaftsdiagnose) predicted an increase in real GDP of 2.0 percent for 2011. The Federal Ministry of Economics currently forecasts growth of 2.3 percent for 2011.

The latest forecasts for the United States are predicting a growth rate of between 3 and 3.5 percent for 2011. The most recent improvement in the outlook is due in particular to the tax relief passed at the end of 2010, which will have a positive knock-on effect on retail consumption. Nevertheless, economic developments in the United States are still distinctly uncertain, particularly with regard to the relatively high rate of unemployment and national debt.

We expect to see a moderate upward economic trend, which in some cases is gathering momentum, in our core markets of Poland, Austria, the Czech Republic, Hungary, the Netherlands, and Slovakia with annual growth rates of between 2 and 4 percent. In the core markets of Greece, Romania and Croatia, by contrast, the economic situation will continue to be challenging in 2011, although Croatia recorded marginally positive growth rates at the end of the 2010 for the first time since the crisis. The Romanian economy is expected to start growing again in the course of 2011. For Greece, the Joint Economic Forecast anticipates a decrease of 2.1 percent.

In view of the sustained high pressure to consolidate public finances in some countries, we cannot rule out the possibility of further austerity programs or tax rises in 2011, which would have a corresponding negative effect on consumption and on individual companies.

## Market expectations.

The German mobile communications market once again began recording healthy growth in 2010, driven by the increasing penetration of smartphones and strong growth in mobile data traffic. This positive trend of growing mobile data and Internet use is set to continue in 2011, although the extensive regulatory intervention in the form of a cut of almost 50 percent in termination charges will have a negative impact on this positive underlying growth for the entire industry. We only expect a small increase in the number of broadband lines in the fixed network. Traditional voice revenues will continue to decline. 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.

In our European footprint markets, excluding Germany, price erosion in voice telephony resulting from regulation and competition will lead to stagnating market revenues. The growth in revenue from mobile data usage and from new telecommunications products will only partially compensate for the decline in revenue from voice telephony. The economic crisis will continue to impact our footprint markets in Southern and Eastern Europe in 2011. In some countries, governments will endeavor to improve the financial situation through fiscal policy intervention. Such action could negatively affect private consumption and consequently market volumes. We expect the macroeconomic situation in Greece to remain strained.

In the United States in the next two years, while the consumer climate improves and unemployment remains relatively high, the mobile communications market will continue to grow and, at the same time, be characterized by intense competition among the major mobile providers. Growth is expected to be driven primarily by the ever more successful marketing of data services. This additional revenue will probably offset falling revenue from voice telephony and text messaging. Price pressure will continue due to flat rate products. Prepay business is expected to continue to gain strength. Postpay business should maintain its moderate growth thanks to mobile broadband connections.

The economic recovery is expected to have a positive impact on the ICT business with corporate and business customers in the relevant domestic and foreign markets. We expect the continuous economic recovery and fast growing demand for cloud computing to result in sustained growth in corporate customer business in the next few years.



## Expectations for the Group.

We aim to achieve organic revenue growth with a broader revenue mix. Revenue in the new growth areas is expected to increase sharply in the next few years; these areas are mobile Internet, the connected home, Internet services, T-Systems (external revenue), and intelligent network solutions. In order to achieve these targets, we will invest further in next-generation technologies. In 2011 and 2012, for instance, in addition to expanding the fast broadband network in Germany, we intend to acquire high-performance mobile spectrum in other countries in Europe. We have set ourselves ambitious targets that will have a positive effect on profitability: In the second phase of the Save for Service program, costs are to be cut by a further EUR 4.2 billion by 2012 compared with their 2009 level. Also by 2012, return on capital employed (ROCE) throughout the Group is to increase by around 150 basis points.

We expect our total capital expenditure in 2011 to amount to around EUR 9 billion overall (before any investments in spectrum). Based on 2010 figures (adjusted for T-Mobile UK in the first quarter), we expect adjusted EBITDA of around EUR 19.1 billion in 2011. Similarly, we expect free cash flow to remain stable or increase slightly in 2011 compared with 2010, at around EUR 6.5 billion (excluding the effects, totaling EUR 0.4 billion, from the PTC transaction completed in January 2011).

In 2012, we expect sustained high levels of adjusted EBITDA and free cash flow.

Despite high levels of investment in our future viability, we also want to remunerate our shareholders appropriately in 2011 and 2012, subject to the achievement of a corresponding level of unappropriated net income. A minimum dividend of EUR 0.70 per share is to be paid out to Deutsche Telekom AG shareholders. Including the share buy-backs to be carried out until 2012, this amounts to a total shareholder remuneration of EUR 3.4 billion per year.<sup>2</sup> The dual policy of dividend payments and share buy-back aims to ensure the cash inflow for our shareholders and also to support our share price.

We intend to continue leveraging international economies of scale and synergies in the future, through appropriate acquisitions in markets where we are already represented. There are no plans, however, for major acquisitions or expansion in emerging markets.

The general mood on the international finance markets in 2010 was dominated by the debt crisis, which meant that some countries had difficulties refinancing their due debts on the international capital markets. In 2011, the performance of the financial markets is expected to depend largely on the implementation of suitable measures to tackle the debt crisis.

We placed bonds, medium-term notes, and promissory notes worth EUR 3.1 billion in total on the international financial markets in 2010. In 2011, we expect the financial markets to be generally open to our financing measures.

As of the end of 2010, we had a comfortable liquidity reserve of around EUR 18 billion. We also plan to maintain a liquidity reserve in 2011 at a level that enables us to meet all maturities in the next 24 months.

At the end of 2010, 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, an equally solid investment-grade rating is part of our financial strategy for 2011.

As the parent company of the Group, Deutsche Telekom AG continues to expect positive income after taxes for 2011 and 2012.

## Expectations for the operating segments.

### Germany.

In the next few years, we will focus our strategy on areas that form the basis of our successful German operations:

- first-class product and service quality for our customers
- LTE and fiber-optic roll-out – investment in broadband in Germany
- Entertain – innovative television and entertainment platform of the future
- Save for Service – we are making our Company fit for the future.

We expect revenues in the Germany operating segment to decrease in 2011, mainly as a consequence of regulatory intervention. We intend to counter this decrease in the coming years by continuing the broadband roll-out, developing our mobile data business further, investing in intelligent and innovative network structures, developing our product portfolio further, and continually improving our service. All these activities are intended to contribute to stabilizing revenue from 2012. We expect adjusted EBITDA to continue to stabilize year-on-year, or even increase slightly in 2011 and 2012; and we expect the EBITDA margin to develop positively.

We will once again be able to assert our market leadership in fixed-network and broadband business in the next year. This market is almost saturated, however, and many lines will be lost. Competition in fixed-network and broadband business will become more and more intense in the coming years. We intend to further establish our television service Entertain in the mass market through an expanded 3D and HD offering, new functions, and new distribution channels, e.g., via satellite.

We are well prepared for intense competition in the German mobile communications market. Our new rate plans are geared to the needs of our customers even more than before. Our handset portfolio includes attractive smartphones from the Windows Phone and Android range and, as before, the Apple iPhone with exclusive applications for our customers. The mobile Internet as growth driver benefits from the rising sales of smartphones. The Federal Network Agency has decided to reduce mobile call termination charges by almost 50 percent to 3.36 eurocents per minute. This is likely to impact negatively on our mobile service revenues in the coming year. Overall, however, we expect our mobile service revenues to continue developing positively and that our data revenues will continue to grow.

We plan to invest more than EUR 10 billion in the Germany operating segment between 2010 and 2012, concentrating on our strategic growth and innovation areas, such as our fixed-network and mobile network infrastructures. As part of these activities, we have been establishing LTE sites in rural areas since June 2010 and intend to officially start marketing our LTE services in April 2011. Accordingly, we will extend our portfolio to include new offers, such as Wireless Call & Surf Comfort. The roll-out of optical fiber (FTTx) will also play a greater role in the next few years, following a number of successful pilot projects in Brandenburg among other places.

As part of the One Company initiative, we intend to align our business structure even more closely with the needs of customers. This is why in the first quarter of 2011 we will start classifying our total customer base according to consumer and business use, and no longer according to mobile communications and fixed network. This realignment will also be reflected in the financial reporting.

## Europe.

In the Europe operating segment, we intend to continue to defend our strong market position, and expand our market shares in some countries. In line with our strategy of connected life, we aim to win over our consumers and business customers with new, intelligent handsets and attractive rate plans. Moreover, we intend to expand our range of innovative data and content services for smartphones and laptops. In the countries in which we have already successfully completed the integration of fixed-network and mobile operations, we will increasingly advertise our product portfolio with innovative bundled offers. In this regard, IPTV and television via satellite in particular will grow more important. Intelligent ICT solutions will also become more important in the Europe operating segment as part of our “connected work” strategy.

In order to strengthen our competitiveness, we will focus our capital expenditure on upgrading the network infrastructure. In mobile communications, we will concentrate our efforts on introducing LTE as the fourth-generation mobile technology. Besides launching LTE on the market at T-Mobile Austria, promising initial live tests were carried out in Greece and Croatia. At the same time, additional investments are planned to build out the UMTS networks, introduce HSPA+, and upgrade the GSM networks. More investments are to be made in the fixed network in order to increase broadband coverage, for instance, by building out the fiber-optic infrastructure. Further investments are planned to improve customer service and make processes more efficient.

The overall economic situation in the Europe operating segment remains tense. In Greece and Romania in particular, we expect the economic situation to remain critical in the coming year. We will also have to hold our own against ongoing intense competition and the erosion of prices this brings with it. Our strategic initiatives and cost-cutting measures, including some of the elements of the Save for Service program, will continue to take effect and partially offset any negative effects. One example of such a strategic initiative is the Letter of Intent signed with PTK Centertel in December 2010 on shared use of network infrastructure and mobile spectrum in Poland. Regulatory measures and changes in legislation (e.g., as part of government austerity programs) could have a negative impact on revenue and earnings. In Hungary, for example, the special tax for large corporations in the trade, energy, and telecommunications sector passed in October 2010 will reduce revenue and earnings and limit investment potential in the country. The same applies in Croatia for the mobile communications tax levied since August 2009. In addition, exchange rate effects could adversely affect earnings on a euro basis.



Based on these general parameters, we expect revenue and adjusted EBITDA in the Europe operating segment – adjusted for the effect from the establishment of the Everything Everywhere joint venture in the United Kingdom – to decline year-on-year in 2011. In 2012, we expect the decline in revenue to slow compared with 2011 and adjusted EBITDA to remain stable.

#### United States.

In 2011, T-Mobile USA will focus on expanding its mobile broadband and other data service offerings as well as attracting and retaining a loyal customer base. Results are expected to be positively impacted primarily by growth in non-voice services, reinvention of the handset insurance program, and the impact of driving operational efficiencies.

Regulatory changes and competitive pressures may significantly affect expected revenues and adjusted EBITDA in local currency; in addition, exchange rates may significantly affect revenues and adjusted EBITDA in euros in 2011 and 2012. For 2011 and 2012, T-Mobile USA expects positive developments in revenues and adjusted EBITDA in local currency.

T-Mobile USA continues to focus on the enhancement of network quality and coverage, and in particular further expansion and upgrade of its mobile broadband communications network.

#### Systems Solutions.

T-Systems focuses on the growing ICT services market where it provides solutions for corporate customers. Demand for international ICT solutions is increasing – not least as a result of the further globalization of corporations. Drawing on a global infrastructure of data centers and networks, T-Systems 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 networked future of business and society. We laid the foundations for revenue growth in the next few years, especially through new large-scale contracts from renowned industry giants, such as Deutsche Post, Ergo-Versicherung, TUI, SBB, and E.ON. It nevertheless remains to be seen how the business of T-Systems' customers will develop in the current economic environment.


We will continue on the path we have taken to reduce our costs. After all, T-Systems' cost-cutting measures showed encouraging effects in the past financial year and will be continued. We expect revenue to increase slightly and adjusted EBITDA to be stable in 2011, and revenue and adjusted EBITDA to increase slightly in 2012 in this operating segment.

#### Group Headquarters & Shared Services.

In 2011 and 2012, we expect adjusted EBITDA at Group Headquarters & Shared Services to be at approximately the same level as in the prior year. Adjusted EBITDA will increasingly be impacted in particular by expenditure at Group Headquarters and staff restructuring activities at Vivento. This will be contrasted by higher earnings from Shared Services.

#### Save for Service program.

We have set ourselves ambitious targets that have a positive effect on profitability: In the second phase of the Save for Service program, costs are to be cut by a further EUR 4.2 billion by 2012 compared with their 2009 level.

<sup>1</sup> 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 until 2012. 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 opportunities management" section in the combined management report and the disclaimer at the end of the Annual Report. Should these or other uncertainties and imponderabilities materialize or the assumptions underlying any of these statements prove incorrect, the actual results may be materially different from those expressed or implied by such statements. We do not guarantee that our forward-looking statements will prove correct. The forward-looking statements presented here are based on the current structure of the Group, without regard to significant acquisitions, dispositions, business combinations or joint ventures Deutsche Telekom may choose to undertake. These statements are made with respect to conditions as of the date of this document's publication. Without prejudice to existing obligations under capital market law, we do not intend or assume any obligation to update forward-looking statements.

<sup>2</sup> This policy is subject to the requisite unappropriated net income being posted in the single-entity financial statements of Deutsche Telekom AG for the financial year in question and the ability to form the necessary reserves for the share buy-back. It is also contingent upon the executive bodies adopting resolutions to this effect, taking account of the Company's situation at the time.



Internet technology, fast, intelligent networks, adding new Internet products to our portfolio: We are laying the foundations for growth.

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# Consolidated statement of financial position.

	Note	Dec. 31, 2010 millions of €	Dec. 31, 2009 millions of €
<b>Assets</b>			
<b>Current assets</b>		<b>15,243</b>	<b>23,012</b>
Cash and cash equivalents	1	2,808	5,022
Trade and other receivables	2	6,889	6,757
Current recoverable income taxes	25	224	144
Other financial assets	8	2,372	2,001
Inventories	3	1,310	1,174
Non-current assets and disposal groups held for sale	4	51	6,527
Other assets	9	1,589	1,387
<b>Non-current assets</b>		<b>112,569</b>	<b>104,762</b>
Intangible assets	5	53,807	51,705
Property, plant and equipment	6	44,298	45,468
Investments accounted for using the equity method	7	7,242	147
Other financial assets	8	1,695	1,739
Deferred tax assets	25	5,129	5,162
Other assets	9	398	541
<b>Total assets</b>		<b>127,812</b>	<b>127,774</b>



	Note	Dec. 31, 2010 millions of €	Dec. 31, 2009 millions of €
<b>Liabilities and shareholders' equity</b>			
<b>Current liabilities</b>		<b>26,452</b>	<b>24,794</b>
Financial liabilities	10	11,689	9,391
Trade and other payables	11	6,750	6,304
Income tax liabilities	25	545	511
Other provisions	13	3,193	3,369
Liabilities directly associated with non-current assets and disposal groups held for sale	4	–	1,423
Other liabilities	14	4,275	3,796
<b>Non-current liabilities</b>		<b>58,332</b>	<b>61,043</b>
Financial liabilities	10	38,857	41,800
Provisions for pensions and other employee benefits	12	6,373	6,179
Other provisions	13	1,628	2,161
Deferred tax liabilities	25	7,635	7,153
Other liabilities	14	3,839	3,750
<b>Liabilities</b>		<b>84,784</b>	<b>85,837</b>
<b>Shareholders' equity</b>	15	<b>43,028</b>	<b>41,937</b>
Issued capital		11,063	11,165
Treasury shares		(5)	(5)
		<b>11,058</b>	<b>11,160</b>
Capital reserves		51,635	51,530
Retained earnings including carryforwards		(24,355)	(20,951)
Total other comprehensive income		(2,017)	(3,576)
Total other comprehensive income directly associated with non-current assets and disposal groups held for sale		–	(2,162)
Net profit (loss)		1,695	353
<b>Issued capital and reserves attributable to owners of the parent</b>		<b>38,016</b>	<b>36,354</b>
Non-controlling interests		5,012	5,583
<b>Total liabilities and shareholders' equity</b>		<b>127,812</b>	<b>127,774</b>

# Consolidated income statement.

	Note	2010 millions of €	2009 millions of €	2008 millions of €
<b>Net revenue</b>	<b>16</b>	<b>62,421</b>	<b>64,602</b>	<b>61,666</b>
Cost of sales	17	(35,725)	(36,259)	(34,592)
<b>Gross profit</b>		<b>26,696</b>	<b>28,343</b>	<b>27,074</b>
Selling expenses	18	(14,620)	(15,863)	(15,952)
General and administrative expenses	19	(5,252)	(4,653)	(4,821)
Other operating income	20	1,498	1,504	1,971
Other operating expenses	21	(2,817)	(3,319)	(1,232)
<b>Profit from operations</b>		<b>5,505</b>	<b>6,012</b>	<b>7,040</b>
Finance costs	22	(2,500)	(2,555)	(2,487)
Interest income		349	341	408
Interest expense		(2,849)	(2,896)	(2,895)
Share of profit (loss) of associates and joint ventures accounted for using the equity method	23	(57)	24	(388)
Other financial income (expense)	24	(253)	(826)	(713)
<b>Profit (loss) from financial activities</b>		<b>(2,810)</b>	<b>(3,357)</b>	<b>(3,588)</b>
<b>Profit before income taxes</b>		<b>2,695</b>	<b>2,655</b>	<b>3,452</b>
Income taxes	25	(935)	(1,782)	(1,428)
<b>Profit (loss)</b>		<b>1,760</b>	<b>873</b>	<b>2,024</b>
<b>Profit (loss) attributable to</b>		<b>1,760</b>	<b>873</b>	<b>2,024</b>
Owners of the parent (net profit (loss))		1,695	353	1,483
Non-controlling interests	26	65	520	541
<b>Earnings per share</b>	<b>27</b>			
Basic		€ 0.39	0.08	0.34
Diluted		€ 0.39	0.08	0.34

# Consolidated statement of comprehensive income.

	2010 millions of €	2009 millions of €	2008 millions of €
<b>Profit (loss)</b>	<b>1,760</b>	<b>873</b>	<b>2,024</b>
Actuarial gains and losses on defined benefit pension plans	(32)	(461)	227
Revaluation due to business combinations	(2)	(38)	0
Exchange differences on translating foreign operations			
Recognition of other comprehensive income in income statement	2,151	-	-
Change in other comprehensive income (not recognized in income statement)	1,547	(211)	(352)
Available-for-sale financial assets			
Recognition of other comprehensive income in income statement	0	0	0
Change in other comprehensive income (not recognized in income statement)	(3)	(4)	1
Fair value measurement of hedging instruments			
Recognition of other comprehensive income in income statement	0	8	(101)
Change in other comprehensive income (not recognized in income statement)	58	(56)	60
Share of profit (loss) of investments accounted for using the equity method	28	-	-
Other income and expense recognized directly in equity	0	11	(8)
Income taxes relating to components of other comprehensive income	(5)	138	(53)
<b>Other comprehensive income</b>	<b>3,742</b>	<b>(613)</b>	<b>(226)</b>
<b>Total comprehensive income</b>	<b>5,502</b>	<b>260</b>	<b>1,798</b>
<b>Total comprehensive income attributable to</b>	<b>5,502</b>	<b>260</b>	<b>1,798</b>
Owners of the parent	5,443	(261)	1,251
Non-controlling interests	59	521	547

# Consolidated statement of changes in equity.

## 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)
		millions of €	millions of €	millions of €	millions of €	millions of €
	thousands					
<b>Balance at January 1, 2008</b>	<b>4,361,298</b>	<b>11,165</b>	<b>(5)</b>	<b>51,524</b>	<b>(16,218)</b>	<b>571</b>
Changes in the composition of the Group						
Unappropriated profit (loss) carried forward					571	(571)
Dividends					(3,386)	
Proceeds from the exercise of stock options	22			2		
Profit (loss)						1,483
Other comprehensive income					166	
Transfer to retained earnings					106	
<b>Balance at December 31, 2008</b>	<b>4,361,320</b>	<b>11,165</b>	<b>(5)</b>	<b>51,526</b>	<b>(18,761)</b>	<b>1,483</b>
<b>Balance at January 1, 2009</b>	<b>4,361,320</b>	<b>11,165</b>	<b>(5)</b>	<b>51,526</b>	<b>(18,761)</b>	<b>1,483</b>
Changes in the composition of the Group						
Unappropriated profit (loss) carried forward					1,483	(1,483)
Dividends					(3,386)	
Proceeds from the exercise of stock options				4		
Profit (loss)						353
Other comprehensive income					(333)	
Transfer to retained earnings					46	
<b>Balance at December 31, 2009</b>	<b>4,361,320</b>	<b>11,165</b>	<b>(5)</b>	<b>51,530</b>	<b>(20,951)</b>	<b>353</b>
<b>Balance at January 1, 2010</b>	<b>4,361,320</b>	<b>11,165</b>	<b>(5)</b>	<b>51,530</b>	<b>(20,951)</b>	<b>353</b>
Changes in the composition of the Group						
Unappropriated profit (loss) carried forward					353	(353)
Dividends					(3,386)	
Proceeds from the exercise of stock options				3	2	
Capital decrease	(40,001)	(102)		102	(400)	
Profit (loss)						1,695
Other comprehensive income					(52)	
Transfer to retained earnings					79	
<b>Balance at December 31, 2010</b>	<b>4,321,319</b>	<b>11,063</b>	<b>(5)</b>	<b>51,635</b>	<b>(24,355)</b>	<b>1,695</b>

Issued capital and reserves attributable to owners of the parent						Total	Non-controlling interests	Total shareholders' equity
Total other comprehensive income								
Translation of foreign operations millions of €	Revaluation surplus millions of €	Available-for-sale financial assets millions of €	Cash flow hedges millions of €	Other comprehensive income millions of €	Taxes millions of €	millions of €	millions of €	millions of €
(5,999)	308	2	1,126	0	(344)	42,130	3,115	45,245
						0	(2)	(2)
						0		0
						(3,386)	(545)	(3,931)
						2		2
						1,483	541	2,024
(357)		1	(41)	(11)	10	(232)	6	(226)
	(106)					0		0
(6,356)	202	3	1,085	(11)	(334)	39,997	3,115	43,112
(6,356)	202	3	1,085	(11)	(334)	39,997	3,115	43,112
						0	2,783	2,783
						0		0
						(3,386)	(840)	(4,226)
						4	4	8
						353	520	873
(221)	(38)	(6)	(48)	11	21	(614)	1	(613)
	(46)					0		0
(6,577)	118	(3)	1,037	0	(313)	36,354	5,583	41,937
(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

# Consolidated statement of cash flows.

	Note	2010 millions of €	2009 millions of €	2008 millions of €
	31			
<b>Profit (loss)</b>		<b>1,760</b>	<b>873</b>	<b>2,024</b>
Depreciation, amortization and impairment losses		11,808	13,894	10,975
Income tax expense (benefit)		935	1,782	1,428
Interest income and interest expense		2,500	2,555	2,487
Other financial (income) expense		253	826	713
Share of (profit) loss of associates and joint ventures accounted for using the equity method		57	(24)	388
(Profit) loss on the disposal of fully consolidated subsidiaries		349	(26)	(455)
Other non-cash transactions		(21)	(230)	(147)
(Gain) loss from the disposal of intangible assets and property, plant and equipment		90	51	70
Change in assets carried as working capital		(243)	1,936	286
Change in provisions		(68)	(891)	493
Change in other liabilities carried as working capital		(209)	(1,818)	(130)
Income taxes received (paid)		(819)	(928)	(520)
Dividends received		412	29	13
Net payments from entering into or canceling interest rate swaps		265	242	-
<b>Cash generated from operations</b>		<b>17,069</b>	<b>18,271</b>	<b>17,625</b>
Interest paid		(3,223)	(3,456)	(3,431)
Interest received		885	980	1,174
<b>Net cash from operating activities</b>		<b>14,731</b>	<b>15,795</b>	<b>15,368</b>
Cash outflows for investments in				
Intangible assets		(2,978)	(1,598)	(1,799)
Property, plant and equipment		(6,873)	(7,604)	(6,908)
Non-current financial assets		(997)	(176)	(3,261)
Investments in fully consolidated subsidiaries and business units		(448)	(1,007)	(1,030)
Proceeds from disposal of				
Intangible assets		26	7	34
Property, plant and equipment		318	369	338
Non-current financial assets		162	99	102
Investments in fully consolidated subsidiaries and business units		4	116	778
Net change in short-term investments and marketable securities and receivables		491	(320)	611
Net change in cash and cash equivalents due to the first-time full consolidation of OTE		-	1,558	-
Other		(416)	(93)	(249)
<b>Net cash used in investing activities</b>		<b>(10,711)</b>	<b>(8,649)</b>	<b>(11,384)</b>
Proceeds from issue of current financial liabilities		30,046	3,318	39,281
Repayment of current financial liabilities		(34,762)	(9,314)	(44,657)
Proceeds from issue of non-current financial liabilities		3,219	5,379	6,477
Repayment of non-current financial liabilities		(149)	(93)	(96)
Dividend payments		(4,003)	(4,287)	(3,963)
Proceeds from the exercise of stock options		-	2	3
Share buy-back		(400)	-	-
Repayment of lease liabilities		(139)	(128)	(142)
Other		(181)	-	-
<b>Net cash used in financing activities</b>		<b>(6,369)</b>	<b>(5,123)</b>	<b>(3,097)</b>
Effect of exchange rate changes on cash and cash equivalents		50	58	(61)
Changes in cash and cash equivalents associated with non-current assets and disposal groups held for sale		85	(85)	-
<b>Net increase (decrease) in cash and cash equivalents</b>		<b>(2,214)</b>	<b>1,996</b>	<b>826</b>
<b>Cash and cash equivalents, at the beginning of the year</b>		<b>5,022</b>	<b>3,026</b>	<b>2,200</b>
<b>Cash and cash equivalents, at the end of the year</b>		<b>2,808</b>	<b>5,022</b>	<b>3,026</b>

# 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. This Declaration of Conformity can be found on the Deutsche Telekom website (🌐 [www.telekom.com](http://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 Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft, Stuttgart, and 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](http://www.telekom.com).

The consolidated financial statements of Deutsche Telekom for the 2010 financial year were released for publication by the Board of Management on February 18, 2011.

### 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 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:

Pronouncement	Date of issue by the IASB	Title
IFRS 3/IAS 27	January 10, 2008	Business Combinations/Consolidated and Separate Financial Statements
IAS 39	July 31, 2008	Financial Instruments: Recognition and Measurement
IFRIC 17	November 27, 2008	Distribution of Non-Cash Assets to Owners
IAS 24	November 4, 2009	Related Party Disclosures
Annual Improvements Project	April 16, 2009	Improvements to IFRSs
IFRS 2	June 18, 2009	Share-based Payment

**IFRS 3 “Business Combinations” and IAS 27 “Consolidated and Separate Financial Statements.”** The standards are the result of the second phase of the project undertaken jointly with the Financial Accounting Standards Board (FASB) to reform the accounting for business combinations. The revised IFRS 3 and IAS 27 were endorsed by the European Union in June 2009. Deutsche Telekom has applied the revised standards prospectively since January 1, 2010 to transactions and business combinations. The figures for prior-year periods have not been adjusted.

The main changes that the revised **IFRS 3** has made to the previous requirements are described below:

- The revised IFRS 3 gives the option of measuring non-controlling interests either at fair value or at the proportionate share of the net identifiable assets. This option can be exercised for each business combination individually.
- In a business combination achieved in stages, the acquirer shall remeasure its previously held equity interest in the acquiree at the date the acquirer obtains control. Goodwill shall be determined as the difference between the remeasured carrying amount plus consideration transferred for the acquisition of the new shares, minus net assets acquired.

- Contingent consideration shall be measured at fair value at the acquisition date and classified either as equity, or as asset or liability at the acquisition date. Agreed contingent consideration shall be recognized subsequently in accordance with the classification determined at the acquisition date.
- Acquisition-related costs incurred in connection with business combinations shall be recognized as expenses.
- For changes in contingent considerations to be recognized at the acquisition date, goodwill cannot be remeasured subsequently.
- According to the revised IFRS 3, effects from the settlement of relationships existing prior to the business combination shall not be part of the exchange for the acquiree.
- In contrast to the previous version of IFRS 3, the revised standard governs the recognition and measurement of rights that were granted to another entity prior to the business combination and which are now reacquired as part of the business combination (reacquired rights).

The main changes that the revised **IAS 27** has made to the previous requirements are described below:

- Changes in a parent’s ownership interest in a subsidiary that do not result in the loss of control shall only be accounted for within equity.
- If a parent loses control of a subsidiary, it shall derecognize the consolidated assets and liabilities. The new requirement is that any investment retained in the former subsidiary shall be recognized at fair value at the date when control is lost; any differences resulting from this shall be recognized in profit or loss.
- When losses attributed to the non-controlling interests exceed the non-controlling interests in the subsidiary’s equity, these losses shall be allocated in full to the non-controlling interests.

**IAS 39 “Financial Instruments: Recognition and Measurement.”** The European Union endorsed the amendment to IAS 39 in September 2009. The amendment on eligible hedged items specifies that an entity may designate an option as a hedge of changes in the cash flows or fair value of a hedged item above or below a specified price or other variable. Deutsche Telekom has observed the amendment to IAS 39 since January 1, 2010. The provisions are to be applied retrospectively. The amendment did not have a material impact on the presentation of Deutsche Telekom’s results of operations, financial position or cash flows.





**IFRIC 17 “Distribution of Non-Cash Assets to Owners.”** The European Union endorsed IFRIC 17 in November 2009. The interpretation provides guidance on the recognition and measurement of liabilities arising from dividends paid in the form of assets other than cash (e.g., property, plant and equipment) and clarifies how any difference between the carrying amount of the assets distributed and the fair value of the dividend paid should be accounted for. Deutsche Telekom has applied IFRIC 17 since January 1, 2010. The adoption of IFRIC 17 did not have a material impact on the presentation of Deutsche Telekom’s results of operations, financial position or cash flows.

**IAS 24 “Related Party Disclosures.”** In November 2009, the IASB issued amendments to IAS 24. Previously, entities that are controlled or significantly influenced by a government had been required to disclose information about all transactions with entities that are controlled or significantly influenced by the same state. The revised standard still requires disclosures that are important to users of financial statements. However, in the future, information that is costly to produce or that is of little value for users of financial statements will be exempt from this requirement. Only information on transactions that are individually or collectively significant is still to be disclosed. In addition, the definition of a related party was simplified and a number of inconsistencies were eliminated. The European Union endorsed these amendments in July 2010. The revised standard is effective retrospectively for financial years beginning on or after January 1, 2011. Earlier application is permitted. Deutsche Telekom has applied the amendment to IAS 24 since January 1, 2010. These amendments did not have a material impact on the presentation of Deutsche Telekom’s results of operations, financial position or cash flows.

**“Improvements to IFRSs.”** This is the second Annual Improvements Project which aims to amend twelve existing standards and interpretations. The European Union endorsed the amendments in March 2010. Deutsche Telekom has applied the amendments since January 1, 2010. The amendments did not have a material impact on the presentation of Deutsche Telekom’s results of operations, financial position or cash flows.

**IFRS 2 “Share-based Payment.”** These amendments clarify the accounting for group-settled share-based payment transactions. In these arrangements, the subsidiary receives goods or services from employees or suppliers, but its parent or another entity in the group must pay those suppliers. The European Union endorsed these amendments in March 2010. An entity that receives goods or services in a share-based payment arrangement must account for those goods or services no matter which entity in the group

settles the transaction, and no matter whether the transaction is settled in shares or cash. The IASB additionally clarified that in IFRS 2 a “group” has the same meaning as in IAS 27 “Consolidated and Separate Financial Statements.” The amendments to IFRS 2 also incorporate guidance previously included in IFRIC 8 “Scope of IFRS 2” and IFRIC 11 “IFRS 2 – Group and Treasury Share Transactions.” As a result, the IASB has withdrawn IFRIC 8 and IFRIC 11. Deutsche Telekom has applied the amendment to IFRS 2 since January 1, 2010. The amendments did not have a material impact on the presentation of Deutsche Telekom’s results of operations, financial position or cash flows.

## Standards, interpretations and amendments issued, but not yet adopted.

In October 2009, the IASB issued an amendment to **IAS 32 “Financial Instruments: Presentation.”** The European Union endorsed this amendment in December 2009. This amendment clarifies the classification of rights issues as equity or liabilities when the rights are denominated in a currency other than the issuer’s functional currency. Previously, such rights issues had been accounted for as derivative liabilities. The amendment requires that if such rights are issued pro rata to an entity’s shareholders for a fixed amount of currency, they are to be classified as equity regardless of the currency in which the exercise price is denominated. The amendment is effective for financial years beginning on or after February 1, 2010. The amendment is not expected to have a material impact on the presentation of Deutsche Telekom’s results of operations, financial position or cash flows.

In November 2009, the IASB issued **IFRS 9 “Financial Instruments.”** The European Union has not yet endorsed the amendments. 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 requires financial assets to be assigned to one of the following two measurement categories: “at amortized cost” or “at fair value.” IFRS 9 also grants a fair value option which allows financial assets that would normally be assigned to the “at amortized cost” category to be designated as “at fair value” if the fair value designation would eliminate or significantly reduce measurement or recognition inconsistency.

It is mandatory to assign equity instruments to the “at fair value” category. If, however, the equity instrument is not held for trading, the standard allows an irrevocable option to be made at initial recognition to designate it as “at fair value” through other comprehensive income. Dividend income resulting from the equity instrument is recognized in profit or loss. IFRS 9 is effective for financial years beginning on or after January 1, 2013. The provisions are to be applied retrospectively. Deutsche Telekom is analyzing the resulting effects on the presentation of results of operations, financial position or cash flows.

In November 2009, the IASB issued an amendment to its requirements on accounting for pension plans. The European Union endorsed the amendment in July 2010. The amendment is to **IFRIC 14 “Prepayments of a Minimum Funding Requirement,”** which is an interpretation of IAS 19 “Employee Benefits.” The amendment applies in limited circumstances when an entity is subject to minimum funding requirements and makes an early payment of contributions to cover these requirements. The amendment permits such an entity to treat the benefit of such an early payment as an asset. The amendment has an effective date for mandatory adoption of January 1, 2011. Retrospective adoption is required. Deutsche Telekom is analyzing the resulting effects on the presentation of results of operations, financial position or cash flows.

In November 2009, the IASB issued the interpretation **IFRIC 19 “Extinguishing Financial Liabilities with Equity Instruments.”** The European Union endorsed IFRIC 19 in July 2010. The interpretation provides guidance on how to interpret IFRS when an entity renegotiates the terms of a financial liability with its creditor and the creditor agrees to accept equity instruments to settle the financial liabilities fully or partially. IFRIC 19 clarifies that the entity’s equity instruments issued to a creditor are part of the consideration paid to extinguish the financial liability fully or partially. In addition, these equity instruments are measured at their fair value. If their fair value cannot be reliably measured, the equity instruments shall be measured to reflect the fair value of the financial liability extinguished. Any difference between the carrying amount of the financial liability and the initial measurement amount of the equity instruments issued is included in the entity’s profit or loss for the period. The interpretation is effective for financial years beginning on or after July 1, 2010. The adoption of IFRIC 19 is not expected to have a material impact on the presentation of Deutsche Telekom’s results of operations, financial position or cash flows.

In May 2010, the IASB published pronouncements as part of its third **Annual Improvements Project** containing amendments to six standards and one interpretation. The European Union has not yet endorsed the amendments. The amendments do not have a material impact on the presentation of Deutsche Telekom’s results of operations, financial position or cash flows and are effective for financial years beginning on or after January 1, 2011.

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 not 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 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 amendments are applicable for financial years beginning on or after July 1, 2011. The European Union has not yet endorsed this pronouncement. Deutsche Telekom is analyzing the resulting effects on the presentation of results of operations, financial position or cash flows.

Also 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. However, the requirements related to the fair value option for financial liabilities are changed in the new IFRS 9 to address own credit risk and the prohibition of fair value measurement is eliminated for derivative liabilities that are linked to an unquoted equity instrument and must be settled by delivery of an unquoted equity instrument. The pronouncement is effective for financial years beginning on or after January 1, 2013. The European Union has not yet endorsed this pronouncement. Deutsche Telekom is analyzing the resulting effects on the presentation of results of operations, financial position or cash flows.



In December 2010, the IASB issued the pronouncements “**Deferred Tax: Recovery of Underlying Assets – Amendments to IAS 12.**” The amendment sets presumptions for the recovery of 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 using the fair value model in 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 is effective for financial years beginning on or after January 1, 2012 and has 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.

## Changes in accounting policies and changes in the reporting structure.

Deutsche Telekom did not make any major changes to its accounting policies in the 2010 financial year. The structure of the operating segments was changed as follows to reflect the realigned management structure of the Europe and Southern and Eastern Europe operating segments.

The Europe and Southern and Eastern Europe operating segments were merged on April 1, 2010 to form the new Europe operating segment. This new operating segment encompasses all activities of the fixed-network and mobile communications enterprises of the national companies in Greece, Romania, Hungary, Poland, the Czech Republic, Croatia, the Netherlands, Slovakia, Austria, Albania, the F.Y.R.O. Macedonia, Montenegro, Bulgaria, and the joint venture in the United Kingdom as well as the International Carrier Sales and Services unit, which mainly provides wholesale telecommunications services for the Group’s other operating segments. All descriptions in the notes to the consolidated financial statements and in the combined management report were retrospectively modified to reflect this change.

Since April 1, 2010, Deutsche Telekom has therefore reported on the four operating segments Germany, Europe, United States, and Systems Solutions, as well as on Group Headquarters & Shared Services.

## Accounting policies.

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 licenses, are measured at cost and 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 nominal 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 the Company's most important mobile communications licenses are as follows:

Mobile communications licenses	Years
FCC licenses	Indefinite
UMTS licenses	4 to 14
GSM licenses	1 to 14

**Development expenditures** are capitalized if they meet the criteria for recognition as assets and are amortized over their useful lives. **Research expenditures** are not capitalized and 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). 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. The impairment test must be performed annually, as well as whenever there are indications that the carrying amount of the cash-generating unit is impaired. 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 may 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. Deutsche Telekom determines the recoverable amount of a cash-generating unit based on its fair value less costs to sell, unless a higher value in use can be determined. The fair value less costs to sell is usually determined based on discounted cash flow calculations. These discounted cash flow 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.

**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 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. Investment grants received 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 the following table:

	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 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 the individual assets, recoverability is tested 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 (FCC licenses). Indefinite-lived intangible assets are not amortized, but are tested for impairment based on the recoverable amount of a cash-generating unit. 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 loss had been recognized in prior periods.

The recoverable amount of the cash-generating units is generally determined using discounted cash flow calculations. Cash flows are projected over the estimated useful life of the asset or cash-generating unit. The discount rate used reflects the risk specific to the asset or cash-generating unit. The cash flows used reflect management assumptions and are supported by external sources of information.

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. 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 that may need to be written down are grouped together on the basis of similar credit risk characteristics, tested collectively for impairment and written down, if necessary. When the expected future cash flows of the portfolio are being calculated as required for this, previous cases of default are taken into consideration in addition to the cash flows envisaged in the contract. 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. **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. Actuarial gains and losses arising from adjustments and changes in actuarial assumptions are recognized in the period in which they occur outside profit or loss within equity (retained earnings). The return on plan assets and expenses for interest added to obligations are reported in finance costs. Service costs are classified as operating expenses. Past service costs are 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 Group's defined benefit plans are pension plans in Germany. Other pension plans exist in Switzerland, Greece, and in a number of other European Union countries.

In addition to the Group's pension obligations for non-civil servants in Germany based on direct and indirect pension commitments, there are further obligations under Article 131 of the Basic Law (Grundgesetz – GG). Since 1996, the pension commitments in Germany have been based on direct pension commitments in the form of credits to capital accounts held by employees. Within the scope of the realignment of the company pension plan in 1997, existing commitments were transferred to these capital accounts in accordance with an agreement for the protection of vested benefits. The benefit obligations due to retirees and employees approaching retirement remained unchanged.

Individual Group entities grant **defined contribution plans** to their employees. 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 – PostPersRG). 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.

**Part-time working arrangements** for employees approaching retirement are largely based on the block model of the partial retirement arrangement (Altersteilzeit). 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/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 and is recognized in full when the obligation arises.

**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 where Deutsche Telekom has legal or constructive obligations to third parties on the basis of past transactions or events that will probably require an outflow of resources to settle, and this outflow can be reliably measured. These provisions are carried at their expected settlement amount, taking into account all identifiable risks, and may not be offset against reimbursements. The settlement amount is calculated on the basis of a best estimate. Provisions are discounted when the effect of the time value of money is material. Changes in estimates of the amount and timing of payments or changes in the discount rate applied in measuring provisions for decommissioning, restoration, and similar obligations are recognized in accordance with the change in the carrying amount of the related asset. 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. Provisions are recognized for external legal fees related to litigation risks.

**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.

Other non-derivative financial assets 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.

The Group 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 also employs hedges that do not satisfy the strict hedge accounting criteria of IAS 39 but which make an effective contribution to hedging the financial risk in accordance with the principles of risk management. Furthermore, 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.

**Stock options** (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. Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. Obligations arising from cash-settled share-based payment transactions are recognized as a liability and measured at fair value at the reporting date. The expenses are recognized over the vesting period. For both cash-settled and 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, provisions) 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 services revenues include monthly service charges, charges for special features, call charges, and roaming charges billed to T-Mobile customers, as well as other mobile operators. Mobile services 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 sales 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 and include all facts the Company is aware of.

Deferred tax assets and liabilities 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 is controlled by the Group 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 recoverable amount and the fair values are typically determined using a discounted cash flow method which incorporates reasonable market participant assumptions.

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, 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 fair value less costs to sell include discounted cash flow-based methods and methods that use quoted stock market prices as a basis. Key assumptions on which management has based its determination of fair value less costs to sell include revenue, customer acquisition and retention costs, churn rates, capital expenditure and market share. These estimates, including the methodologies used, can have a material impact on the fair value and ultimately the amount of any goodwill impairment.

The valuation of **investments accounted for using the equity method** in the case of the 50-percent stake in the Everything Everywhere joint venture, which was based on the discounted cash flow method, involved the use of estimates for determining the fair value at the date of first-time inclusion using the equity method.

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 credit worthiness 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, environmental liabilities 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, or obscure other significant trends.

The composition of the Deutsche Telekom Group changed as follows in the 2010 financial year:

	Domestic	International	Total
<b>Consolidated subsidiaries</b>			
January 1, 2010	62	182	244
Additions	4	10	14
Disposals (including mergers)	(2)	(15)	(17)
<b>December 31, 2010</b>	<b>64</b>	<b>177</b>	<b>241</b>
<b>Associates accounted for using the equity method</b>			
January 1, 2010	5	7	12
Additions	0	2	2
Disposals	0	(1)	(1)
<b>December 31, 2010</b>	<b>5</b>	<b>8</b>	<b>13</b>
<b>Joint ventures accounted for using the equity method</b>			
January 1, 2010	2	3	5
Additions	0	1	1
Disposals	0	(1)	(1)
<b>December 31, 2010</b>	<b>2</b>	<b>3</b>	<b>5</b>
<b>Total</b>			
January 1, 2010	69	192	261
Additions	4	13	17
Disposals (including mergers)	(2)	(17)	(19)
<b>December 31, 2010</b>	<b>71</b>	<b>188</b>	<b>259</b>

Deutsche Telekom did not hold more than half of the shares in the OTE group at 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.

The significant business combinations and other transactions in the 2010 financial year are described below.

**The acquisition of STRATO.** On November 19, 2009, Deutsche Telekom signed an agreement with Freenet AG to take over 100 percent of the shares in the Web hosting provider STRATO AG and STRATO Rechenzentrum AG (hereinafter referred to as STRATO). Deutsche Telekom obtained control of STRATO as of January 1, 2010.

The STRATO group, the second largest Web hosting provider in Germany and Europe, has a high level of expertise and technological skills in this market. In addition to its German core market, the STRATO group also operates in Spain, the Netherlands, France, the United Kingdom and Italy.

The business combination with STRATO resulted in the recognition of goodwill of EUR 184 million, determined on the basis of the final purchase price allocation as follows:

	millions of €
Purchase price paid for 100 % of the shares	291
Fair values of assets and liabilities	(152)
Deferred tax liabilities	45
<b>Goodwill</b>	<b>184</b>

This goodwill primarily arises from synergies the combination of the entities is expected to generate and has remained unchanged since the acquisition date in the financial year.

The fair values of STRATO's acquired assets and liabilities recognized at the acquisition date are presented in the following table:

	Fair value at the acquisition date millions of €
<b>Assets</b>	<b>397</b>
<b>Current assets</b>	<b>54</b>
Cash and cash equivalents	25
Trade and other receivables	3
Other assets	26
<b>Non-current assets</b>	<b>343</b>
Intangible assets	324
Of which: goodwill	184
Property, plant and equipment	14
Other assets	5
<b>Liabilities</b>	<b>106</b>
<b>Current liabilities</b>	<b>60</b>
Trade and other payables	37
Other liabilities	23
<b>Non-current liabilities</b>	<b>46</b>
Deferred tax liabilities	45
Other liabilities	1

The fair values of the assets and liabilities were determined on the basis of observable market prices. If it was not possible to identify market prices, income-oriented approaches or cost-oriented procedures were used to measure the acquired assets and liabilities.

Net revenue increased by EUR 91 million as a result of the acquisition of STRATO. Profit for the current period includes a profit at STRATO of EUR 10 million.



**Acquisition of a stake in Firstgate (ClickandBuy).** On March 23, 2010, Deutsche Telekom signed an agreement with the former shareholders for the acquisition of the remaining shares in the Internet payment service provider Firstgate. Deutsche Telekom obtained control of the entity as of April 1, 2010 and, as a result, fully consolidated it for the first time as of that date. Via its venture capital company, T-Venture, Deutsche Telekom has held 20.2 percent of the shares in Firstgate, best known for the ClickandBuy brand, since 2006. The purchase price for the remaining 79.8 percent of the shares in Firstgate is expected to be EUR 78 million. The final purchase price remains subject to contractual terms and conditions.

**The Everything Everywhere joint venture in the United Kingdom.** Effective April 1, 2010, Deutsche Telekom AG and France Télécom S.A. merged the entities T-Mobile UK and Orange UK to create a joint venture under the name Everything Everywhere. Each entity holds a 50-percent stake in the new company. As a result of this merger, Deutsche Telekom lost control over T-Mobile UK. Instead, the joint venture was included in the consolidated statement of financial position under investments accounted for using the equity method.

The carrying amounts of the major classes of assets and liabilities of T-Mobile UK as of April 1, 2010 were as follows:

	millions of €
<b>Current assets</b>	<b>667</b>
Trade and other receivables	280
Other current assets	387
<b>Non-current assets</b>	<b>6,022</b>
Intangible assets	3,833
Property, plant and equipment	1,664
Other non-current assets	525
<b>Non-current assets and disposal groups held for sale</b>	<b>6,689</b>
<b>Current liabilities</b>	<b>761</b>
Trade and other payables	501
Other current liabilities	260
<b>Non-current liabilities</b>	<b>695</b>
<b>Liabilities directly associated with non-current assets and disposal groups held for sale</b>	<b>1,456</b>

Other current assets include cash and cash equivalents of EUR 0.2 billion. As of April 1, 2010, the date of first-time inclusion using the equity method, the fair value of the 50-percent stake in the joint venture was EUR 7.3 billion. This was offset against the aforementioned carrying amounts of the assets and liabilities to be disposed of. Taking into account financing relationships within the Group, the T-Mobile UK assets and liabilities to be disposed of had a carrying amount of EUR 5.5 billion. This resulted in a gain on deconsolidation of EUR 1.8 billion. Until the date of deconsolidation, the accumulated loss of EUR 2.2 billion arising from the currency translation of the assets and liabilities since the acquisition of T-Mobile UK was recognized directly in equity in total other comprehensive income. As of the date of deconsolidation, this amount was recognized in profit or loss. These two effects on profit or loss, which have a net impact of EUR 0.4 billion, were recognized under other operating expenses.

## Pro forma information.

The pro forma information shown in the table on the right presents Deutsche Telekom's financial data, including its principal consolidated subsidiaries acquired in the financial years 2008 through 2010, as if they had been included in the consolidated financial statements from the beginning of each financial year in which they were acquired.

	2010 millions of €	2009 millions of €	2008 millions of €
<b>Net revenue</b>			
Reported	62,421	64,602	61,666
Pro forma	62,421	65,101	61,750
<b>Net profit</b>			
Reported	1,695	353	1,483
Pro forma	1,695	377	1,477
<b>Earnings per share</b>			
Reported	€ 0.39	0.08	0.34
Pro forma	€ 0.39	0.09	0.34


## Principal subsidiaries.

The Group's principal subsidiaries are presented in the following table:

Name and registered office	Deutsche Telekom share	Net revenue	Average number of employees
	% Dec. 31, 2010	millions of € 2010	2010
Telekom Deutschland GmbH, Bonn	100.00	23,862	4,781
T-Mobile USA, Inc., Bellevue, Washington, United States <sup>a, b</sup>	100.00	16,087	37,795
T-Systems International GmbH, Frankfurt/Main	100.00	6,253	18,747
Hellenic Telecommunications Organization S.A. (OTE), Athens, Greece <sup>a</sup>	30.00	5,483	31,589
Magyar Telekom Nyrt., Budapest, Hungary <sup>a, b</sup>	59.30	1,943	10,355
PTC, Polska Telefonia Cyfrowa Sp.z o.o., Warsaw, Poland <sup>b</sup>	97.00	1,839	5,364
T-Mobile Netherlands Holding B.V., The Hague, Netherlands <sup>a, b</sup>	100.00	1,767	2,125
T-Mobile Czech Republic a.s., Prague, Czech Republic <sup>b</sup>	60.77	1,157	2,904
Hrvatski Telekom d.d., Zagreb, Croatia <sup>a</sup>	51.00	1,148	6,177
T-Mobile Austria Holding GmbH, Vienna, Austria <sup>a, b</sup>	100.00	983	1,391
Slovak Telekom a.s., Bratislava, Slovakia <sup>a</sup>	51.00	934	5,066

<sup>a</sup> Consolidated subgroup financial statements.

<sup>b</sup> Indirect shareholding of Deutsche Telekom AG.

 In accordance with § 313 HGB, the full list of investment holdings, which form part of the notes to the consolidated financial statements, is published in the electronic Federal Gazette (elektronischer Bundesanzeiger) together with the consolidated financial statements. The list is available upon request from Deutsche Telekom AG, Bonn, Investor Relations. Furthermore, the list 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. Exchange rate differences are recognized as a separate component of equity.

The exchange rates of certain significant currencies changed as follows:

	Annual average rate			Rate at the reporting date	
	2010 €	2009 €	2008 €	Dec. 31, 2010 €	Dec. 31, 2009 €
100 Czech korunas (CZK)	3.95536	3.78123	4.00894	3.98728	3.77646
1 Pound sterling (GBP)	1.16553	1.12218	1.25601	1.15979	1.12387
100 Croatian kuna (HRK)	13.72000	13.62190	13.84420	13.54730	13.70710
1,000 Hungarian forints (HUF)	3.63022	3.56631	3.97687	3.59999	3.69609
100 Macedonian denars (MKD)	1.62536	1.62428	1.62523	1.59628	1.63024
100 Polish zlotys (PLN)	25.03330	23.09760	28.47930	25.25810	24.35900
1 U.S. dollar (USD)	0.75398	0.71692	0.67976	0.74698	0.69393

# 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 625 million (December 31, 2009: EUR 578 million) on the basis of collateral contracts as surety for potential credit risks arising from derivative transactions.

In the reporting period, cash and cash equivalents decreased by EUR 2.2 billion to EUR 2.8 billion. This decrease was mainly attributable to dividend payments of EUR 4.0 billion, a net financing repayment of EUR 1.6 billion, the acquisition of spectrum for EUR 1.3 billion, the

acquisition of a bond for EUR 0.8 billion and the share buy-back amounting to EUR 0.4 billion. The free cash flow (before dividend payments and before spectrum investment) of EUR 6.5 billion had an offsetting effect.

For further information, please refer to the consolidated statement of cash flows.

As of December 31, 2010, the Group reported cash and cash equivalents of EUR 0.5 billion (December 31, 2009: EUR 0.6 billion) held by subsidiaries in Croatia, the F.Y.R.O. Macedonia and Montenegro. These countries 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.

	Dec. 31, 2010 millions of €	Dec. 31, 2009 millions of €
Trade receivables	6,766	6,643
Other receivables	123	114
	<b>6,889</b>	<b>6,757</b>

Of the total amount of trade and other receivables, EUR 6,849 million (December 31, 2009: EUR 6,715 million) is due within one year.

The following table shows the maturity structure of the trade receivables that are not impaired at the reporting date:

	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 €
<b>Trade receivables</b>							
<b>As of Dec. 31, 2010</b>	3,295	483	93	59	96	97	32
<b>As of Dec. 31, 2009</b>	3,245	814	115	77	179	205	38

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 following table shows the development of allowances on trade receivables:

	2010 millions of €	2009 millions of €
<b>Allowances as of January 1</b>	<b>1,178</b>	<b>1,023</b>
Currency translation adjustments	15	(11)
Additions (allowances recognized as expense)	822	676
Use	(529)	(447)
Reversal	(163)	(63)
<b>Allowances as of December 31</b>	<b>1,323</b>	<b>1,178</b>

The following table presents expenses for the full write-off of trade receivables as well as income from recoveries on trade receivables written off:

	2010 millions of €	2009 millions of €	2008 millions of €
Expenses for full write-off of receivables	138	327	424
Income from recoveries on receivables written off	7	39	55

All income and expenses relating to allowances and write-offs of trade receivables are reported under selling expenses.

### 3 Inventories.

	Dec. 31, 2010 millions of €	Dec. 31, 2009 millions of €
Raw materials and supplies	167	193
Work in process	108	48
Finished goods and merchandise	1,033	929
Advance payments	2	4
	<b>1,310</b>	<b>1,174</b>

Of the inventories reported as of December 31, 2010, write-downs of EUR 50 million (2009: EUR 33 million; 2008: EUR 53 million) on the net realizable value were recognized in profit or loss.

The carrying amount of inventories recognized as expense amounted to EUR 5,774 million (2009: EUR 6,311 million; 2008: EUR 6,188 million).

### 4 Non-current assets and disposal groups held for sale.

As of December 31, 2010, current assets recognized in the consolidated statement of financial position included EUR 51 million in non-current assets and disposal groups held for sale. These mainly relate to real estate of Deutsche Telekom AG (Group Headquarters & Shared Services) as a result of measures to make the use of floor space more efficient, especially in technical facilities. The non-current assets and disposal groups held for sale are not included in the other disclosures in the notes to the consolidated financial statements or presented as a reconciliation.

The decrease of EUR 6.5 billion compared with December 31, 2009 was mainly due to the merger of T-Mobile UK (Europe operating segment) and Orange UK to create a joint venture company under the name Everything Everywhere from April 1, 2010. For further details, please refer to Note 7 and the section "Business combinations and other transactions."

## 5 Intangible assets.

	Internally generated intangible assets	Total	Acquired concessions, industrial and similar rights and assets
	millions of €	millions of €	millions of €
<b>Cost</b>			
<b>At December 31, 2008</b>	<b>2,220</b>	<b>42,940</b>	<b>1,180</b>
Currency translation	(12)	(98)	3
Changes in the composition of the Group	0	2,953	425
Additions	232	713	26
Disposals	278	1,352	88
Change from non-current assets and disposal groups held for sale	(219)	(5,413)	0
Reclassifications	572	462	(16)
<b>At December 31, 2009</b>	<b>2,515</b>	<b>40,205</b>	<b>1,530</b>
Currency translation	59	1,521	12
Changes in the composition of the Group	1	232	35
Other changes	0	0	0
Additions	162	2,064	6
Disposals	334	1,067	1
Change from non-current assets and disposal groups held for sale	0	(4)	0
Reclassifications	513	1,001	9
<b>At December 31, 2010</b>	<b>2,916</b>	<b>43,952</b>	<b>1,591</b>
<b>Accumulated amortization</b>			
<b>At December 31, 2008</b>	<b>1,310</b>	<b>11,421</b>	<b>646</b>
Currency translation	(8)	163	2
Changes in the composition of the Group	0	(33)	0
Additions (amortization)	561	2,742	175
Additions (impairment)	0	7	7
Disposals	278	1,344	81
Change from non-current assets and disposal groups held for sale	(132)	(1,969)	0
Reclassifications	2	15	(14)
<b>At December 31, 2009</b>	<b>1,455</b>	<b>11,002</b>	<b>735</b>
Currency translation	39	150	11
Changes in the composition of the Group	0	11	0
Additions (amortization)	577	2,767	158
Additions (impairment)	0	3	0
Disposals	332	1,061	6
Change from non-current assets and disposal groups held for sale	0	0	0
Reclassifications	(14)	44	(3)
<b>At December 31, 2010</b>	<b>1,725</b>	<b>12,916</b>	<b>895</b>
<b>Net carrying amounts</b>			
At December 31, 2009	1,060	29,203	795
<b>At December 31, 2010</b>	<b>1,191</b>	<b>31,036</b>	<b>696</b>



Acquired intangible assets				Goodwill	Advance payments	Total
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 €
<b>13,870</b>	<b>1,280</b>	<b>17,666</b>	<b>8,944</b>	<b>29,788</b>	<b>872</b>	<b>75,820</b>
410	2	(547)	34	246	2	138
327	198	0	2,003	0	0	2,953
0	11	31	645	2,470	676	4,091
0	0	0	1,264	18	11	1,659
(4,593)	0	(35)	(785)	(5,933)	0	(11,565)
8	0	0	470	0	(430)	604
<b>10,022</b>	<b>1,491</b>	<b>17,115</b>	<b>10,047</b>	<b>26,553</b>	<b>1,109</b>	<b>70,382</b>
12	13	1,308	176	702	1	2,283
4	0	8	185	4	0	237
0	0	0	0	(260)	0	(260)
8	0	14	2,036	465	829	3,520
0	0	0	1,066	19	19	1,439
0	0	(4)	0	0	0	(4)
0	71	1	920	2	(861)	655
<b>10,046</b>	<b>1,575</b>	<b>18,442</b>	<b>12,298</b>	<b>27,447</b>	<b>1,059</b>	<b>75,374</b>
<b>3,865</b>	<b>669</b>	<b>0</b>	<b>6,241</b>	<b>9,162</b>	<b>0</b>	<b>21,893</b>
109	2	0	50	250	1	406
0	0	0	(33)	0	0	(33)
767	138	0	1,662	0	0	3,303
0	0	0	0	2,345	0	2,352
0	0	0	1,263	0	0	1,622
(1,356)	0	0	(613)	(5,538)	0	(7,639)
0	0	0	29	0	0	17
<b>3,385</b>	<b>809</b>	<b>0</b>	<b>6,073</b>	<b>6,219</b>	<b>1</b>	<b>18,677</b>
1	7	0	131	312	(1)	500
0	0	0	11	0	0	11
605	138	0	1,866	0	0	3,344
0	0	0	3	395	1	399
0	0	0	1,055	0	1	1,394
0	0	0	0	0	0	0
0	0	0	47	0	0	30
<b>3,991</b>	<b>954</b>	<b>0</b>	<b>7,076</b>	<b>6,926</b>	<b>0</b>	<b>21,567</b>
6,637	682	17,115	3,974	20,334	1,108	51,705
<b>6,055</b>	<b>621</b>	<b>18,442</b>	<b>5,222</b>	<b>20,521</b>	<b>1,059</b>	<b>53,807</b>

The net carrying amount of the UMTS licenses of EUR 6.1 billion mainly relates to the Germany operating segment.

Deutsche Telekom had commitments for the acquisition of intangible assets in the amount of EUR 0.3 billion (December 31, 2009: EUR 0.3 billion) as of the reporting date. These are largely related to the network build-out in the United States and Germany operating segments.

The **carrying amounts of goodwill** are mainly allocated to the following operating segments and cash-generating units:

	Dec. 31, 2010 millions of €	Dec. 31, 2009 millions of €
<b>Germany</b>	<b>4,016</b>	<b>3,587</b>
<b>Europe</b>	<b>8,683</b>	<b>9,282</b>
Of which:		
PTC	1,650	1,607
T-Mobile Netherlands	1,317	1,317
T-Mobile Austria group	1,202	1,202
Hungary – Mobile communications	933	958
Greece – Mobile communications	838	964
T-Mobile Czech Republic	666	631
Hungary – Fixed network	366	373
Croatia – Fixed network	305	297
Bulgaria – Mobile communications	262	293
Slovakia – Fixed network	231	225
Croatia – Mobile communications	194	196
Slovakia – Mobile communications	168	168
Romania – Mobile communications	145	251
Greece – Fixed network	124	476
Other	282	324
<b>United States</b>	<b>4,827</b>	<b>4,471</b>
<b>Systems Solutions</b>	<b>2,995</b>	<b>2,994</b>
	<b>20,521</b>	<b>20,334</b>

In the 2010 financial year, the main changes in the carrying amounts of goodwill at cash-generating units were as follows:

**Germany.** The carrying amount of the Germany cash-generating unit increased by EUR 0.4 billion compared with December 31, 2009. The business combination with STRATO resulted in goodwill of EUR 0.2 billion. Furthermore, the carrying amount increased by EUR 0.2 billion following the Frankfurt/Main Higher Regional Court's ruling on a supplementary cash payment to former T-Online shareholders (relates to transaction carried out in 2006).

**Europe.** On the one hand, the cash-generating units **Greece – Mobile communications** and **Greece – Fixed network** were impacted by a reduction of EUR 0.3 billion in the carrying amount of put option II held by the Hellenic Republic (see For further details, please refer to Note 10). On the other, the cash-generating units **Greece – Fixed network, Romania – Mobile communications** and **Albania** had to recognize impairment losses totaling EUR 0.4 billion.

All other changes in goodwill were primarily a result of exchange rate effects.



**Disclosures on impairment tests.** Deutsche Telekom performed its annual impairment tests of the goodwill recognized for the cash-generating units at December 31, 2010. The following table gives an overview of the periods for which the Group has provided 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:

	Periods used (years)	Growth rates %	Discount rates %
Germany	10	1.0	5.88
Europe	10	1.5 – 2.0	6.68 – 10.21
United States	10	2.5	7.14
Systems Solutions	10	1.5	6.95

The measurements of the cash-generating units 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 largely reflect past experience and/or are compared with external market values: development of revenue, customer acquisition and retention costs, churn rates, capital expenditure, market share, and growth rates. Discount rates were determined on the basis of external figures derived from the market. Any significant future changes in the aforementioned assumptions would have an impact on the fair values of the cash-generating units. Any changes to these assumptions resulting from future developments in the macroeconomic situation, continued intense competition, the mobile communications taxes imposed/raised in some countries, and other potential amendments to legislation (for example in the course of state austerity programs) may have a greater, possibly negative, impact in the countries assigned to the Europe operating segment.

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:

	Goodwill impairments millions of €	Impairment of property, plant and equipment millions of €	Assigned to segment
Greece – Fixed network	287		Europe
Romania – Mobile communications	80		Europe
Romania – Fixed network	2	285	Europe
Other	26		Europe
<b>Impairments (other operating expenses)</b>	<b>395</b>	<b>285</b>	
Deferred taxes		(46)	
<b>Effect on profit (loss)</b>	<b>395</b>	<b>239</b>	
Of which: non-controlling interests		(189)	
<b>Of which: owners of the parent (net profit (loss))</b>	<b>395</b>	<b>50</b>	

The impairment of property, plant and equipment assigned to the cash-generating unit Romania – Fixed network as a result of impairment tests relates to land and equivalent rights, and buildings including buildings on land owned by third parties, and to technical equipment and machinery.

These impairments were primarily attributable to the unexpected scale of the economic uncertainties regarding the growth prospects of gross domestic product as a result of the financial market crisis. Furthermore, the development of disposable income deteriorated and competition in the countries in which these cash-generating units are based intensified in the second half of 2010.

If the impairment tests of goodwill at the cash-generating units where impairment losses totaling EUR 0.7 billion were recognized at year-end, had been conducted using discount rates that were 0.5 percentage points higher, the impairment losses to be recognized 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 0.2 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.

	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 €	<b>Total</b> millions of €
<b>Cost</b>					
<b>At December 31, 2008</b>	<b>16,178</b>	<b>94,344</b>	<b>6,701</b>	<b>3,192</b>	<b>120,415</b>
Currency translation	(41)	(40)	(6)	(21)	(108)
Changes in the composition of the Group	1,779	4,492	87	695	7,053
Additions	140	2,522	436	4,278	7,376
Disposals	55	3,397	438	47	3,937
Change from non-current assets and disposal groups held for sale	437	(3,588)	(211)	(326)	(3,688)
Reclassifications	454	3,382	537	(4,977)	(604)
<b>At December 31, 2009</b>	<b>18,892</b>	<b>97,715</b>	<b>7,106</b>	<b>2,794</b>	<b>126,507</b>
Currency translation	121	830	117	67	1,135
Changes in the composition of the Group	4	11	94	(13)	96
Additions	151	2,596	455	4,038	7,240
Disposals	93	3,638	543	113	4,387
Change from non-current assets and disposal groups held for sale	(146)	(6)	(31)	(4)	(187)
Reclassifications	491	2,315	285	(3,746)	(655)
<b>At December 31, 2010</b>	<b>19,420</b>	<b>99,823</b>	<b>7,483</b>	<b>3,023</b>	<b>129,749</b>
<b>Accumulated depreciation</b>					
<b>At December 31, 2008</b>	<b>7,193</b>	<b>67,161</b>	<b>4,497</b>	<b>5</b>	<b>78,856</b>
Currency translation	(18)	30	(9)	0	3
Changes in the composition of the Group	2	6	0	0	8
Additions (depreciation)	762	6,498	760	0	8,020
Additions (impairment)	179	10	3	11	203
Disposals	46	3,240	341	0	3,627
Change from non-current assets and disposal groups held for sale	251	(2,427)	(100)	0	(2,276)
Reclassifications	(3)	(14)	0	0	(17)
Reversal of impairment losses	(131)	0	0	0	(131)
<b>At December 31, 2009</b>	<b>8,189</b>	<b>68,024</b>	<b>4,810</b>	<b>16</b>	<b>81,039</b>
Currency translation	57	375	69	(1)	500
Changes in the composition of the Group	1	1	65	0	67
Additions (depreciation)	814	6,098	701	2	7,615
Additions (impairment)	158	271	1	19	449
Disposals	75	3,491	457	1	4,024
Change from non-current assets and disposal groups held for sale	(109)	(6)	0	(7)	(122)
Reclassifications	39	(82)	10	3	(30)
Reversal of impairment losses	(43)	0	0	0	(43)
<b>At December 31, 2010</b>	<b>9,031</b>	<b>71,190</b>	<b>5,199</b>	<b>31</b>	<b>85,451</b>
<b>Net carrying amounts</b>					
At December 31, 2009	10,703	29,691	2,296	2,778	45,468
<b>At December 31, 2010</b>	<b>10,389</b>	<b>28,633</b>	<b>2,284</b>	<b>2,992</b>	<b>44,298</b>

For further details on depreciation, please refer to Note 30. For further details on impairments, please refer to Note 5.

Restoration obligations of EUR 0.2 billion were recognized as of December 31, 2010 (December 31, 2009: EUR 0.2 billion). Deutsche Telekom had commitments for the acquisition of property, plant and equipment in the amount of EUR 0.6 billion (December 31, 2009: EUR 0.9 billion) as of the reporting date.

Deutsche Telekom changed the useful lives of certain items of property, plant and equipment in the United States and Systems Solutions operating segments. This change to estimates resulted in a net increase in depreciation of EUR 0.1 billion in the 2010 financial year.

## 7 Investments accounted for using the equity method.

Significant investments in entities accounted for using the equity method are as follows:

Name	Dec. 31, 2010		Dec. 31, 2009	
	Deutsche Telekom share %	Net carrying amounts millions of €	Deutsche Telekom share %	Net carrying amounts millions of €
Everything Everywhere <sup>a</sup>	50.00	7,095	-	-
HT Mostar <sup>b</sup>	39.10	47	39.10	51
Toll Collect <sup>a</sup>	45.00	40	45.00	46
Other		60		50
		<b>7,242</b>		<b>147</b>

<sup>a</sup> Joint venture.

<sup>b</sup> Indirect shareholding via Hrvatski Telekom d.d., Croatia (Deutsche Telekom AG's share: 51.00%).

Aggregated key financial figures for the associates accounted for using the equity method are shown in the following overview. The data is not based on the portions attributable to the Deutsche Telekom Group, but represents the shareholdings on a 100-percent basis.

### Aggregated key financial figures for the associates accounted for using the equity method.

	Dec. 31, 2010 billions of €	Dec. 31, 2009 billions of €
Total assets	0.2	0.2
Total liabilities	0.1	0.1

	2010 billions of €	2009 billions of €
Net revenue	0.2	0.2
Profit (loss)	0.0	0.0

The following table 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:

### Aggregated key financial figures for the joint ventures accounted for using the equity method.

	Everything Everywhere billions of €	Other billions of €	Total as of Dec. 31, 2010 billions of €	Total as of Dec. 31, 2009 billions of €
<b>Total assets</b>	<b>9.5</b>	<b>0.4</b>	<b>9.9</b>	<b>0.5</b>
Current	1.2	0.3	1.5	0.3
Non-current	8.3	0.1	8.4	0.2
<b>Total liabilities</b>	<b>2.4</b>	<b>0.3</b>	<b>2.7</b>	<b>0.4</b>
Current	2.0	0.3	2.3	0.3
Non-current	0.4	0.0	0.4	0.1

	Everything Everywhere billions of €	Other billions of €	Total in 2010 billions of €	Total in 2009 billions of €
Net revenue	3.1	0.2	3.3	0.2
Profit (loss)	0.0	(0.1)	(0.1)	0.0

## 8 Other financial assets.

	Dec. 31, 2010		Dec. 31, 2009	
	Total	Of which:	Total	Of which:
	millions of €	current millions of €	millions of €	current millions of €
Originated loans and receivables	2,628	2,124	2,003	1,509
Available-for-sale financial assets	513	79	609	74
Derivative financial assets	835	126	1,048	348
Miscellaneous assets	91	43	80	70
	<b>4,067</b>	<b>2,372</b>	<b>3,740</b>	<b>2,001</b>

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	Between 30 and 60 days	Between 61 and 90 days	Between 91 and 180 days	Between 181 and 360 days	More than 360 days
		millions of €	millions of €	millions of €	millions of €	millions of €	millions of €
<b>As of Dec. 31, 2010</b>							
Due within one year	1,960	76	11	4	21	11	12
Due after more than one year	491	-	-	-	-	-	2
<b>As of Dec. 31, 2009</b>							
Due within one year	1,413	26	8	3	19	18	1
Due after more than one year	482	9	-	-	-	-	3

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 223 million (December 31, 2009: EUR 337 million) were used in connection with collateral agreements as surety for potential credit risks arising from derivative transactions.

The increase in short-term originated loans and receivables is mainly related to the acquisition of a bond in the amount of EUR 0.8 billion issued by the new Everything Everywhere joint venture.

The available-for-sale financial assets include unquoted equity instruments whose fair values could not be reliably measured, and which were therefore recognized at cost in the amount of EUR 335 million as of December 31, 2010 (December 31, 2009: EUR 411 million).

In the 2010 financial year, EUR 101 million (2009: EUR 8 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.

Other assets mainly comprise deferred tax assets of EUR 1.4 billion (December 31, 2009: EUR 1.2 billion).

## 10 Financial liabilities.

	Dec. 31, 2010				Dec. 31, 2009			
	Total	Due within 1 year	Due > 1 year ≤ 5 years	Due > 5 years	Total	Due within 1 year	Due > 1 year ≤ 5 years	Due > 5 years
	millions of €	millions of €	millions of €	millions of €	millions of €	millions of €	millions of €	millions of €
Bonds and other securitized liabilities								
Non-convertible bonds	23,078	3,894	9,317	9,867	25,055	4,121	9,686	11,248
Commercial paper, medium term notes and similar liabilities	15,112	2,843	6,195	6,074	13,453	285	8,318	4,850
Liabilities to banks	4,190	472	3,284	434	4,718	974	2,764	980
	<b>42,380</b>	<b>7,209</b>	<b>18,796</b>	<b>16,375</b>	<b>43,226</b>	<b>5,380</b>	<b>20,768</b>	<b>17,078</b>
Lease liabilities	1,934	142	426	1,366	1,909	131	446	1,332
Liabilities to non-banks from promissory notes	1,164	–	192	972	1,057	–	177	880
Other interest-bearing liabilities	1,304	1,056	139	109	1,025	675	229	121
Other non-interest-bearing liabilities	3,193	3,176	15	2	2,995	2,908	85	2
Derivative financial liabilities	571	106	457	8	979	297	463	219
	<b>8,166</b>	<b>4,480</b>	<b>1,229</b>	<b>2,457</b>	<b>7,965</b>	<b>4,011</b>	<b>1,400</b>	<b>2,554</b>
<b>Financial liabilities</b>	<b>50,546</b>	<b>11,689</b>	<b>20,025</b>	<b>18,832</b>	<b>51,191</b>	<b>9,391</b>	<b>22,168</b>	<b>19,632</b>

Deutsche Telekom reached an agreement with Vivendi (France), Elektrim (Poland), and Elektrim's creditors in December 2010 regarding the various legal disputes about the interests in PTC in Poland, giving it full and undisputed ownership of PTC. Under the agreement, Deutsche Telekom will pay a total of EUR 1.4 billion to Elektrim and Vivendi upon closing. Settlement of all legal disputes between the parties was also agreed. By January 14, 2011 all legal disputes between the parties were settled once and for all. In addition to the EUR 0.8 billion shown in the prior year and included directly in equity as a result of the first-time consolidation, a further EUR 0.4 billion was recorded under other non-interest-bearing liabilities as of the reporting date. A further EUR 0.2 billion for the acquisition of the non-controlling interests is to be recognized in equity upon closing.

Under the share purchase agreement relating to the investment in the OTE group in 2009, Deutsche Telekom granted the Hellenic Republic a put option ("put option II") for an additional 10 percent of the shares. This option can be exercised at market price plus a premium initially of 20 percent for a period of twelve months from November 10, 2009, after which it can be exercised at market price plus a premium of 15 percent until December 31, 2011. Should market prices change, the carrying amount of put option II will be adjusted at each reporting date and recognized directly in equity, thus changing the goodwill. This put option is reported under other non-interest-bearing liabilities.

At December 31, 2010, Deutsche Telekom had standardized bilateral credit agreements with 21 banks for a total of EUR 12.6 billion. EUR 0.2 billion of these credit lines had been utilized by December 31, 2010. 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. The situation on the international financial markets eased considerably in 2009 and, in particular, toward the end of 2010. From today's perspective, access to the international debt capital markets is not jeopardized. The 2010 financial year was marked by substantial new issuances. Throughout 2010, we raised EUR 3.1 billion in debt capital in various markets.

The following tables 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:

	Carrying amounts Dec. 31, 2010 millions of €	Cash flows in 2011		
		Fixed interest rate millions of €	Variable interest rate millions of €	Repayment millions of €
<b>Non-derivative financial liabilities:</b>				
Bonds, other securitized liabilities, liabilities to banks and liabilities to non-banks from promissory notes and similar liabilities	(43,544)	(2,334)	(63)	(7,897)
Finance lease liabilities	(1,400)	(105)		(168)
Other interest-bearing liabilities	(1,838)	(55)	(5)	(1,055)
Other non-interest-bearing liabilities	(3,193)			(3,176)
<b>Derivative financial liabilities and assets:</b>				
Derivative financial liabilities:				
- Currency derivatives without a hedging relationship	(43)			(44)
- Currency derivatives in connection with cash flow hedges	(56)			(50)
- Interest rate derivatives without a hedging relationship	(196)	49	(60)	(3)
- Interest rate derivatives in connection with fair value hedges	-			
- Interest rate derivatives in connection with cash flow hedges	(266)	(71)	36	
Derivative financial assets:				
- Currency derivatives without a hedging relationship	53			56
- Currency derivatives in connection with cash flow hedges	13			8
- Interest rate derivatives without a hedging relationship	507	46	(27)	48
- Interest rate derivatives in connection with fair value hedges	144	163	(57)	
- Interest rate derivatives in connection with cash flow hedges	118	8		



Cash flows in 2012			Cash flows in 2013 – 2015			Cash flows in 2016 – 2020			Cash flows in 2021 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 €
(1,822)	(47)	(4,618)	(4,188)	(42)	(14,255)	(3,821)		(9,962)	(4,207)		(8,096)
(91)		(104)	(241)		(295)	(247)		(441)	(201)		(392)
(52)		(41)	(159)		(94)	(177)		(624)	(43)		(25)
		(8)			(7)			(1)			(1)
		(4)									
12	(17)	(106)	(26)	(8)	(75)	(2)	(2)	(1)	(1)	(4)	(3)
(141)	54		(474)	131							
		1									
		2			3						
21	(9)	34	21	(24)	359	29	(48)		108	(115)	107
163	(55)		301	(99)		36	(9)		57	(14)	
8		15	17			36		44	23		65

	Carrying amounts Dec. 31, 2009 millions of €	Cash flows in				
		2010 millions of €	2011 millions of €	2012-2014 millions of €	2015-2019 millions of €	2020 and thereafter millions of €
<b>Non-derivative financial liabilities:</b>						
Bonds, other securitized liabilities, liabilities to banks and liabilities to non-banks from promissory notes and similar liabilities	(44,283)	(8,015)	(8,982)	(18,506)	(16,516)	(10,052)
Finance lease liabilities	(1,423)	(234)	(202)	(537)	(771)	(644)
Other interest-bearing liabilities	(1,511)	(828)	(110)	(215)	(669)	(98)
Other non-interest-bearing liabilities	(2,995)	(2,908)	(85)		(1)	(1)
<b>Derivative financial liabilities and assets:</b>						
Derivative financial liabilities:						
- Currency derivatives without a hedging relationship	(46)	(45)	(2)			
- Currency derivatives in connection with cash flow hedges	(17)	(15)				
- Interest rate derivatives without a hedging relationship	(635)	(205)	(47)	(264)	(92)	(95)
- Interest rate derivatives in connection with fair value hedges	(52)	87	87	262	27	50
- Interest rate derivatives in connection with cash flow hedges	(174)	(32)	(43)	(280)	3	19
Derivative financial assets:						
- Currency derivatives without a hedging relationship	91	102	1	2		
- Currency derivatives in connection with cash flow hedges	15	11	1	1		
- Interest rate derivatives without a hedging relationship	562	90	12	276	175	
- Interest rate derivatives in connection with fair value hedges	225	112	129	250	197	340
- Interest rate derivatives in connection with cash flow hedges	155	103	(24)			

The tables showing the contractually agreed (undiscounted) interest payments and repayments do not include the financing commitment granted to Everything Everywhere (see please refer to Note 37).

All instruments held at December 31, 2010 and for which payments were already contractually agreed are 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, 2010. 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, 2010, this figure was a nominal EUR 2.0 billion (December 31, 2009: EUR 1.9 billion).



## 11 Trade and other payables.

	Dec. 31, 2010 millions of €	Dec. 31, 2009 millions of €
Trade payables	6,737	6,294
Other liabilities	13	10
	<b>6,750</b>	<b>6,304</b>

Of the total of trade and other payables, EUR 6,745 million (December 31, 2009: EUR 6,300 million) is due within one year.

## 12 Provisions for pensions and other employee benefits.

### Defined benefit plans.

The following table shows the composition of pension obligations:

	Dec. 31, 2010 millions of €	Dec. 31, 2009 millions of €
<b>Defined benefit liability</b>	<b>6,373</b>	<b>6,179</b>
Defined benefit asset	(28)	(14)
<b>Net defined benefit liability</b>	<b>6,345</b>	<b>6,165</b>
Pension obligations		
– Unfunded	5,996	5,804
– Funded	346	358
Obligations in accordance with Article 131 GG	3	3

The defined benefit asset is recognized under other non-current assets in the consolidated statement of financial position.

### Calculation of net defined benefit liability (+)/defined benefit asset (-):

	Dec. 31, 2010 millions of €	Dec. 31, 2009 millions of €
Present value of funded obligations	977	979
Plan assets at fair value	(629)	(618)
<b>Defined benefit obligations in excess of plan assets</b>	<b>348</b>	<b>361</b>
Present value of unfunded obligations	6,040	5,854
Unrecognized past service cost	(43)	(50)
<b>Defined benefit liability (+)/defined benefit asset (-) according to IAS 19.54</b>	<b>6,345</b>	<b>6,165</b>

### Assumptions for the measurement of defined benefit obligations as of December 31:

		2010 %	2009 %
Discount rate	Germany	5.16	5.25
	Switzerland (T-Systems)	3.05	3.15
	Greece (OTE S.A.)	4.56/3.71	4.56/3.89
	United Kingdom	5.40	5.70
Projected salary increase	Germany (pay-scale employees)	3.25	3.25
	Germany (non-pay-scale employees)	3.50	3.50
	Switzerland (T-Systems)	1.50	1.50
	Greece (OTE S.A.)	2.20/3.20/ 2.40/2.50	4.50/5.50
	United Kingdom	4.40	4.60
Projected pension increase	Germany (general)	1.50	1.50
	Germany (according to articles of association)	1.00	1.00
	Switzerland (T-Systems)	0.30	0.30
	Greece (OTE S.A.)	n.a.	n.a.
	United Kingdom	3.20	3.40

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.

### Assumptions for determining the pension expense for years ending December 31:

		2010 %	2009 %	2008 %
Discount rate	Germany	5.25	5.80	5.50
	Switzerland (T-Systems)	3.15	3.00	3.25
	Greece (OTE S.A.)	4.56/3.89	5.50/5.00	n.a.
	United Kingdom	5.70	5.80	5.40
Projected salary increase	Germany (pay-scale employees)	3.25	3.50	2.50
	Germany (non-pay-scale employees)	3.50	4.25	3.25
	Switzerland (T-Systems)	1.50	1.50	1.50
	Greece (OTE S.A.)	4.50/5.50	6.50/4.50	n.a.
	United Kingdom	4.60	4.20	4.20
	Return on plan assets	Germany	3.90	3.50
	Switzerland (T-Systems)	4.50	4.50	4.50
	United Kingdom	7.00	6.90	7.00
Projected pension increase	Germany (general)	1.50	2.00	1.70
	Germany (according to articles of association)	1.00	1.00	1.00
	Switzerland (T-Systems)	0.30	0.30	0.60
	Greece (OTE S.A.)	n.a.	n.a.	n.a.
	United Kingdom	3.40	3.20	3.20

### Development of defined benefit obligations in the reporting year:

	2010 millions of €	2009 millions of €
<b>Present value of the defined benefit obligations as of January 1</b>	<b>6,833</b>	<b>6,101</b>
Reclassification in accordance with IFRS 5	-	(454)
Changes attributable to business combinations/transfers of operation/acquisitions and disposals	(10)	609
Current service cost	193	204
Interest cost	344	371
Contributions by plan participants	5	3
Actuarial losses (gains)	39	373
Total benefits actually paid	(401)	(393)
Curtailments	(2)	-
Settlements	(15)	-
Plan amendments	2	(12)
Exchange rate fluctuations for foreign-currency plans	29	31
<b>Present value of the defined benefit obligations as of December 31</b>	<b>7,017</b>	<b>6,833</b>

Taking the plan assets into consideration, the pension obligations were accounted for in full.

### Development of plan assets at fair value in the respective reporting year:

	2010 millions of €	2009 millions of €
<b>Plan assets at fair value as of January 1</b>	<b>618</b>	<b>952</b>
Reclassification in accordance with IFRS 5	-	(307)
Changes attributable to business combinations/transfers of operation/acquisitions and disposals	15	0
Expected return on plan assets	27	50
Actuarial (losses) gains	7	(91)
Contributions by employer	2	45
Contributions by plan participants	5	3
Benefits actually paid through pension funds	(56)	(61)
Settlements	(12)	0
Exchange rate fluctuations for foreign-currency plans	23	27
<b>Plan assets at fair value as of December 31</b>	<b>629</b>	<b>618</b>

### Breakdown of plan assets at fair value by investment category:

	Dec. 31, 2010 %	Dec. 31, 2009 %
Equity securities	19	19
Debt securities	65	64
Real estate	6	6
Other	10	11

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 amounting to EUR 0.8 million (December 31, 2009: 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:**

These expectations are based on consensus forecasts for each asset class as well as on bank estimates. 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 is reported in the indicated accounts of the income statement:**

	Presentation in the income statement	2010 millions of €	2009 millions of €	2008 millions of €
Current service cost	Functional costs *	193	204	204
Interest cost	Other financial income (expense)	344	371	331
Expected return on plan assets	Other financial income (expense)	(27)	(50)	(52)
Past service cost	Functional costs *	9	-	-
<b>Pension expense before curtailments/settlements</b>		<b>519</b>	<b>525</b>	<b>483</b>
Curtailments	Functional costs *	(2)	-	-
Settlements	Functional costs *	(3)	-	-
<b>Pension expense</b>		<b>514</b>	<b>525</b>	<b>483</b>
Actual return on plan assets		34	(41)	50

\* Including other operating expenses.

**The consolidated statement of comprehensive income contains the following amounts:**

	2010 millions of €	2009 millions of €	2008 millions of €
<b>Cumulative losses (gains) recognized directly in equity as of January 1</b>	<b>576</b>	<b>115</b>	<b>342</b>
Actuarial losses (gains) as shown in the consolidated statement of comprehensive income	32	461	(227)
Of which: recognition directly in equity of actuarial losses (gains) in the reporting period	32	464	(230)
Of which: change in the additional provision recognized due to a minimum funding requirement	-	(3)	3
<b>Cumulative losses (gains) recognized directly in equity as of December 31</b>	<b>608</b>	<b>576</b>	<b>115</b>
Actuarial (gains) losses resulting from pension obligations formerly attributable to the Group	(55)	13	3
	<b>553</b>	<b>589</b>	<b>118</b>

**Expected employer contributions for the subsequent year are estimated as follows:**

	2011 millions of €
Expected contributions by employer	17

**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:**

	2010 millions of €	2009 millions of €	2008 millions of €	2007 millions of €	2006 millions of €
Defined benefit obligations	7,017	6,833	6,101	6,327	7,134
Plan assets at fair value	(629)	(618)	(952)	(986)	(966)
<b>Defined benefit obligations in excess of plan assets (funded status)</b>	<b>6,388</b>	<b>6,215</b>	<b>5,149</b>	<b>5,341</b>	<b>6,168</b>

Adjustment	2010 %	2009 %	2008 %	2007 %	2006 %
Experience-based increase (decrease) of pension obligations	0.1	(0.7)	(0.1)	(0.8)	(0.4)
Experience-based increase (decrease) of plan assets	1.1	(9.9)	(0.2)	(2.5)	1.1

**Defined contribution plans.**

In the 2010 financial year, current contributions for defined contributions plans, which are reported as an expense in the consolidated income statement of the respective year, amounted to EUR 114 million (2009: EUR 73 million; 2008: EUR 160 million).

**Civil-servant retirement arrangements at Deutsche Telekom.**

An expense of EUR 676 million was recognized in the 2010 financial year (2009: EUR 684 million; 2008: EUR 762 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 5.9 billion as of the reporting date (December 31, 2009: EUR 6.6 billion).

### 13 Other provisions.

	Provisions for restructuring expenses	Other provisions for personnel costs	Provisions for restoration obligations	Provisions for litigation risks	Provisions for sales and procurement support	Miscellaneous other provisions	Total
	millions of €	millions of €	millions of €	millions of €	millions of €	millions of €	millions of €
<b>At December 31, 2008</b>	<b>2,251</b>	<b>1,875</b>	<b>700</b>	<b>472</b>	<b>487</b>	<b>956</b>	<b>6,741</b>
Of which: current	695	1,466	26	170	474	606	3,437
Changes in the composition of the Group	1	83	7	48	0	12	151
Currency translation adjustments	7	4	6	1	(1)	3	20
Addition	460	1,382	156	105	456	397	2,956
Use	(1,341)	(1,477)	(38)	(68)	(481)	(288)	(3,693)
Reversal	(116)	(296)	(24)	(104)	(23)	(194)	(757)
Interest effect	131	17	67	0	0	17	232
Other changes	(54)	13	(76)	(4)	(31)	32	(120)
<b>At December 31, 2009</b>	<b>1,339</b>	<b>1,601</b>	<b>798</b>	<b>450</b>	<b>407</b>	<b>935</b>	<b>5,530</b>
Of which: current	536	1,349	39	424	407	614	3,369
Changes in the composition of the Group	1	16	1	0	0	6	24
Currency translation adjustments	(2)	19	7	0	5	11	40
Addition	191	1,510	88	126	508	430	2,853
Use	(1,031)	(1,433)	(36)	(104)	(443)	(318)	(3,365)
Reversal	(72)	(110)	(30)	(19)	(22)	(146)	(399)
Interest effect	(9)	25	46	2	0	6	70
Other changes	41	11	0	2	(1)	15	68
<b>At December 31, 2010</b>	<b>458</b>	<b>1,639</b>	<b>874</b>	<b>457</b>	<b>454</b>	<b>939</b>	<b>4,821</b>
Of which: current	281	1,360	32	427	454	639	3,193

The provisions for restructuring expenses mainly include provisions for staff restructuring. The provisions for restructuring expenses developed as follows in the financial year:

	Jan. 1, 2010 millions of €	Addition millions of €	Use millions of €	Reversal millions of €	Other changes millions of €	Dec. 31, 2010 millions of €
Early retirement	622	18	(702)	(8)	82	12
Severance and voluntary redundancy models	366	58	(191)	(55)	23	201
Partial retirement	292	113	(98)	(3)	(80)	224
Other	59	2	(40)	(6)	6	21
	<b>1,339</b>	<b>191</b>	<b>(1,031)</b>	<b>(72)</b>	<b>31</b>	<b>458</b>
Of which: current	536					281

Some of the staff restructuring measures are covered by law as, for instance, early retirement for civil servants. 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 reform of civil-service law came into effect, the provisions for early retirement for civil servants were extended until December 31, 2012. Exercise of the early retirement option in 2011 and 2012, however, will be subject to a resolution by the Board of Management.

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 include 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 provisions related to the disposal of businesses and site closures, provisions for environmental damage and risks, warranty provisions as well as a variety of other items for which the individually recognized amounts are not material.

## 14 Other liabilities.

	<b>Dec. 31, 2010</b>	Dec. 31, 2009
	<b>millions of €</b>	millions of €
Deferred revenue	1,980	2,095
Early retirement	2,325	1,819
Liabilities from other taxes	1,221	1,178
Liabilities from straight-line leases	1,080	845
Other deferred revenue	601	527
Miscellaneous other liabilities	907	1,082
	<b>8,114</b>	<b>7,546</b>

## 15 Shareholders' equity.

### Issued capital.

As of December 31, 2010, 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.

	<b>2010</b>	
	<b>thousands</b>	<b>%</b>
Federal Republic of Germany	646,575	15.0
KfW Bankengruppe	735,662	17.0
Free float	2,939,082	68.0
Of which: Blackstone Group	191,700	4.4
Of which: BlackRock	145,762	3.4
	<b>4,321,319</b>	<b>100.0</b>

**Capital decrease.** The shareholders' meeting resolved on May 3, 2010 to authorize the Board of Management to purchase shares in the Company by November 2, 2011, with the amount of share capital accounted for by these shares totaling up to EUR 1,116,497,918.20, provided the shares to be purchased on the basis of this authorization in conjunction with the other shares of the Company which the Company has already purchased and still possesses or are to be assigned to it under § 71d and § 71e AktG do not at any time account for more than 10 percent of the Company's share capital. Moreover, the requirements under § 71 (2) sentences 2 and 3 AktG must be complied with. Shares shall not be purchased for the purpose of trading in treasury shares. This authorization may be exercised in full or in part. The purchase can be carried out in partial tranches spread over various purchase dates within the authorization period until the maximum purchase volume is reached. Dependent Group companies of Deutsche Telekom AG within the meaning of § 17 AktG or third parties acting for the account of Deutsche Telekom AG or for the account of dependent Group companies of Deutsche Telekom AG within the meaning of § 17 AktG are also entitled to purchase the shares. The shares are purchased in compliance with the principle of equal treatment (§ 53a AktG) through the stock exchange. 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.

A resolution of the shareholders' meeting of May 3, 2010 authorized the Board of Management to redeem Deutsche Telekom AG's shares purchased on the basis of the aforementioned authorization, without such redemption or its implementation requiring a further resolution of the shareholders' meeting. Based on this authorization, the Board of Management resolved on July 27, 2010 to implement a share buy-back program.



The buy-back program was completed on December 3, 2010. A total of 40,001 thousand shares were acquired for a total price of EUR 400 million (excluding transaction costs) with an average purchase price of EUR 9.99 per share. The Board of Management decided on December 14, 2010 to reduce the share capital of Deutsche Telekom AG accordingly and to retire the shares that had been bought back. This resulted in a decrease of EUR 102 million in issued capital (imputed value of EUR 2.56 per share) and EUR 400 million in the retained earnings of the Group. EUR 102 million was transferred to capital reserves in accordance with § 237 (5) AktG.

**Voting rights.** Each share entitles the holder to one vote. The voting rights are nevertheless restricted in relation to the treasury shares (around 2 million as of December 31, 2010) and the trust shares (around 19 million as of December 31, 2010). The trust shares are connected with the acquisitions 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. As of December 31, 2010, the number of T-Shares reserved for the stock options still outstanding was 3,042,055.

**Authorized capital and contingent capital.** Authorized capital and contingent capital comprised the following components as of December 31, 2010:

	Amount millions of €	No par value shares thousands	Purpose
2009 Authorized capital I *	2,176	850,000	Increase in share capital (until April 29, 2014)
2009 Authorized capital II *	38	15,000	Employee shares (until April 29, 2014)
Contingent capital II	32	12,427	Meeting preemptive rights to shares from stock options under the 2001 Stock Option Plan
Contingent capital IV	1,100	429,688	Servicing guaranteed convertible bonds or bonds with warrants issued on or before April 25, 2010

\* 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, which is permissible in the consolidated financial statements, and from the related treatment of the issuing costs, which are deducted from capital reserves.

# Notes to the consolidated income statement.

## 16 Net revenue.

Net revenue breaks down into the following revenue categories:

	2010 millions of €	2009 millions of €	2008 millions of €
Revenue from the rendering of services	58,159	61,017	58,449
Revenue from the sale of goods and merchandise	4,067	3,442	3,036
Revenue from the use of entity assets by others	195	143	181
	<b>62,421</b>	<b>64,602</b>	<b>61,666</b>

For details of changes in net revenue, please refer to the section "Development of business in the Group" in the combined management report.

## 17 Cost of sales.

The decrease in cost of sales of EUR 0.5 billion was primarily attributable to consolidation effects from the deconsolidation of T-Mobile UK amounting to EUR 1.5 billion, which were partially offset by exchange rate effects totaling EUR 0.7 billion.

## 18 Selling expenses.

Selling expenses declined by EUR 1.2 billion, due in particular to effects of EUR 0.6 billion from changes in the composition of the Group and a reduction in customer acquisition and retention costs in the Germany operating segment. The decline was partially offset by exchange rate effects totaling EUR 0.3 billion, primarily from the translation of U.S. dollars.

## 19 General and administrative expenses.

The increase of EUR 0.6 billion in general and administrative expenses related mainly to EUR 0.2 billion higher expenses for early retirement arrangements. In addition, a provision of EUR 0.2 billion for the Civil Service Health Insurance Fund had been reversed in the prior year.

## 20 Other operating income.

	2010 millions of €	2009 millions of €	2008 millions of €
Income from reimbursements	381	344	272
Income from the reversal of impairment losses on non-current financial assets in accordance with IFRS 5	47	131	134
Income from disposal of non-current assets	70	104	100
Income from insurance compensation	42	49	50
Income from divestitures	3	20	505
Miscellaneous other operating income	955	856	910
	<b>1,498</b>	<b>1,504</b>	<b>1,971</b>

Other operating income did not change significantly compared to the prior year.

## 21 Other operating expenses.

	2010 millions of €	2009 millions of €	2008 millions of €
Impairment losses from the year-end impairment test			
Of which: goodwill	395	2,345	289
Of which: property, plant and equipment	285	-	-
Expenses in connection with the agreement with Vivendi (France) and Elektrim (Poland) concerning the stake in PTC	400	-	-
Losses from divestitures	350	1	62
Losses on disposal of non-current assets	159	154	170
Miscellaneous other operating expenses	1,228	819	711
	<b>2,817</b>	<b>3,319</b>	<b>1,232</b>



Other operating expenses decreased year-on-year by EUR 0.5 billion, due in part to lower depreciation, amortization and impairment losses posted in connection with the year-end impairment tests. In the prior year, other operating expenses included an impairment loss of EUR 1.8 billion that had been recognized on the goodwill of the cash-generating unit T-Mobile UK. For further details, please refer to Note 5. The decrease in other operating expenses was partially offset by expenses of EUR 0.4 billion incurred in connection with the agreement concerning the stake in PTC, and of EUR 0.4 billion from the deconsolidation of T-Mobile UK recognized in the second quarter of 2010 due to the establishment of the Everything Everywhere joint venture.

## 22 Finance costs.

	2010 millions of €	2009 millions of €	2008 millions of €
Interest income	349	341	408
Interest expense	(2,849)	(2,896)	(2,895)
	<b>(2,500)</b>	<b>(2,555)</b>	<b>(2,487)</b>
Of which: from financial instruments relating to categories in accordance with IAS 39:			
Loans and receivables	77	132	162
Held-to-maturity investments	2	3	23
Available-for-sale financial assets	15	42	32
Financial liabilities measured at amortized cost *	(2,490)	(2,637)	(2,668)

\* Interest expense calculated according to the effective interest method and adjusted for accrued interest from derivatives 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 (2010: interest income of EUR 155 million; 2009: interest income of EUR 107 million; 2008: interest income of EUR 68 million and interest expense of EUR 11 million).

EUR 69 million was recognized as part of acquisition costs in the financial year (2009: EUR 27 million). The amount was calculated on the basis of an average capitalization rate of 5.4 percent (2009: 5.9 percent) applied across the Group.

Interest payments of EUR 3.3 billion (2009: EUR 3.5 billion, 2008: EUR 3.4 billion) were made in the financial year.

Accrued interest payments from derivatives (interest rate swaps) that were designated as hedging instruments in a fair value hedge in accordance with IAS 39 are netted per swap contract and recognized as interest income or interest expense depending on the net amount. Finance costs are assigned to the categories on the basis of the hedged item; only financial liabilities were hedged in the reporting period.

## 23 Share of profit/loss of associates and joint ventures accounted for using the equity method.

	2010 millions of €	2009 millions of €	2008 millions of €
Share of profit (loss) of joint ventures	(59)	9	31
Share of profit (loss) of associates	2	15	(419)
	<b>(57)</b>	<b>24</b>	<b>(388)</b>

The Everything Everywhere joint venture has been included in the consolidated statement of financial position under investments accounted for using the equity method since April 1, 2010. Since then the share of profit generated by the joint venture that is allocated to Deutsche Telekom (2010: EUR -49 million) has been shown under share of profit/loss of joint ventures.

## 24 Other financial income/expense.

	2010 millions of €	2009 millions of €	2008 millions of €
Income from investments	30	22	44
Gain (loss) from financial instruments	133	(171)	(254)
Interest component from measurement of provisions and liabilities	(416)	(677)	(503)
	<b>(253)</b>	<b>(826)</b>	<b>(713)</b>

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.

Gain/loss from financial instruments includes currency translation effects amounting to EUR -424 million (2009: EUR -22 million; 2008: EUR -587 million). The item includes EUR 557 million (2009: EUR -149 million, 2008: EUR 333 million) in gains from financial instruments that were used mainly to hedge against currency effects.

In addition to the change in gain/loss from financial instruments, the EUR 0.6 billion decrease in other financial expense compared with the prior year is mainly attributable to lower interest rate expenses on provisions and liabilities.

## 25 Income taxes.

### Income taxes in the consolidated income statement.

Income taxes are broken down into current taxes paid or payable in the individual countries and into deferred taxes.

The following table provides a breakdown of income taxes in Germany and internationally:

	2010 millions of €	2009 millions of €	2008 millions of €
<b>Current taxes</b>	<b>768</b>	<b>873</b>	<b>644</b>
Germany	87	163	88
International	681	710	556
<b>Deferred taxes</b>	<b>167</b>	<b>909</b>	<b>784</b>
Germany	197	353	515
International	(30)	556	269
	<b>935</b>	<b>1,782</b>	<b>1,428</b>

Deutsche Telekom's combined income tax rate for 2010 amounted to 30.5 percent. It consists of corporate income tax at a rate of 15 percent, the solidarity surcharge of 5.5 percent on corporate income tax, and trade income tax at an average multiplier of 419 percent. The combined income tax rate amounted to 30.5 percent for 2009 and 2008.

**Reconciliation of the effective tax rate.** Income taxes of EUR 935 million in the reporting year (2009: EUR 1,782 million; 2008: EUR 1,428 million) are derived as follows from the expected income tax expense 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:

	2010 millions of €	2009 millions of €	2008 millions of €
<b>Profit (loss) before income taxes</b>	<b>2,695</b>	<b>2,655</b>	<b>3,452</b>
Expected income tax expense (income tax rate applicable to Deutsche Telekom AG: 2010: 30.5%; 2009: 30.5%, 2008: 30.5%)	822	810	1,053
<b>Adjustments to expected tax expense</b>			
Effect of changes in statutory tax rates	(113)	26	3
Tax effects from prior years	112	(26)	29
Tax effects from other income taxes	68	161	115
Non-taxable income	(85)	(106)	(86)
Tax effects from equity investments	16	(9)	124
Non-deductible expenses	130	136	110
Permanent differences	123	64	(47)
Goodwill impairment losses	106	702	71
Tax effects from loss carryforwards	(385)	51	(34)
Tax effects from additions to and reductions of local taxes	91	71	86
Adjustment of taxes to different foreign tax rates	52	(102)	3
Other tax effects	(2)	4	1
<b>Income tax expense (benefit) according to the consolidated income statement</b>	<b>935</b>	<b>1,782</b>	<b>1,428</b>
Effective income tax rate %	35	67	41

**Current income taxes in the consolidated income statement.** The following table provides a breakdown of current income taxes:

	2010 millions of €	2009 millions of €	2008 millions of €
<b>Current income taxes</b>	<b>768</b>	<b>873</b>	<b>644</b>
Of which:			
Current tax expense	560	744	596
Prior-period tax expense (income)	208	129	48

**Deferred taxes in the consolidated income statement.** The following table shows the development of deferred taxes:

	2010 millions of €	2009 millions of €	2008 millions of €
<b>Deferred tax expense (income)</b>	<b>167</b>	<b>909</b>	<b>784</b>
Of which:			
On temporary differences	21	692	409
On loss carryforwards	165	232	419
From tax credits	(19)	(15)	(44)

Income taxes decreased year-on-year despite the increase in profits before income taxes. This was due in part to the fact that, relative to the reporting year, in 2009 a high level of goodwill impairment losses was included in profit before income taxes and had no tax effect, and thus raised the tax rate in 2009. In addition, deferred taxes of EUR 466 million were recognized on temporary differences and loss carryforwards in the Europe operating segment in the reporting period, since it has become likely that these temporary differences and loss carryforwards will be used in the future. The Special Contribution Tax II introduced in Greece had the opposite effect, since it resulted in an increase in tax expense and the tax rate for the Group in the reporting period. The tax rate also increased due to the deconsolidation of T-Mobile UK which had no tax effect.

**Income taxes in the consolidated statement of financial position.**

**Current income taxes in the consolidated statement of financial position:**

	Dec. 31, 2010 millions of €	Dec. 31, 2009 millions of €
Recoverable taxes	224	144
Tax liabilities	(545)	(511)

**Deferred taxes in the consolidated statement of financial position:**

	Dec. 31, 2010 millions of €	Dec. 31, 2009 millions of €
Deferred tax assets	5,129	5,162
Deferred tax liabilities	(7,635)	(7,153)
	<b>(2,506)</b>	<b>(1,991)</b>
Of which: recognized in equity		
Actuarial gains and losses	175	151
Revaluation surplus	3	3
Cash flow hedges	(338)	(319)
Financial assets available for sale	3	3
	<b>(157)</b>	<b>(162)</b>

**Development of deferred taxes:**

	Dec. 31, 2010 millions of €	Dec. 31, 2009 millions of €
Deferred taxes recognized in the statement of financial position	(2,506)	(1,991)
Difference to prior year	(515)	(1,117)
Of which:		
Recognized in income statement	(167)	(909)
Recognized in equity	5	138
Acquisitions/disposals	(63)	(482)
Currency translation adjustments	(290)	136

Deferred taxes relate to the following key items in the statement of financial position, loss carryforwards, and tax credits:

	Dec. 31, 2010		Dec. 31, 2009	
	Deferred tax assets millions of €	Deferred tax liabilities millions of €	Deferred tax assets millions of €	Deferred tax liabilities millions of €
<b>Current assets</b>	<b>895</b>	<b>(415)</b>	<b>788</b>	<b>(368)</b>
Trade and other receivables	699	(344)	339	(52)
Other financial assets	0	0	317	(251)
Inventories	86	(25)	13	(17)
Other assets	110	(46)	119	(48)
<b>Non-current assets</b>	<b>2,448</b>	<b>(11,315)</b>	<b>1,279</b>	<b>(9,739)</b>
Intangible assets	996	(7,216)	493	(6,802)
Property, plant and equipment	579	(2,844)	459	(2,588)
Investments accounted for using the equity method	0	0	0	0
Other financial assets	873	(1,255)	327	(349)
<b>Current liabilities</b>	<b>784</b>	<b>(741)</b>	<b>641</b>	<b>(405)</b>
Financial liabilities	326	(415)	267	(229)
Trade and other payables	146	(81)	29	(58)
Other provisions	119	(21)	176	(46)
Other liabilities	193	(224)	169	(72)
<b>Non-current liabilities</b>	<b>2,942</b>	<b>(630)</b>	<b>3,209</b>	<b>(998)</b>
Financial liabilities	1,464	(352)	1,572	(734)
Provisions for pensions and other employee benefits	491	(165)	542	(162)
Other provisions	287	(74)	393	(75)
Other liabilities	700	(39)	702	(27)
<b>Tax credits</b>	<b>224</b>	<b>-</b>	<b>196</b>	<b>-</b>
<b>Loss carryforwards</b>	<b>3,973</b>	<b>-</b>	<b>4,458</b>	<b>-</b>
<b>Total</b>	<b>11,266</b>	<b>(13,101)</b>	<b>10,571</b>	<b>(11,510)</b>
Of which: non-current	9,587	(11,946)	8,865	(10,737)
Allowance	(671)	-	(1,052)	-
Netting	(5,466)	5,466	(4,357)	4,357
<b>Recognition</b>	<b>5,129</b>	<b>(7,635)</b>	<b>5,162</b>	<b>(7,153)</b>

The allowances relate primarily to loss carryforwards.

The loss carryforwards are shown in the following table:

	Dec. 31, 2010 millions of €	Dec. 31, 2009 millions of €
<b>Loss carryforwards for corporate income tax purposes</b>	<b>11,972</b>	<b>13,516</b>
Expiry within		
1 year	88	38
2 years	119	1,403
3 years	76	165
4 years	29	128
5 years	32	157
After 5 years	3,873	5,051
Unlimited carryforward period	7,755	6,574

Loss carryforwards and temporary differences for which no deferred taxes were recorded amount to:

	Dec. 31, 2010 millions of €	Dec. 31, 2009 millions of €
<b>Loss carryforwards for corporate income tax purposes</b>	<b>1,669</b>	<b>3,295</b>
Expiry within		
1 year	7	18
2 years	67	1,127
3 years	57	46
4 years	10	43
5 years	15	81
After 5 years	300	202
Unlimited carryforward period	1,213	1,778
<b>Temporary differences in corporate income tax</b>	<b>348</b>	<b>477</b>

In addition, no deferred taxes are recognized on trade tax loss carryforwards of EUR 88 million (December 31, 2009: EUR 124 million) and on temporary differences for trade tax purposes in the amount of EUR 1 million (December 31, 2009: EUR 40 million). Apart from corporate income tax loss carryforwards, no deferred taxes amounting to EUR 160 million (December 31, 2009: EUR 118 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 301 million (2009: EUR 12 million; 2008: EUR 12 million) attributable to the utilization of tax loss carryforwards on which deferred tax assets had not yet been recognized, was recorded.

No deferred tax liabilities were recognized on temporary differences in connection with equity interests in subsidiaries amounting to EUR 1,130 million (December 31, 2009: EUR 1,590 million) as it is unlikely that these differences will be reversed in the near future.

Differences between income tax rates on distributed and retained earnings may lead to a tax burden on the Group of up to EUR 160 million in future.

**Disclosure of tax effects relating to each component of other comprehensive income.**

	2010			2009			2008		
	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 €
Actuarial gains and losses on defined benefit pension plans	(32)	12	(20)	(461)	116	(345)	227	(64)	163
Revaluation due to business combinations	(2)	0	(2)	(38)	3	(35)	0	0	0
Exchange differences on translating foreign operations	3,698	0	3,698	(211)	0	(211)	(352)	0	(352)
Of which: recognized in income statement	2,151	0	2,151	0	0	0	0	0	0
Available-for-sale financial assets	(3)	1	(2)	(4)	0	(4)	1	0	1
Of which: recognized in income statement	0	0	0	0	0	0	0	0	0
Fair value measurement of hedging instruments	58	(18)	40	(48)	19	(29)	(41)	8	(33)
Of which: recognized in income statement	0	0	0	8	(1)	7	(101)	5	(96)
Share of profit (loss) of investments accounted for using the equity method	28	0	28	0	0	0	0	0	0
Other income and expense recognized directly in equity	0	0	0	11	0	11	(8)	3	(5)
<b>Other comprehensive income</b>	<b>3,747</b>	<b>(5)</b>	<b>3,742</b>	<b>(751)</b>	<b>138</b>	<b>(613)</b>	<b>(173)</b>	<b>(53)</b>	<b>(226)</b>
Profit (loss)			1,760			873			2,024
<b>Total comprehensive income</b>			<b>5,502</b>			<b>260</b>			<b>1,798</b>

## 26 Profit/loss attributable to non-controlling interests.

Profit attributable to non-controlling interests of EUR 65 million (2009: EUR 520 million; 2008: EUR 541 million) comprises gains of EUR 484 million (2009: EUR 527 million; 2008: EUR 859 million) and losses of EUR 419 million (2009: EUR 7 million; 2008: EUR 318 million).

The share in profit attributable to non-controlling interests in 2010 primarily related to T-Mobile CZ, Hrvatski Telekom, Magyar Telekom, Slovak Telekom and T-Mobile Macedonia.

The share in loss attributable to non-controlling interests in 2010 is mainly attributable to entities within the OTE group.

## 27 Earnings per share.

Basic and diluted earnings per share are calculated in accordance with IAS 33 as follows:


### Basic earnings per share.

		2010	2009	2008
Profit attributable to the owners of the parent (net profit)	millions of €	1,695	353	1,483
Adjustment	millions of €	-	-	-
<b>Adjusted net profit (basic)</b>	<b>millions of €</b>	<b>1,695</b>	<b>353</b>	<b>1,483</b>
Number of ordinary shares issued	millions	4,358	4,361	4,361
Treasury shares	millions	(5)	(2)	(2)
Shares reserved for outstanding options (T-Mobile USA/Powertel)	millions	(19)	(19)	(19)
<b>Adjusted weighted average number of ordinary shares outstanding (basic)</b>	<b>millions</b>	<b>4,334</b>	<b>4,340</b>	<b>4,340</b>
<b>Basic earnings per share</b>	<b>€</b>	<b>0.39</b>	<b>0.08</b>	<b>0.34</b>

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 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, each multiplied by the corresponding time weighting factor.

**Diluted earnings per share.**

		2010	2009	2008
Adjusted profit attributable to the owners of the parent (net profit) (basic)	millions of €	1,695	353	1,483
Dilutive effects on profit (loss) from stock options (after taxes)	millions of €	0	0	0
<b>Net profit (diluted)</b>	<b>millions of €</b>	<b>1,695</b>	<b>353</b>	<b>1,483</b>
Adjusted weighted average number of ordinary shares outstanding (basic)	millions	4,334	4,340	4,340
Dilutive potential ordinary shares from stock options and warrants	millions	0	0	0
<b>Weighted average number of ordinary shares outstanding (diluted)</b>	<b>millions</b>	<b>4,334</b>	<b>4,340</b>	<b>4,340</b>
<b>Diluted earnings per share</b>	<b>€</b>	<b>0.39</b>	<b>0.08</b>	<b>0.34</b>

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.  For further details on the equity instruments currently applicable, please refer to Notes 15 and 35.

**28 Dividend per share.**

For the 2010 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 3,011 million (2009: EUR 3,386 million) will be appropriated to the no par value shares carrying dividend rights at February 18, 2011.

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.****Average number of employees.**

		2010	2009	2008
<b>Group (total)</b>		<b>252,494</b>	<b>257,601</b>	<b>234,887</b>
Domestic		126,952	130,477	141,123
International		125,542	127,124	93,764
Non-civil servants		224,428	226,460	201,036
Civil servants (domestic)		28,066	31,141	33,851
Trainees and student interns		9,217	9,805	10,424
<b>Personnel costs</b>	<b>millions of €</b>	<b>15,071</b>	<b>14,333</b>	<b>14,078</b>

The number of employees decreased by 2.0 percent in the financial year. This development was caused by the following effects: In Germany, the decrease was primarily attributable to staff cuts in the fixed network operations of the Germany operating segment, although this was partially offset by the higher number of employees assigned to Vivento and at units integrated into Group Headquarters & Shared Services as part of the Group-wide realignment of the management structure.



Outside Germany, the number of employees decreased mainly as a result of staff restructuring measures in the Europe operating segment and the deconsolidation of T-Mobile UK. These effects were partially offset by a higher average number of employees in the Systems Solutions operating segment as a consequence of offshore activities and the fact that employees were taken over under the terms of large-scale contracts.

Personnel costs increased by 5.1 percent year-on-year, mainly as a result of increased expenses for civil-servant early retirement in Germany and increased personnel costs in the Germany operating segment and at Group Headquarters & Shared Services following collectively agreed pay rises. This increase was also a result of higher staff-related expenses in the United States operating segment which were mainly attributable to retail distribution growth and exchange rate effects, as well as the increase in international headcount in the Systems Solutions operating segment.

### 30 Depreciation, amortization and impairment losses.

The following table provides a breakdown of depreciation, amortization and impairment losses included in the functional costs and in other operating expenses:

	2010 millions of €	2009 millions of €	2008 millions of €
<b>Amortization and impairment of intangible assets</b>	<b>3,743</b>	<b>5,657</b>	<b>3,397</b>
Of which:			
Goodwill impairment losses from the year-end impairment test	395	2,345	289
Amortization of mobile communications licenses	743	905	1,013
<b>Depreciation and impairment of property, plant and equipment</b>	<b>8,065</b>	<b>8,237</b>	<b>7,578</b>
Of which: impairment of property, plant and equipment from the year-end impairment test	285	-	-
	<b>11,808</b>	<b>13,894</b>	<b>10,975</b>

The following table provides a breakdown of impairment losses:

	2010 millions of €	2009 millions of €	2008 millions of €
<b>Intangible assets</b>	<b>399</b>	<b>2,354</b>	<b>340</b>
Of which:			
Goodwill from the year-end impairment test	395	2,345	289
U.S. mobile communications licenses	-	-	21
<b>Property, plant and equipment</b>	<b>450</b>	<b>217</b>	<b>140</b>
Land and buildings	159	193	123
Of which: from the year-end impairment test	27	-	-
Technical equipment and machinery	271	10	5
Of which: from the year-end impairment test	258	-	-
Other equipment, operating and office equipment	1	3	8
Advance payments and construction in progress	19	11	4
	<b>849</b>	<b>2,571</b>	<b>480</b>

Depreciation, amortization and impairment losses decreased by EUR 2.1 billion year-on-year, with the latter accounting for EUR 1.7 billion. The decline in depreciation and amortization is mainly due to lower depreciation of property, plant and equipment (technical equipment and machinery). This decrease, in turn, is mainly attributable to the fact that depreciation charges for T-Mobile UK's assets were no longer recognized in 2010.

The year-end impairment tests at the cash-generating units resulted in goodwill impairments of EUR 0.4 billion as well as impairment losses of EUR 0.3 billion on property, plant and equipment. By comparison, an impairment loss of EUR 2.3 billion on goodwill had to be recognized in the prior year. For further details on the impairment tests at the cash-generating units, please refer to Note 5.

# Other disclosures.

## 31 Notes to the consolidated statement of cash flows.

**Net cash from operating activities.** Net cash from operating activities in the 2010 financial year decreased by EUR 1.1 billion compared with the prior-year period to EUR 14.7 billion. Aside from effects from business operations, this decrease was primarily due to the following effects: lower year-on-year cash inflows from factoring amounting to EUR 0.6 billion and higher net outflows of EUR 0.4 billion for additions to inventories. This was partially offset by higher inflows from dividends received amounting to EUR 0.4 billion – mainly from an interim dividend paid out by the Everything Everywhere joint venture. The remaining changes in net cash from operating activities consisted of various partially offsetting effects.

**Net cash used in investing activities.** Net cash used in investing activities totaled EUR 10.7 billion as compared with EUR 8.6 billion in the previous year. This development was due in part to the addition of the cash and cash equivalents of the OTE group amounting to EUR 1.6 billion in the prior year, compared with the overall effect of the deconsolidation of T-Mobile UK, amounting to EUR 0.4 billion. In addition, Deutsche Telekom invested EUR 0.8 billion in 2010 in a bond issued by the Everything Everywhere joint venture and posted higher outflows for intangible assets amounting to EUR 1.4 billion, which is mainly attributable to the outflows of EUR 1.3 billion for the acquisition of mobile communications licenses (spectrum) in Germany.

Cash outflows for property, plant and equipment, which decreased by EUR 0.7 billion, and net cash outflows from the change in short-term investments and marketable securities and receivables, which improved by EUR 0.8 billion, had an offsetting effect. In particular inflows from the return of cash collateral deposited in the prior year for the acquisition of STRATO totaling EUR 0.3 billion and the return of collateral deposited for hedging transactions amounting to a net total of EUR 0.3 billion contributed to this development in the financial year ended on December 31, 2010. In addition, cash outflows for the acquisition of companies decreased by EUR 0.6 billion. While cash outflows amounting to EUR 1.0 billion for the acquisition of further shares in OTE and of ZAPP were recorded in the 2009 financial year, the 2010 financial year saw cash outflows of EUR 0.3 billion for the acquisition of STRATO and EUR 0.1 billion for the acquisition of ClickandBuy.

**Net cash used in financing activities.** Net cash used in financing activities amounted to EUR 6.4 billion, compared with EUR 5.1 billion in the prior year.

This is attributable to a net issuance of non-current financial liabilities of EUR 3.1 billion (2009: EUR 5.3 billion) and outflows for the share buy-back totaling EUR 0.4 billion. These factors were offset by the net repayment of current financial liabilities which decreased by EUR 1.3 billion, and the dividends paid out by OTE and Slovak Telekom which declined by EUR 0.2 billion and EUR 0.1 billion respectively.

The issue of financial liabilities in the 2010 financial year consisted in particular of the sale of medium-term notes for EUR 1.8 billion, the sale of euro bonds amounting to EUR 1.2 billion, the net borrowing of funds from the joint venture in the United Kingdom in the amount of EUR 0.3 billion, a loan of EUR 0.1 billion from the European Investment Bank and the issue of promissory notes for EUR 0.1 billion. In the same period, USD bonds amounting to EUR 2.4 billion, euro bonds amounting to EUR 2.0 billion, a loan of EUR 0.6 billion from the European Investment Bank, medium term notes amounting to EUR 0.3 billion and a loan of EUR 0.2 billion from KfW Bankengruppe were repaid. In addition, the net returns from hedging transactions totaled EUR 0.5 billion.



## 32 Segment reporting.

On February 24, 2010, the Supervisory Board resolved to realign the management structure of the two previous operating segments Southern and Eastern Europe, and Europe. The two operating segments were merged on April 1, 2010 to form the new Europe operating segment that 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 and Services unit, which mainly provides wholesale telecommunications services for the Group's other operating segments. Since April 1, 2010, Deutsche Telekom has therefore reported on the four operating segments Germany, Europe, United States, and Systems Solutions, as well as on Group Headquarters & Shared Services.

These changes were incorporated into the following tables, and prior-year and comparative figures adjusted accordingly.

The business activities in three of these four operating segments are assigned by regions and in the fourth operating segment by customers and products.

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 and Services 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.

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, T-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. The operating segment offers its customers information and communication technology (ICT) from a single source. It develops and operates infrastructure and industry solutions for multinational corporations and public institutions. The products and services offered 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.

The reconciliation summarizes the elimination of intersegment transactions.

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. Segment assets and liabilities include all assets and liabilities that are accounted for on the basis of the financial statements prepared by the operating 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 share of profit or loss after income taxes and their carrying amount is reported in this segment's accounts. The following tables show the performance indicators used by Deutsche Telekom to evaluate the operating segments' performance as well as additional segment-related indicators:

		Net revenue	Intersegment revenue	Total revenue	Profit (loss) from operations (EBIT)	Interest income	Interest expense	Share of profit (loss) of associates and joint ventures accounted for using the equity method	Income taxes
		millions of €	millions of €	millions of €	millions of €	millions of €	millions of €	millions of €	millions of €
Germany	2010	23,523	1,622	25,145	4,916	24	(600)	-	8
	2009	23,813	1,610	25,423	5,062	172	(107)	2	(13)
	2008	24,754	1,646	26,400	4,624	654	(425)	(1)	16
Europe	2010	16,183	657	16,840	985	147	(840)	(52)	(319)
	2009	18,996	611	19,607	140	218	(666)	7	(582)
	2008	15,295	637	15,932	1,412	289	(420)	7	(282)
United States	2010	16,075	12	16,087	2,092	24	(514)	(1)	(595)
	2009	15,457	14	15,471	2,233	16	(543)	6	(643)
	2008	14,942	15	14,957	2,299	81	(577)	6	(694)
Systems Solutions	2010	6,411	2,646	9,057	44	23	(31)	(4)	(12)
	2009	6,083	2,715	8,798	(11)	39	(46)	10	(12)
	2008	6,368	2,975	9,343	81	82	(59)	41	(10)
Group Headquarters & Shared Services	2010	229	1,937	2,166	(2,479)	1,892	(3,089)	-	117
	2009	253	2,157	2,410	(1,249)	1,156	(2,768)	-	(570)
	2008	307	2,474	2,781	(1,266)	1,559	(3,627)	(441)	(476)
<b>Total</b>	<b>2010</b>	<b>62,421</b>	<b>6,874</b>	<b>69,295</b>	<b>5,558</b>	<b>2,110</b>	<b>(5,074)</b>	<b>(57)</b>	<b>(801)</b>
	<b>2009</b>	<b>64,602</b>	<b>7,107</b>	<b>71,709</b>	<b>6,175</b>	<b>1,601</b>	<b>(4,130)</b>	<b>25</b>	<b>(1,820)</b>
	<b>2008</b>	<b>61,666</b>	<b>7,747</b>	<b>69,413</b>	<b>7,150</b>	<b>2,665</b>	<b>(5,108)</b>	<b>(388)</b>	<b>(1,446)</b>
Reconciliation	2010	-	(6,874)	(6,874)	(53)	(1,761)	2,225	-	(134)
	2009	-	(7,107)	(7,107)	(163)	(1,260)	1,234	(1)	38
	2008	-	(7,747)	(7,747)	(110)	(2,257)	2,213	-	18
Group	2010	62,421	-	62,421	5,505	349	(2,849)	(57)	(935)
	2009	64,602	-	64,602	6,012	341	(2,896)	24	(1,782)
	2008	61,666	-	61,666	7,040	408	(2,895)	(388)	(1,428)

		Segment assets	Segment liabilities	Segment investments	Investments accounted for using the equity method millions of €	Depreciation and amortization	Impairment losses	Average number of employees
		millions of €	millions of €	millions of €	millions of €	millions of €	millions of €	
Germany	2010	35,334	26,111	4,902	26	(4,178)	(15)	79,364
	2009	52,002	16,244	3,221	23	(4,189)	(7)	84,584
	2008	49,797	14,693	3,412	18	(4,164)	(16)	89,961
Europe	2010	46,040	20,334	2,127	7,143	(3,453)	(704)	65,435
	2009	46,759	22,063	4,813	52	(3,772)	(2,385)	69,277
	2008	34,327	10,646	1,940	68	(3,090)	(301)	39,174
United States	2010	38,316	23,056	2,118	24	(2,063)	(1)	37,795
	2009	36,087	19,326	2,494	18	(2,025)	(3)	38,231
	2008	37,213	20,998	3,615	14	(1,863)	(21)	36,076
Systems Solutions	2010	8,855	5,783	819	49	(619)	(4)	47,588
	2009	8,872	5,932	837	54	(718)	(3)	45,328
	2008	9,280	6,342	846	46	(765)	(16)	46,095
Group Headquarters & Shared Services	2010	107,357	60,806	675	0	(714)	(126)	22,312
	2009	120,162	78,379	747	0	(660)	(173)	20,181
	2008	116,948	75,764	545	3,411	(646)	(127)	23,581
<b>Total</b>	<b>2010</b>	<b>235,902</b>	<b>136,090</b>	<b>10,641</b>	<b>7,242</b>	<b>(11,027)</b>	<b>(850)</b>	<b>252,494</b>
	<b>2009</b>	<b>263,882</b>	<b>141,944</b>	<b>12,112</b>	<b>147</b>	<b>(11,364)</b>	<b>(2,571)</b>	<b>257,601</b>
	<b>2008</b>	<b>247,565</b>	<b>128,443</b>	<b>10,358</b>	<b>3,557</b>	<b>(10,528)</b>	<b>(481)</b>	<b>234,887</b>
Reconciliation	2010	(108,090)	(51,306)	(302)	-	68	1	-
	2009	(136,108)	(56,107)	(645)	-	41	-	-
	2008	(124,425)	(48,415)	(241)	-	33	1	-
Group	2010	127,812	84,784	10,339	7,242	(10,959)	(849)	252,494
	2009	127,774	85,837	11,467	147	(11,323)	(2,571)	257,601
	2008	123,140	80,028	10,117	3,557	(10,495)	(480)	234,887

		Net cash from operating activities millions of €	Net cash (used in) from investing activities millions of €	Of which: cash capex* millions of €	Net cash (used in) from financing activities millions of €
Germany	2010	9,167	(4,977)	(4,765)	(10,023)
	2009	9,777	(2,801)	(3,158)	(3,689)
	2008	9,941	(2,791)	(3,038)	(7,224)
Europe	2010	4,481	(3,045)	(2,012)	(2,839)
	2009	5,034	(1,510)	(2,489)	(6,071)
	2008	4,296	(2,048)	(2,018)	(1,900)
United States	2010	3,691	(1,870)	(2,121)	(1,920)
	2009	3,929	(3,014)	(2,666)	(1,004)
	2008	3,740	(2,892)	(2,540)	(852)
Systems Solutions	2010	517	(726)	(725)	(373)
	2009	325	(643)	(681)	88
	2008	766	9	(823)	(838)
Group Headquarters & Shared Services	2010	7,486	3,424	(406)	(5,554)
	2009	6,801	(2,995)	(449)	(2,147)
	2008	3,366	(1,021)	(426)	(1,028)
<b>Total</b>	2010	<b>25,342</b>	<b>(7,194)</b>	<b>(10,029)</b>	<b>(20,709)</b>
	2009	<b>25,866</b>	<b>(10,963)</b>	<b>(9,443)</b>	<b>(12,823)</b>
	2008	<b>22,109</b>	<b>(8,743)</b>	<b>(8,845)</b>	<b>(11,842)</b>
Reconciliation	2010	(10,611)	(3,517)	178	14,340
	2009	(10,071)	2,314	241	7,700
	2008	(6,741)	(2,641)	138	8,745
Group	2010	14,731	(10,711)	(9,851)	(6,369)
	2009	15,795	(8,649)	(9,202)	(5,123)
	2008	15,368	(11,384)	(8,707)	(3,097)

\* 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. These are the regions in which Deutsche Telekom is active: 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" includes 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:

	Net revenue		
	2010 millions of €	2009 millions of €	2008 millions of €
Telecommunications	55,781	58,266	54,991
Systems solutions	6,411	6,083	6,368
Other	229	253	307
	<b>62,421</b>	<b>64,602</b>	<b>61,666</b>

	Non-current assets			Net revenue		
	Dec. 31, 2010 millions of €	Dec. 31, 2009 millions of €	Dec. 31, 2008 millions of €	2010 millions of €	2009 millions of €	2008 millions of €
Germany	41,138	40,499	44,385	27,268	28,033	28,885
International	64,607	57,362	55,227	35,153	36,569	32,781
Of which:						
Europe (excluding Germany)	31,385	26,575	23,854	18,217	20,573	17,324
North America	33,104	30,717	31,298	16,192	15,527	14,931
Other countries	118	70	75	744	469	526
<b>Group</b>	<b>105,745</b>	<b>97,861</b>	<b>99,612</b>	<b>62,421</b>	<b>64,602</b>	<b>61,666</b>

### 33 Contingent liabilities and assets.

As of the reporting date, the Group was exposed to contingent liabilities amounting to EUR 771 million (December 31, 2009: EUR 724 million) that, on the basis of the information and estimates available, do not fulfill the requirements for recognition as liabilities in the statement of financial position. Deutsche Telekom is involved in a number of court and arbitration proceedings in connection with its regular business activities. 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:

**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 – PostPersRG), 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 (Bundessonferenzzahlungsgesetz). This Act was reviewed at several court instances. In December 2008, the Federal Administrative Court decided to refer the case to the Federal Constitutional Court for a judicial review pursuant to Art. 100 of the Basic Law. A Federal Constitutional Court decision is expected in early 2011. If the court rules that the abolition of the bonus payment was unconstitutional, a supplementary payment of up to EUR 0.2 billion for the period 2004 to June 2009 may have to be made.

**European Commission investigates Slovak Telekom.** In April 2009, the European Commission started an investigation into allegedly abusive behavior of Slovak Telekom in the retail and wholesale broadband market in Slovakia. According to the European Commission, such an infringement could consist of refusing access to the unbundled local loop, margin squeeze situations in these products as well as other discriminating behavior. In December 2010, the European Commission formally extended the investigation to include Deutsche Telekom as Slovak Telekom's parent company, allowing the European Commission to also hold Deutsche Telekom liable for Slovak Telekom's alleged infringements. Should the investigation of the European Commission arrive at finding an infringement of European competition law, it could impose fines of EUR 0.1 billion against Slovak Telekom and it could also impose fines against Deutsche Telekom.

**IPR proceedings against ADSL technology.** Deutsche Telekom is facing four proceedings alleging patent infringements relating to DSL data transmission processes. Specifically, the patents concerned relate to special processes used to check the quality of DSL channels, to code data, to set transmission rates, and to correct transmission errors. The German Federal Patent Court upheld Deutsche Telekom's first-instance claim regarding two of the patents and declared them void. A nullity suit is pending against another of the patents and a fourth nullity suit is in preparation but has not yet been filed. Two proceedings before the German infringement court have been suspended and the other two are unscheduled, meaning no hearings have been set for the allegations of violations. The amount in dispute in all proceedings against Deutsche Telekom totals EUR 0.1 billion.

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 in each case due to the uncertainties described below, they have not been included in the aforementioned total contingent liabilities.

**Toll Collect.** In the arbitration proceedings between the principle members of the Toll Collect consortium (Daimler Financial Services AG, Deutsche Telekom and the consortium company Toll Collect GbR) on the one hand and the Federal Republic of Germany on the other regarding disputes relating to the truck toll collection system, Deutsche Telekom received the Federal Republic's statement of claim on August 2, 2005. In the statement of claim, the Federal Republic maintained its claim to lost toll revenues of approximately EUR 3.51 billion plus interest for the delayed commencement of operations on September 1, 2003. The total claim for contractual

penalties amounted to EUR 1.65 billion plus interest. The contractual penalties are based on alleged violations of the operator agreement (lack of consent to subcontracting, 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 minimally by EUR 169 million. The new claim is approximately EUR 3.3 billion plus interest. The main claims by the Federal Republic (including contractual penalties) amount to around EUR 4.99 billion.

The defendants responded on June 30, 2006. The plaintiff responded in writing on February 14, 2007. Following further exchanges of submissions between the parties, a first hearing took place in June 2008 during which the arbitration court discussed legal issues with the parties, yet shed no light on the possible outcome of the case. The parties have submitted further written responses since then. Various witnesses and experts were heard at another hearing in December 2010. A further deadline of May 20, 2011 was set for the parties to respond in writing.

- **Bank loans guarantee.** Deutsche Telekom AG guarantees to third parties bank loans of up to a maximum amount of EUR 115 million granted to Toll Collect GmbH. These guarantees for bank loans will expire on May 31, 2012.
- **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 early.

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 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.

**Rates for unbundled local loop lines.** In November 2008, the Cologne Administrative Court revoked the rates approval for the unbundled local loop line (ULL) from 1999 with regard to the monthly charges. Both Deutsche Telekom AG and the Federal Network Agency filed complaints against non-allowance of appeal. In a ruling dated October 5, 2009, the Federal Administrative Court rejected these complaints because the points raised relate to the previous legal situation. The rulings of the Cologne Administrative Court revoking the approvals thus became final and binding and the rate approval proceedings from 1999 applied again, i.e., the Federal Network Agency must decide again on ULL monthly charges for the period from February 1999 to March 2001.

Regarding the 2001 ULL rate approvals, the Federal Administrative Court in its ruling on June 23, 2010 upheld an appeal relating to the ULL monthly charges against the ruling of the Cologne Administrative Court on August 27, 2009 on the complaints against non-allowance of appeal filed by Deutsche Telekom AG and the Federal Network Agency. Relating to the ULL one-time charges for the period April 2001 through March 2002, the court rejected the complaint against non-allowance of appeal. The ruling of the Administrative Court revoking the approvals thus became final and binding and the Federal Network Agency has to decide again on the ULL one-time charges.

On June 30, 2010, the Federal Administrative Court dismissed the complaints against non-allowance of appeal filed by Deutsche Telekom AG and the Federal Network Agency against the ruling by the Cologne Administrative Court on November 19, 2009 relating to the 2002 approval of ULL one-time charges for the period April 2002 through June 2003. In a ruling dated January 19, 2011, the Federal Network Agency approved new charges for the plaintiffs for the period specified.

All other rulings of the Federal Network Agency on ULL rates since 1999 have been challenged and, apart from the 1999 ULL one-time charges, are therefore not final.

**Review of contracts in the F.Y.R.O. Macedonia and Montenegro.** The audit of the financial statements of Magyar Telekom for the 2005 financial year identified contracts for which it was not possible at the time to fully ascertain an appropriate business background. The Audit Committee of Magyar Telekom commissioned an independent law firm with investigating the lawfulness of these contracts. Magyar Telekom informed the U.S. authorities (the Department of Justice and the SEC), who then initiated investigations into potential breaches of the Foreign Corrupt Practices Act (FCPA). Magyar Telekom and Deutsche Telekom as the parent company of the Group cooperated fully with these investigations and reviewed and improved their compliance programs. Magyar Telekom's and Deutsche Telekom's legal representatives are currently in talks with the U.S. authorities about the status of the investigation and the possibility of bringing the proceedings to a close. The outcome of these talks cannot be foreseen. It is also not foreseeable at present whether the U.S. authorities will take action and, if so, what kind, if an agreement cannot be reached to conclude the proceedings. The public prosecutors' office in Bonn has launched its own investigations having received a request for legal assistance from the U.S. authorities.

**Proceedings by Anti-Monopoly Commission in Poland.** The Polish Anti-Monopoly Commission (UOKiK) initiated several legal proceedings in 2010 against a number of Polish telecommunications companies, including PTC. The providers are suspected of collusion. The UOKiK also accuses PTC of infringing customer interests in various ways. Under Polish law, the maximum fine for both cases is set at 10 percent of the revenues from telecommunications services or 10 percent of taxable revenues.

**OTE Lannet case.** In May 2009, Lannet Communications SA filed a lawsuit claiming compensation for damages of EUR 176 million arising from the allegedly unlawful termination of services (mainly interconnection services, unbundling of ULLs, and leasing of dedicated lines) by OTE. A court hearing is set for February 17, 2011.

**IPR risks.** Like many other large telecommunications/Internet providers, Deutsche Telekom is exposed to an increasing number of IPR (intellectual property rights) 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.

**Contingent assets.** Deutsche Telekom reports a contingent asset of EUR 0.1 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 with a typical lease term of up to 25 years. The agreements include extension and purchase options. The table on the right shows the net carrying amounts of leased assets capitalized in connection with a finance lease as of the reporting date:

	Dec. 31, 2010	Of which: sale and leaseback transactions	Dec. 31, 2009	Of which: sale and leaseback transactions
	millions of €	millions of €	millions of €	millions of €
Land and buildings	954	539	1,035	591
Technical equipment and machinery	91	3	35	9
Other	15	1	21	0
<b>Net carrying amounts of leased assets capitalized</b>	<b>1,060</b>	<b>543</b>	<b>1,091</b>	<b>600</b>

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.

The following table provides a breakdown of these amounts:

	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 €
<b>Dec. 31, 2010</b>						
<b>Maturity</b>						
Within 1 year	235	106	93	63	142	43
In 1 to 3 years	405	213	185	114	220	99
In 3 to 5 years	360	211	154	96	206	115
After 5 years	1,279	758	447	290	832	468
	<b>2,279</b>	<b>1,288</b>	<b>879</b>	<b>563</b>	<b>1,400</b>	<b>725</b>
<b>Dec. 31, 2009</b>						
<b>Maturity</b>						
Within 1 year	231	114	110	66	121	48
In 1 to 3 years	387	211	202	120	185	91
In 3 to 5 years	358	213	154	104	204	109
After 5 years	1,415	860	502	334	913	526
	<b>2,391</b>	<b>1,398</b>	<b>968</b>	<b>624</b>	<b>1,423</b>	<b>774</b>

**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, radio towers and real estate.

Some leases include extension options and provide for stepped rents. Most of these leases relate to radio towers in the United States. In the 2010 financial year (as of June 30, 2010), Deutsche Telekom revised its assessment of lease terms for existing U.S. operating leases with regard to the exercise of extension options. Contrary to the original assessment, the exercising of extension options is only reasonably certain up to a total term of 15 years against the background of the altered market situation and new technical framework. This is shorter than the original assessment, where a total term of between 20 and 25 years was expected. As a result of this change in assessment, the expected future minimum lease payments from operating leases decreased by USD 11.4 billion (December 31, 2010: EUR 8.5 billion; December 31, 2009: EUR 7.9 billion) in the United States operating segment.

The operating lease expenses recognized in profit or loss amounted to EUR 2.2 billion as of the end of 2010 (2009: EUR 2.1 billion; 2008: EUR 2.0 billion). The following table provides a breakdown of future obligations arising from operating leases:

	Dec. 31, 2010 millions of €	Dec. 31, 2009 millions of €
<b>Maturity</b>		
Within 1 year	2,627	2,553
In 1 to 3 years	4,502	4,195
In 3 to 5 years	3,767	3,325
After 5 years	6,767	14,475
	<b>17,663</b>	<b>24,548</b>

The obligations from operating leases as of December 31, 2009 did not include the obligations of T-Mobile UK which was classified as held for sale.

### Deutsche Telekom as lessor.

**Finance leases.** Deutsche Telekom acts as lessor in connection with finance leases. Essentially, these relate to the leasing of routers 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 shown in the following table:

	Dec. 31, 2010 millions of €	Dec. 31, 2009 millions of €
Minimum lease payments	328	307
Unguaranteed residual value	-	-
Gross investment	328	307
Unearned finance income	(39)	(43)
<b>Net investment (present value of the minimum lease payments)</b>	<b>289</b>	<b>264</b>

The gross investment amount and the present value of payable minimum lease payments are shown in the following table:

	Dec. 31, 2010		Dec. 31, 2009	
	Gross investment millions of €	Present value of minimum lease payments millions of €	Gross investment millions of €	Present value of minimum lease payments millions of €
<b>Maturity</b>				
Within 1 year	126	110	98	83
In 1 to 3 years	142	124	131	112
In 3 to 5 years	55	50	57	49
After 5 years	5	5	21	20
	<b>328</b>	<b>289</b>	<b>307</b>	<b>264</b>

**Operating leases.** Deutsche Telekom acts as a lessor in connection with operating leases and 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 building space and radio towers and have an average term of ten years. The future minimum lease payments arising from non-cancelable operating leases are shown in the following table:

	Dec. 31, 2010 millions of €	Dec. 31, 2009 millions of €
<b>Maturity</b>		
Within 1 year	359	338
In 1 to 3 years	456	406
In 3 to 5 years	346	318
After 5 years	756	624
	<b>1,917</b>	<b>1,686</b>

**Agreements that are not leases in substance.** In 2002, Telekom Deutschland GmbH (formerly T-Mobile Deutschland GmbH) concluded so-called lease-in/lease-out agreements (QTE lease agreements) for substantial parts of its GSM mobile communications network (amounting to USD 0.8 billion). The contracting parties were initially four and, after the contract with one of them was terminated by mutual agreement in 2009, three U.S. trusts backed by U.S. investors. Under the terms of the principal lease agreements, Telekom Deutschland GmbH is obliged to grant the respective U.S. trust unhindered use of the leased objects for a period of 30 years. After expiry of the principal lease agreements, the U.S. trusts have the right to acquire the network components for a purchase price of USD 1.00 each. In return, Telekom Deutschland GmbH has leased the network components back for 16 years by means of sub-lease agreements. After around 13 years, Telekom Deutschland GmbH has the option of acquiring the rights of the respective U.S. trust arising from the principal lease agreements (call option). Upon exercise of this call option, all the rights of the U.S. trust in question to the leased objects arising are transferred to Telekom Deutschland GmbH. In this case, Telekom Deutschland GmbH would be the only party to the principal lease agreement, meaning that this agreement would be extinguished as a result of the fusion of rights and obligations under the agreement.

### 35 Mid-term incentive plans (MTIPs)/ Phantom share plan/ Share-based compensation plans.

The Group has a variety of stock option plans, mid-term incentive plans, and phantom share 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 share-based compensation plans totaled EUR 47 million in the reporting year (2009: EUR 31 million; 2008: EUR 96 million). Provisions total EUR 68 million as of the reporting date (December 31, 2009: EUR 78 million).

#### Mid-term incentive plans (MTIPs)/Phantom share plan.

Mid-term incentive plans (MTIPs) and a phantom share plan (PSP) have been established in the Group for members of the Board of Management, senior executives, and other beneficiaries.

**Mid-term incentive plans.** The MTIP of Deutsche Telekom AG 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 price 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.

At the end of the term of the individual plans, Deutsche Telekom AG's Supervisory Board will establish whether the absolute and relative performance targets for the Board of Management have been achieved. Based on these findings, the Board of Management will establish whether the target has been achieved for Deutsche Telekom and all participating companies as a whole and will communicate this decision. Once it has been established whether one or both targets have been achieved, the relevant amounts will be paid out to the beneficiaries.

The General Committee of the Supervisory Board determined at its meeting on February 3, 2010 that the relative plan target for the 2007 tranche of the MTIP had been achieved, a finding that was confirmed by the Supervisory Board at its meeting on February 24, 2010. Consequently, 50 percent of the award amount for the 2007 tranche was paid out in 2010.

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
2008	83	3	15.11	19.64	601.59
2009	55	3	11.01	14.31	328.55
<b>2010</b>	<b>57</b>	<b>3</b>	<b>10.29</b>	<b>13.38</b>	<b>417.62</b>

The proportionate amount to be expensed is calculated based on a Monte Carlo simulation.

The MTIP of **Magyar Telekom** is largely based on the model that has been used for the MTIP of Deutsche Telekom AG, except that the assessment benchmark is the performance of Magyar Telekom shares and the Dow Jones EURO STOXX® Total Return Index. In addition, the absolute performance target is achieved if, at the end of the individual plans, Magyar Telekom's share price has risen by at least 35 percent compared with Magyar Telekom's share price at the beginning of the plan. The 2008 to 2010 plans are still in operation.

The MTIP of **Hrvatski Telekom** is largely based on the model that has been used for the MTIP of Deutsche Telekom AG. The absolute performance target for the 2008 MTIP is, however, EBITDA, and the relative performance target is a combined index from a basket of telecommunications shares. The absolute performance target for the 2010 MTIP is a 30-percent increase in the HT share price.

**PTC** has established a performance cash plan program with long-term incentive plans (LTIPs). The program provides for additional pay in the form of deferred compensation under the terms and conditions of the LTIP and is aimed at employees whose performance is of outstanding significance for the company's shareholder value. The LTIP is generally open to high-performers at specific management levels. Participants in the plans are selected individually by the management of PTC. Each plan encompasses three consecutive cycles, each running from January 1 through December 31. Participants receive payments from the plan after three years, provided the defined EBITDA target has been achieved (EBITDA hurdle). In addition, a bonus is paid at the end of each cycle. The amount of the bonus is determined for each cycle individually and depends on the level of target achievement. The 2008 to 2010 plans are still in operation.

**Phantom share plan (PSP).** T-Mobile USA has established a phantom share plan (PSP) as Long-Term Incentive Plan (LTIP) on a revolving basis for the years 2005 through 2010, providing benefits for the top management. Under the PSP, T-Mobile USA grants performance-based cash bonus awards. These awards are earned (in full or in part) based upon the customer growth on a sliding scale from 60 to 150 percent of the original number of phantom shares granted. The value of a phantom share appreciates or depreciates from its USD 10 per share face value proportionate to the change in the appraised enterprise value of T-Mobile USA over the performance period. The value of an award is determined by multiplying the number of phantom share awards earned by the appraised value of one phantom share. Awards are earned and paid out ratably over a performance period of two to three years.

### Stock option plans.

The following table provides an overview of all existing stock option plans in the Group:

Entity	Plan	Year of issuance	Stock options granted thousands	Vesting period years	Contractual term years	Weighted exercise price	Share price at grant date	Maximum price for SARs	Classification/ accounting treatment
Deutsche Telekom AG	2001 SOP	2001	8,221	2 - 3	10	€ 30.00	€ 19.10		Equity-settled
		2002	3,928	2 - 3	10	€ 12.36	€ 10.30		Equity-settled
	SARs	2001	165	2 - 3	10	€ 30.00	€ 19.10	€ 50.00	Cash-settled
		2002	3	2 - 3	10	€ 12.36	€ 10.30	€ 20.60	Cash-settled
Deutsche Telekom AG (T-Online International AG)	2001 SOP	2001	2,369	2 - 3	10	€ 10.35	€ 8.28		Cash-settled
		2002	2,067	2 - 6	10	€ 10.26	€ 8.21		Cash-settled
T-Mobile USA	SOP	2001	24,278	up to 4	max. 10	USD 15.36			Cash-settled
		2002	5,964	up to 4	max. 10	USD 13.35			Cash-settled
		2003	1,715	up to 4	max. 10	USD 12.86			Cash-settled
	Powertel	2001	5,323	up to 4	max. 10	USD 20.04			Cash-settled
	T-Mobile USA/ Powertel	2004	230	up to 4	max. 10	USD 19.64			Cash-settled
OTE group	Cosmote group	2005 - 2007	3,440	up to 3	6	€ 14.90	€ 15.48		Equity-settled
		OTE (original) 2008	2008	3,142	up to 3	max. 6	€ 15.70	€ 21.38	
	OTE group 2008	2009	3,226	up to 3	max. 6	€ 16.20	€ 10.40		Equity-settled
		2010	4,671	up to 3	max. 6	€ 9.32	€ 11.26		Equity-settled

**Deutsche Telekom AG.** The 2001 Stock Option Plan (SOP 2001) led to the issuance of stock options in August 2001 and in July 2002. Deutsche Telekom also granted stock appreciation rights (SARs) to employees in countries where it was not legally possible to issue stock options.

**Deutsche Telekom AG (formerly T-Online International AG (prior to merger)).** The merger of T-Online International AG into Deutsche Telekom AG became effective upon entry in the commercial register on June 6, 2006. Under the German Reorganization and Transformation Act (Umwandlungsgesetz) Deutsche Telekom AG had to grant the holders of stock options "equivalent rights." Accordingly, the merger agreement entitled holders to purchase 0.52 registered no par value share per option at the exercise price specified in the terms and conditions for the respective options. Pursuant to the merger agreement, the Board of Management decided on August 2, 2005 that in future, equivalent rights would be granted in the form of a cash settlement. In the proceedings concerning the review of the appropriateness of the exchange ratio in the merger of

T-Online International AG into Deutsche Telekom AG, the Frankfurt/Main Higher Regional Court ruled on September 3, 2010 that Deutsche Telekom must make a supplementary cash payment of EUR 1.15 per share to former T-Online shareholders. According to the provisions of the merger agreement, this cash payment reduces the exercise price specified in the terms and conditions for the options. The exercise price less the cash payment is EUR 9.20 for the 2001 tranche and EUR 9.11 for the 2002 tranche.

**T-Mobile USA.** Prior to the acquisition on May 31, 2001 of T-Mobile USA (formerly VoiceStream and PowerTel), the companies had granted stock options to their employees under the 1999 Management Incentive Stock Option Plan (MISOP). These plans were combined as of January 1, 2004 into a single T-Mobile plan. The exchange ratio for VoiceStream shares was 3.7647 per share and for PowerTel shares 2.6353 per share. The plan has now expired and no more options can be issued. In accordance with a resolution it passed on June 15, 2010, the Board of Management of Deutsche Telekom AG will make use of the option of a cash settlement for these stock options in the future.

The table below shows the changes in outstanding options from the stock option plans in the 2010 financial year:

	Equity-settled			Cash-settled	
	Deutsche Telekom AG	OTE group	Deutsche Telekom AG	Deutsche Telekom AG (T-Online International AG)	T-Mobile USA
	Stock options thousands	Stock options thousands	SARs thousands	Stock options thousands	Stock options thousands
<b>Stock options outstanding/exercisable at January 1, 2010</b>	<b>8,057</b>	<b>8,675</b>	<b>134</b>	<b>2,346</b>	<b>5,403</b>
Granted	-	4,671	-	-	-
Exercised	-	-	-	-	209
Forfeited	1,357	666	2	325	2,152
<b>Stock options outstanding at December 31, 2010</b>	<b>6,700</b>	<b>12,680</b>	<b>132</b>	<b>2,021</b>	<b>3,042</b>
<b>Stock options exercisable at December 31, 2010</b>	<b>6,700</b>	<b>6,713</b>	<b>132</b>	<b>2,021</b>	<b>3,042</b>
Weighted average exercise price at December 31, 2010 (stock options outstanding)	€ 23.44	€ 13.44	€ 29.93	€ 9.15	USD 20.22
Weighted average exercise price at December 31, 2010 (stock options exercisable)	€ 23.44	€ 15.00	€ 29.93	€ 9.15	USD 20.22

The characteristics of the options at December 31, 2010 are as follows:

Range of exercise prices €	Deutsche Telekom AG		Deutsche Telekom AG (T-Online International AG)		OTE group	
	Number thousands	Remaining contractual life years*	Number thousands	Remaining contractual life years*	Number thousands	Remaining contractual life years*
8 – 20	2,493	1.5	2,021	1.1	12,680	3.5
21 – 40	4,207	0.6	-	-	-	-
	<b>6,700</b>	<b>1.0</b>	<b>2,021</b>	<b>1.1</b>	<b>12,680</b>	<b>3.5</b>

\* Weighted average.

Range of exercise prices USD	T-Mobile USA	
	Number thousands	Remaining contractual life years*
0.02 – 15.19	948	1.3
15.20 – 30.39	2,083	0.2
30.40 – 34.19	11	0.1
34.20 – 38.00	-	-
	<b>3,042</b>	<b>0.5</b>

\* Weighted average.

## 36 Disclosures on financial instruments.

### Carrying amounts, amounts recognized, and fair values by measurement category.

	Category in accordance with IAS 39	Carrying amounts Dec. 31, 2010  millions of €	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 €
<b>Assets</b>						
Cash and cash equivalents	LaR	2,808	2,808			
Trade receivables	LaR	6,766	6,766			
Other receivables	LaR/n.a.	2,628	2,340			
Other non-derivative financial assets						
Held-to-maturity investments	HtM	91	91			
Available-for-sale financial assets	AfS	513		335	178	
Derivative financial assets						
Derivatives without a hedging relationship	FAHFT	560				560
Derivatives with a hedging relationship	n.a.	275			131	144
<b>Liabilities and shareholders' equity</b>						
Trade payables	FLAC	6,737	6,737			
Bonds and other securitized liabilities	FLAC	38,190	38,190			
Liabilities to banks	FLAC	4,190	4,190			
Liabilities to non-banks from promissory notes	FLAC	1,164	1,164			
Other interest-bearing liabilities	FLAC	1,838	1,838			
Other non-interest-bearing liabilities	FLAC	3,193	3,193			
Finance lease liabilities	n.a.	1,400				
Derivative financial liabilities						
Derivatives without a hedging relationship (held for trading)	FLHFT	249				249
Derivatives with a hedging relationship (hedge accounting)	n.a.	322			322	
Of which: aggregated by category in accordance with IAS 39:						
Loans and receivables (LaR)		11,914	11,914			
Held-to-maturity investments (HtM)		91	91			
Available-for-sale financial assets (AfS)		513		335	178	
Financial assets held for trading (FAHFT)		560				560
Financial liabilities measured at amortized cost (FLAC)		55,312	55,312			
Financial liabilities held for trading (FLHFT)		249				249

\* For details, please refer to Note 8.



Amounts recognized in the statement of financial position according to IAS 17 millions of €	Fair value Dec. 31, 2010 millions of €	Category in accordance with IAS 39	Carrying amounts Dec. 31, 2009 millions of €	Amounts recognized in the statement of financial position according to IAS 39				Amounts recognized in the statement of financial position according to IAS 17 millions of €	Fair value Dec. 31, 2009 millions of €
				Amortized cost millions of €	Cost millions of €	Fair value recognized in equity millions of €	Fair value recognized in profit or loss millions of €		
	2,808	LaR	5,022	5,022				5,022	
	6,766	LaR	6,643	6,643				6,643	
288	2,628	LaR/n.a.	2,003	1,739			264	2,003	
	91	HtM	80	80				80	
	178*	AfS	609		411	198		198*	
	560	FAHfT	653				653	653	
	275	n.a.	395			170	225	395	
	6,737	FLAC	6,294	6,294				6,294	
	41,806	FLAC	38,508	38,508				41,813	
	4,346	FLAC	4,718	4,718				4,864	
	1,326	FLAC	1,057	1,057				1,205	
	1,838	FLAC	1,511	1,511				1,562	
	3,193	FLAC	2,995	2,995				2,995	
1,400	1,671	n.a.	1,423				1,423	1,703	
	249	FLHfT	730				730	730	
	322	n.a.	249			197	52	249	
	11,914		13,404	13,404				13,404	
	91		80	80				80	
	178*		609		411	198		198*	
	560		653				653	653	
	59,246		55,083	55,083				58,733	
	249		730				730	730	

## Classes of financial instruments according to IFRS 7.27.

	Dec. 31, 2010				Dec. 31, 2009			
	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 €
<b>Assets</b>								
Available-for-sale financial assets (AFS)		178		178		198		198
Financial assets held for trading (FAHfT)		560		560		653		653
Derivative financial assets with a hedging relationship		275		275		395		395
<b>Liabilities and shareholders' equity</b>								
Financial liabilities held for trading (FLHfT)		249		249		730		730
Derivative financial liabilities with a hedging relationship		322		322		249		249

For further details on classes of financial instruments, please refer to "Changes in accounting policies and changes in the reporting structure" in the section "Summary of accounting policies."

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.

## Net gain/loss by measurement category.

	From interest, dividends	From subsequent measurement			From derecognition	Net gain (loss)	
		At fair value	Currency translation	Impairment/ reversal of impairment		2010	2009
	millions of €	millions of €	millions of €	millions of €	millions of €	millions of €	
Loans and receivables (LaR)	77		1,301	(749)		629	(779)
Held-to-maturity investments (HtM)	2					2	7
Available-for-sale financial assets (AFS)	45			(101)	14	(42)	45
Financial instruments held for trading (FAHfT and FLHfT)	n.a.	654				654	(79)
Financial liabilities measured at amortized cost (FLAC)	(2,646)		(1,716)			(4,362)	(2,574)
	<b>(2,522)</b>	<b>654</b>	<b>(415)</b>	<b>(850)</b>	<b>14</b>	<b>(3,119)</b>	<b>(3,380)</b>

Interest from financial instruments is recognized in finance costs, dividends in other financial income/expense (please refer to Notes 22 and 24). 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 refer to Note 2) that are classified as loans and receivables which are reported under selling expenses. The net gain from the subsequent measurement for financial instruments held for trading (EUR 654 million) also includes interest and currency translation effects. The net currency translation gains on financial assets classified as loans and receivables (EUR 1,301 million) are primarily attributable to the Group-internal transfer of foreign-currency loans taken out by Deutsche Telekom's financing company, Deutsche Telekom International Finance B.V., on the capital market. These were offset by corresponding currency translation losses on capital market liabilities of EUR 1,716 million. Finance costs from financial liabilities measured at amortized cost (EUR 2,646 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 refer to Note 22).

## 37 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 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 transactions 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 financial 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 Swiss francs, Czech koruna, Japanese yen, pound sterling, 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 for hedging currency risks, the changes in the fair values of the hedged item and the hedging instruments 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.

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 transactions. Others are currency derivatives that are neither part of one of the hedges defined in IAS 39 nor part of a natural hedge.

These derivatives are used to hedge planned transactions. Exchange rate fluctuations of the currencies on which such financial instruments are based affect other financial income or expense (net gain/loss from remeasurement of financial assets and liabilities to fair value).

If the euro had gained (lost) 10 percent against the U.S. dollar, the pound sterling, the Indonesian rupiah and the Malaysian ringgit at December 31, 2010, the hedging reserve in shareholders' equity and the fair values of the hedging transactions before taxes would have been EUR 38 million lower (higher) (December 31, 2009: EUR 70 million lower (higher)). The hypothetical effect of EUR -38 million on profit or loss primarily results from the currency sensitivities EUR/USD: EUR -22 million; EUR/GBP: EUR -15 million.

If the euro had gained (lost) 10 percent against all currencies at December 31, 2010, other financial income and the fair value of the hedging transactions before taxes would have been EUR 17 million higher (lower) (December 31, 2009: EUR 11 million lower (higher)). The hypothetical effect on profit or loss of EUR 17 million primarily results from the currency sensitivities EUR/USD: EUR -48 million; EUR/PLN: EUR 46 million; EUR/HUF: EUR 10 million and EUR/CZK: EUR 9 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 financial liabilities 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 financial liabilities for a period of 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 financial liabilities of the composition specified by the Board of Management.

Due to the derivative hedges, an average of 65 percent (2009: 72 percent) of the net financial liabilities in 2010 denominated in euros and 61 percent (2009: 73 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 of 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 of 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, 2010, profit or loss before taxes would have been EUR 249 million (December 31, 2009: EUR 194 million) lower (higher). The hypothetical effect of EUR -249 million on income results from the potential effects of EUR -228 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, 2010, total comprehensive income before taxes would have been EUR 164 million (December 31, 2009: EUR 104 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 of December 31, 2010, Deutsche Telekom did not hold any material investments to be classified as available for sale.

**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 must be 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.

The maximum exposure to credit risk is partly represented by the carrying amounts of the financial assets that are carried in the statement of financial position, including derivatives with positive market values. Except for the collateral agreements mentioned in Notes 1 and 8, no significant agreements reducing the maximum exposure to credit risk (such as contractual netting) had been concluded as of the reporting date. In addition, Deutsche Telekom is exposed to a credit risk through the granting of financial guarantees. Guarantees amounting to a nominal total of EUR 115 million had been pledged as of the reporting date (December 31, 2009: EUR 41 million).

**Risks relating to financing commitments.** Deutsche Telekom acquired a bond issued by Everything Everywhere for a nominal amount of GBP 625 million. Deutsche Telekom is obliged to continue putting the full amount, which is due on November 30, 2011, at the joint venture's disposal until the end of March 2012 and grant follow-up financing at normal market conditions, possibly in the form of a guarantee. The nominal amount of GBP 625 million is the maximum default risk associated with this commitment.

**Liquidity risks.**  Please refer to Note 10.



## 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 (receive fixed, pay variable) denominated in CHF, EUR, GBP, JPY and USD. Fixed-income bonds/MTNs denominated in CHF, EUR, GBP, JPY and USD were designated as hedged items. The changes in the fair values of the hedged items resulting from changes in the CHF Libor, Euribor, GBP Libor, JPY Libor or USD Libor 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.

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, with their effectiveness having been tested using statistical methods, were effective at the reporting date.

As the list of the fair values of derivatives shows (☐ please refer to table under Derivatives), Deutsche Telekom had interest rate derivatives in a net amount of EUR +0.1 billion (2009: EUR +0.2 billion) designated as fair value hedges at December 31, 2010. The remeasurement of the hedged items results in losses of EUR 0.3 billion being recorded in other financial income/expense in the 2010 financial year (2009: gains of EUR 0.3 billion); the changes in the fair values of the hedging transactions result in gains of EUR 0.3 billion (2009: losses of EUR 0.3 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 (receive variable, pay fixed) to hedge the cash flow risk of variable-interest debt. 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. Credit risks are not part of the hedging.

In 2010, Deutsche Telekom entered into forward payer interest rate swaps totaling EUR 3.0 billion for transactions expected in 2012. The following table shows the contractual maturities newly incorporated into a hedging relationship in 2010 relating to the payments for the aforementioned forward payer interest rate swaps.

Start	End	Nominal volume	Reference rate
January 16, 2012	January 16, 2015	€ 3,000 million	6-month Euribor

The effectiveness of the hedging relationship is tested prospectively and retrospectively using statistical methods in the form of a regression analysis. Ineffective cash flow hedges of EUR –16 million were recognized in profit or loss in the reporting year (2009: EUR 0 million). All hedging relationships of this nature were sufficiently effective as of the reporting date.

As the list of the fair values of derivatives shows (☐ please refer to table under Derivatives), Deutsche Telekom had interest rate derivatives with a fair value of EUR –0.3 billion (2009: EUR –0.1 billion) amounting to a nominal total of EUR 6.7 billion (2009: EUR 3.7 billion) designated as hedging instruments for cash flow hedges at December 31, 2010. The terms of the hedging relationships will end in the years 2012 through 2015. The recognition directly in equity of the change in the fair value of the hedging transactions resulted in losses of EUR 0.1 billion being recorded in the revaluation surplus in the 2010 financial year (2009: losses of EUR 0.1 billion). Losses amounting to EUR 56 million recognized in shareholders' equity were transferred to other financial income/expense in the 2010 financial year (2009: losses of EUR 41 million).

**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. In 2010 agreements were signed for cross-currency swaps in CHF/EUR totaling CHF 0.4 billion and a euro equivalent of EUR 0.3 billion as well as for cross-currency swaps in GBP/EUR totaling GBP 0.9 billion and a euro equivalent of EUR 1.0 billion. The CHF/EUR foreign currency derivative arrangements signed in 2010 will expire in 2016, whereas the EUR/GBP foreign currency derivatives entered into in 2010 have various maturities between 2012 and 2030. The effectiveness of the hedging relationship is tested prospectively and retrospectively using statistical methods in the form of a regression analysis. The hedging relationship was effective as of the reporting date.

In the 2010 financial year, gains totaling EUR 238 million (2009: gains of EUR 26 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. Gains amounting to EUR 98 million recognized in shareholders' equity were transferred to other financial income/expense in the 2010 financial year (2009: gains of EUR 32 million). 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 under Derivatives), Deutsche Telekom had currency forwards of a net fair value of EUR –43 million (2009: EUR –2 million) and a total volume of EUR 0.3 billion (2009: EUR 0.7 billion), as well as cross-currency swaps of a net fair value of EUR +0.1 billion (2009: EUR +0.1 billion) and a total volume of EUR 2.1 billion (2009: EUR 1.9 billion) designated as hedging instruments for cash flow hedges as of December 31, 2010. The terms of the hedging relationships will end in the years 2011 through 2030.

**Derivatives.** The following table 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) or not. Other derivatives can also be embedded (i.e., a component of a composite instrument that contains a non-derivative host contract).

	Net carrying amounts Dec. 31, 2010 millions of €	Net carrying amounts Dec. 31, 2009 millions of €
<b>Assets</b>		
Interest rate swaps		
– Held for trading	43	94
– In connection with fair value hedges	144	225
– In connection with cash flow hedges	0	0
Currency forwards/currency swaps		
– Held for trading	53	91
– In connection with cash flow hedges	13	15
Cross-currency swaps		
– Held for trading	464	468
– In connection with cash flow hedges	118	155
Other derivatives in connection with cash flow hedges	0	0
<b>Liabilities and shareholders' equity</b>		
Interest rate swaps		
– Held for trading	12	80
– In connection with fair value hedges	–	52
– In connection with cash flow hedges	266	142
Currency forwards/currency swaps		
– Held for trading	43	46
– In connection with cash flow hedges	56	17
Cross-currency swaps		
– Held for trading	184	555
– In connection with cash flow hedges	–	32
Other derivatives in connection with cash flow hedges	–	6
Embedded derivatives	10	49

**Disclosures on capital management.** The overriding aim of the Group's capital management is to ensure that it will continue to be able to repay its debt and remain financially sound.

An important indicator of capital management is the gearing ratio of net debt to shareholders' equity as shown in the consolidated statement of financial position. Deutsche Telekom considers net debt to be an important measure for investors, analysts, and rating agencies. It is a non-GAAP figure not governed by International Financial Reporting Standards and its definition and calculation may vary from one company to another. The gearing remained constant year-on-year at 1.0 as of December 31, 2010. The target corridor for this indicator is between 0.8 and 1.2.

#### Calculation of net debt; shareholders' equity.

	Dec. 31, 2010 millions of €	Dec. 31, 2009 millions of €
Bonds	38,190	38,508
Liabilities to banks	4,190	4,718
Liabilities to non-banks from promissory notes	1,164	1,057
Derivative financial liabilities	561	924
Lease liabilities	1,934	1,909
Other financial liabilities	1,279	1,001
<b>Gross debt</b>	<b>47,318</b>	<b>48,117</b>
Cash and cash equivalents	2,808	5,022
Available-for-sale/held-for-trading financial assets	75	162
Derivative financial assets	835	1,048
Other financial assets	1,331	974
<b>Net debt</b>	<b>42,269</b>	<b>40,911</b>
<b>Shareholders' equity in accordance with the consolidated statement of financial position</b>	<b>43,028</b>	<b>41,937</b>



## 38 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, 2009: 31.7 percent) of the share capital of Deutsche Telekom AG. Due to the average attendance at the shareholders' meeting, the Federal Republic represents a solid majority at the shareholders' meeting, although it only has a minority shareholding, making Deutsche Telekom a dependent company of the Federal Republic. 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; this also includes the Deutsche Post DHL group and the Commerzbank group.

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 – VAP), 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 2010 financial year, Deutsche Telekom made payments in the amount of EUR 59 million (2009: EUR 56 million; 2008: EUR 55 million). Payments are made to the special pension fund according to the provisions of the Posts and Telecommunications Reorganization Act (see Note 12).

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 of Deutsche Telekom and as such source services from the Company. 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. As part of its normal business activities, Deutsche Telekom provided telecommunications and similar services, while the companies controlled by the Federal Republic and companies over which the Federal Republic can exercise a significant influence also provided services, in particular transport and financial services, for companies of the Deutsche Telekom Group as part of their normal business activities.

Deutsche Telekom did not execute as part of its normal business activities any transactions that were individually material in the 2010 financial year with companies controlled by the Federal Republic or companies over which the Federal Republic can exercise a significant influence.

**Joint ventures and associates.** Deutsche Telekom has business relationships with numerous associates and joint ventures.

Revenues of EUR 0.1 billion were generated in the 2010 financial year with the Everything Everywhere joint venture established on April 1, 2010. In addition, Deutsche Telekom acquired a bond issued by Everything Everywhere for a nominal amount of GBP 625 million that will mature on November 30, 2011. Deutsche Telekom has an obligation to Everything Everywhere to make this funding available in the same amount until the end of March 2012.

In 2010, Deutsche Telekom generated revenues from its Toll Collect joint venture amounting to EUR 0.1 billion (2009: EUR 0.1 billion; 2008: EUR 0.1 billion). For further details, please refer to Note 33.

**Related individuals.** For information on the compensation of the Board of Management and Supervisory Board, please refer to Note 39. Besides this, no major transactions took place with related individuals.

## 39 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), IAS 24 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.** On December 17, 2009, the Supervisory Board agreed to Hamid Akhavan's request to resign his seat on the Board of Management effective February 15, 2010. On January 29, 2010, the Supervisory Board of Deutsche Telekom approved the proposal by the Board of Management to reassign Hamid Akhavan's responsibilities on a temporary basis. Board of Management members Guido Kerkhoff and Reinhard Clemens assumed Hamid Akhavan's responsibilities in an acting capacity. Guido Kerkhoff assumed temporary responsibility for the Europe operating segment (the United Kingdom, the Netherlands, Austria, Poland, and the Czech Republic) and International Sales and Service effective February 15, 2010. Reinhard Clemens, also in an acting capacity, assumed Group-wide responsibility for the remaining units of the Chief Operating Officer (COO), such as Products & Innovation, Technology, IT and Procurement effective the same date.

On February 24, 2010, the Supervisory Board of Deutsche Telekom approved the proposal by the Board of Management to extend Guido Kerkhoff's area of responsibility on a long-term basis. Since April 1, 2010, Guido Kerkhoff has been responsible for the Europe operating segment in addition to the Southern and Eastern Europe operating segment. The former Chief Operating Officer (COO) Board of Management department has been adjusted accordingly. Since April 1, 2010, the two operating segments have been merged and are continuing operations as the Europe operating segment.

At its meeting on May 2, 2010, the Supervisory Board appointed Edward R. Kozel as a new member of Deutsche Telekom's Board of Management effective May 3, 2010. Edward R. Kozel took over as member of the Board of Management for Technology and Innovation/Chief Technology and Innovation Officer (CTIO) and as such is responsible for Technology, IT, Procurement, and Products & Innovation for standard business (consumers and business customers).

On December 17, 2009, the Supervisory Board resolved to extend Dr. Manfred Balz's tenure on the Board, which ended on October 21, 2010, by two more years.

The Supervisory Board resolved on December 16, 2010 to extend the service contract of the Chairman of the Board of Management, René Obermann, that was due to expire on October 31, 2011, for a further five years.

**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. At December 31, 2010, Board of Management members René Obermann, Reinhard Clemens, Niek Jan van Damme, Timotheus Höttges, Guido Kerkhoff, and Edward R. Kozel had changed over to the new system while the other members remained with the old system, the vast majority of whose provisions have already been brought in line with the requirements of VorstAG. The new and old systems are explained below.

**Basis of Board of Management compensation.** The compensation of Board of Management members is comprised of various components. Under the terms of their service contracts, members of the Board of Management are entitled to annual fixed remuneration and annual variable performance-based remuneration, 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.

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.

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, EBITDA adjusted for special factors, and free cash flow. The level of target achievement is determined by the Supervisory Board for the respective financial year.

Members of the Board of Management also participate in the Deutsche Telekom AG mid-term incentive plan (MTIP) introduced in the 2004 financial year (■ please refer to the information on the MTIP under Note 35).

	2010 MTIP Award amount	2010 MTIP Fair value at grant date	Total expense for share-based payments in 2010	2009 MTIP Award amount	Total expense for share-based payments in 2009
	€ *	€ *	€ *	€ *	€ *
René Obermann	0	0	181,341	750,000	257,518
Hamid Akhavan (until February 15, 2010)	0	0	(123,942)	480,000	164,812
Dr. Manfred Balz	330,000	22,489	61,375	330,000	62,004
Reinhard Clemens	0	0	101,551	420,000	63,869
Dr. Karl-Gerhard Eick (until February 28, 2009)	0	0	0	0	(250,939)
Niek Jan van Damme	0	0	22,737	295,000	41,502
Timotheus Höttges	0	0	108,805	450,000	154,511
Guido Kerkhoff	0	0	46,776	360,000	70,366
Thomas Sattelberger	515,000	35,097	163,652	515,000	173,887
	<b>845,000</b>	<b>57,586</b>	<b>562,295</b>	<b>3,600,000</b>	<b>737,530</b>

\* Fair value calculated using the so-called Monte Carlo model.

#### 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, 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 annual variable remuneration set by the plenary session of the Supervisory Board must be invested in shares of Deutsche Telekom AG within a defined period of time; these shares must be held by the respective Board member for a period of at least four years. 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).

**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.

**Changeover from the old compensation system for Board of Management members to the new system.** For the transition from the old compensation system to the new one, the Supervisory Board resolved to make an offer to the Board of Management members already appointed at the time of the switch to the new system under which they would waive their entitlement from the existing tranche of the 2009 MTIP and be awarded Variable II in the form described above for the remaining duration of this tranche (up to December 31, 2011). The original volume awarded was not changed (please refer to the table on MTIP award amounts). The Supervisory Board also resolved that all Board members who changed over to the new system would no longer be awarded shares from the 2010 MTIP tranche but would instead be awarded an amount equivalent to the contractually agreed Variable II, which has a three-year term. The tranche of the 2008 MTIP, which will run until December 31, 2010, remains unchanged due to the short remaining term. By structuring the MTIP in this way, the Supervisory Board will enable the Board of Management to continue to receive a payout of the multi-year variable remuneration entitlement each year assuming the defined targets have been met. Without this transitional solution, the changeover from a three-year to a four-year term in the long-term remuneration instruments would make a payout in 2013 impossible for system-related reasons. Members of the Board of Management who switch to the new Board of Management compensation system have the option of participating in the share matching plan with the shares acquired in 2010. The level of participation in the share matching plan for 2010 is limited to a third of the contractually agreed new Variable I.

**Information on matching shares.** In the 2010 financial year, the Board of Management members who joined the new Board of Management compensation system, as described above, pledged 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 holding 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.

In accordance with GAS 17 and IFRS 2, the total share-based payment expense arising for 2010 matching shares and the grant date fair value of the matching shares must be specified. The following table is based on expected target achievement for the 2010 financial year and thus on the expected amount of the personal investment by the respective Board of Management member.

	Total share-based payment expense for matching shares 2010 €	Fair value of the matching shares at grant date €
René Obermann	78,372	628,943
Reinhard Clemens	40,937	328,255
Niek Jan van Damme	34,461	276,523
Timotheus Höttges	47,023	377,363
Guido Kerkhoff	23,958	138,949
Edward R. Kozel	32,143	225,115

Up to December 31, 2010, Deutsche Telekom had not acquired any matching shares for the purpose of issuance.

The number of matching shares to be granted to the individual Board members must also be stated. This shall be determined based on the probable target achievement of Variable I and the share price on grant date. The following Board members were granted the following numbers of matching shares for the 2010 financial year: René Obermann 85,804, Reinhard Clemens 44,002, Niek Jan von Damme 37,828, Timotheus Höttges 51,482, Guido Kerkhoff 18,601 and Edward R. Kozel 22,693.

Because matching shares were granted for the first time in the 2010 financial year, there are no comparative figures for the prior-year period.

**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 a payment in the amount of the annual basic remuneration last received.

### 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 defined contribution plan 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. Board 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 defined contribution plans.

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. In general, the standard criteria for eligibility in the pension arrangements are in line with market levels. 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.

Service costs and defined benefit obligation for each member of the Board of Management are shown in the following table:

	Service costs	Defined benefit obligation (DBO)
	2010 €	Dec. 31, 2010 €
René Obermann	575,170	5,358,169
Dr. Manfred Balz	282,982	613,412
Reinhard Clemens	367,252	1,232,442
Niek Jan van Damme	275,534	465,141
Timotheus Höttges	260,901	1,307,754
Guido Kerkhoff	273,876	431,504
Edward R. Kozel	146,567	146,567
Thomas Sattelberger	875,447	4,751,293

EUR 290,000 was credited to the pension accounts of Guido Kerkhoff and Niek Jan van Damme in accordance with the provisions of the new company pension plan; EUR 270,000 was credited to the account of Dr. Manfred Balz and EUR 250,000 to the account of Edward R. Kozel.

The pension expense resulting from the company pension plan is shown as service costs. The additions to provisions for pensions recognized in 2010 amounted to EUR 3.6 million (2009: EUR 4.1 million). This amount includes service costs of EUR 3.1 million (2009: EUR 3.6 million) and interest costs of EUR 0.5 million (2009: EUR 0.5 million).

**Stock option plan.** Deutsche Telekom no longer issues any stock option plans. Several Board of Management members, however, still hold stock options from the 2001 Stock Option Plan with its two tranches of 2001 and 2002.

Timotheus Höttges and René Obermann continue to participate in the 2002 tranche of the 2001 Stock Option Plan as a result of their prior activities at T-Mobile. Dr. Manfred Balz and Guido Kerkhoff still participate in the Stock Option Plan as a result of their employment relationship prior to being appointed to the Board of Management.


The stock options that have been granted can be exercised under the terms of the stock option plans. However, no options have yet been exercised. The number of stock options held by the Board of Management members active as of December 31, 2010 is unchanged year-on-year.

The number of stock options is shown in the table below.

The range of exercise prices of René Obermann's and Dr. Manfred Balz's options varies between EUR 12.36 and EUR 30.00.

Due to the fact that the remaining members of the Board of Management only participate in one tranche of the stock option plan, no range need be stated.

The average remaining term of the outstanding options for Board of Management members as of December 31, 2010 is 1.0 years.

 Please also refer to the explanations regarding stock option plans under Note 35.

**Board of Management compensation for the 2010 financial year.** In reliance on legal requirements and other guidelines, a total of EUR 14.4 million (2009: EUR 13.7 million) is reported in the table on the next page as total compensation for the 2010 financial year for the members of the Board of Management.

This compensation comprises 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, variable remuneration (Variable I), and the fair value of the matching shares. This was calculated on the basis of the estimated amount of Variable I at year-end and the resulting number of matching shares.

For Board of Management members in the old compensation system, this compensation comprises fixed annual remuneration, other benefits, non-cash benefits, remuneration in kind, variable remuneration for the 2010 financial year, and the fair value of the 2010 MTIP at the grant date.

All other remuneration is totally unrelated to performance.

		Number of options 2001 SOP 2001 tranche	Value of options on issue (2001) €	Number of options 2001 SOP 2002 tranche	Value of options on issue (2002) €	Weighted average exercise price of stock options €
René Obermann	2010	48,195	4.87	28,830	3.79	23.40
	2009	48,195		28,830		
Hamid Akhavan (until February 15, 2010)	2010	0	0	0	0	0
	2009	0		19,840	3.79	12.36
Dr. Manfred Balz	2010	32,130	4.87	17,360	3.79	23.81
	2009	32,130		17,360		
Timotheus Höttges	2010	0		17,050	3.79	12.36
	2009	0		17,050		
Guido Kerkhoff	2010	0		4,650	3.79	12.36
	2009	0		4,650		
	2010	80,325		67,890		
	2009	80,325		87,730		

**Total compensation.** The compensation of the Board of Management is shown in detail in the following table:

		Fixed annual remuneration	Other remuneration	Short-term variable remuneration	Long-term variable remuneration (fair value) <sup>a</sup>	Total
		€	€	€	€	€
René Obermann	<b>2010</b>	1,350,000	35,790	1,346,250	628,943	<b>3,360,983</b>
	2009	1,250,000	37,233	1,365,000	76,613	<b>2,728,846</b>
Hamid Akhavan (until February 15, 2010)	<b>2010</b>	100,000	50,001 <sup>b</sup>	119,244	–	<b>269,245</b>
	2009	800,000	611,878 <sup>b</sup>	789,600	49,032	<b>2,250,510</b>
Dr. Manfred Balz	<b>2010</b>	687,097	18,292	391,716	22,489	<b>1,119,594</b>
	2009	660,000	19,204	468,600	33,710	<b>1,181,514</b>
Reinhard Clemens	<b>2010</b>	795,000	25,064	665,000	328,255	<b>1,813,319</b>
	2009	658,333	31,531	825,750	42,903	<b>1,558,517</b>
Dr. Karl-Gerhard Eick (until February 28, 2009)	<b>2010</b>	–	–	–	–	<b>–</b>
	2009	183,750	17,371	183,750	–	<b>384,871</b>
Niek Jan van Damme	<b>2010</b>	570,000	24,502	542,080	276,523	<b>1,413,105</b>
	2009	366,667	31,538	549,450	30,134	<b>977,789</b>
Timotheus Höttges	<b>2010</b>	825,000	22,265	775,500	377,363	<b>2,000,128</b>
	2009	750,000	21,583	803,250	45,968	<b>1,620,801</b>
Guido Kerkhoff	<b>2010</b>	610,000	20,322	606,480	138,949	<b>1,375,751</b>
	2009	433,333	11,874	692,250	36,774	<b>1,174,231</b>
Edward R. Kozel (since May 3, 2010)	<b>2010</b>	595,161	43,960	420,623	225,115	<b>1,284,859</b>
	2009	–	–	–	–	<b>–</b>
Thomas Sattelberger	<b>2010</b>	800,000	4,582	908,417	35,097	<b>1,748,096</b>
	2009	800,000	5,687	976,250	52,607	<b>1,834,544</b>
	<b>2010</b>	<b>6,332,258</b>	<b>244,778</b>	<b>5,775,310</b>	<b>2,032,734</b>	<b>14,385,080</b>
	<b>2009</b>	<b>5,902,083</b>	<b>787,899</b>	<b>6,653,900</b>	<b>367,741</b>	<b>13,711,623</b>

<sup>a</sup> This column shows the fair value both of the matching shares and for participation in the 2010 MTIP.

<sup>b</sup> In addition to the pension substitute paid to Hamid Akhavan due to his U.S. citizenship, he also received a monthly lump-sum payment to compensate for different tax regulations in Germany and the United States.

Expenditure on the award amounts for Variable II in the 2010 financial year totaled EUR 3.3 million (2009: EUR 0.0 million).

Under the termination agreement concluded with Hamid Akhavan effective February 15, 2010, all existing entitlements to stock options and the outstanding tranches of the 2008 MTIP and 2009 MTIP were terminated without compensation. The proportionate fixed basic remuneration and the proportionate other remuneration were paid for the period up to February 15, 2010. The proportionate entitlement to short-term variable remuneration based on average target achievement over the previous three financial years was determined for the same period. The annual payment of a pension substitute agreed with Hamid Akhavan was made for the last time in 2009. Since February 15, 2010, Hamid Akhavan has received monthly payments of one fixed annual salary as agreed compensation for the prohibition of competition.

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

**Former members of the Board of Management.** A total of EUR 5.4 million (2009: EUR 4.2 million) was recorded for payments to and entitlements for former members of the Board of Management and their surviving dependents.

Provisions (measured in accordance with IAS 19) totaling EUR 99.3 million (2009: EUR 96.3 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 a fixed annual remuneration of EUR 30,000.00 for the 2010 financial year and of EUR 40,000.00 for subsequent years, plus variable, performance-related remuneration depending on the development of net profit per 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 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 2010 amounted to EUR 1,942,791.66 (plus VAT).

No loans were granted to the members of the Supervisory Board.

The compensation of the individual members of the Supervisory Board for 2010 is as follows:

Member of the Supervisory Board	Fixed remuneration incl. attendance fee €	Imputed long-term remuneration entitlement <sup>a</sup> €
Asmussen, Jörg	54,000.00	23,250.00
Becker, Hermann Josef	90,000.00	38,750.00
Dr. Bernotat, Wulf	47,000.00	20,150.00
Brandl, Monika	47,000.00	20,150.00
Bury, Hans Martin	81,000.00	35,650.00
Falbisoner, Josef (until May 3, 2010)	14,500.00	6,458.33
Dr. von Grünberg, Hubertus	51,000.00	23,250.00
Guffey, Lawrence H.	78,000.00	35,650.00
Hocker, Ulrich	36,000.00	15,500.00
Holzwarth, Lothar <sup>b</sup>	76,000.00	32,550.00
Kallmeier, Hans-Jürgen <sup>c</sup>	52,000.00	23,250.00
Kühnast, Sylvia	36,000.00	15,500.00
Prof. Dr. Lehner, Ulrich (Chairman)	136,000.00	60,450.00
Litzenberger, Waltraud	131,000.00	54,250.00
Löffler, Michael	36,000.00	15,500.00
Prof. Dr. Middelmann, Ulrich	53,000.00	23,250.00
Schröder, Lothar (Deputy Chairman) <sup>d</sup>	115,000.00	49,600.00
Dr. Schröder, Ulrich	47,000.00	20,150.00
Sommer, Michael	35,000.00	15,500.00
Spoo, Sibylle (since May 4, 2010)	22,000.00	10,333.33
Dr. h.c. Walter, Bernhard	115,000.00	51,150.00
	<b>1,352,500.00</b>	<b>590,291.66</b>

<sup>a</sup> In determining the amount to be recognized as a provision it was assumed that net profit per no par value share in 2012 would equal that in 2010. If so, entitlement per full year in the comparison period of 2009 to 2012 will be EUR 15,500.00. Upon application of the multiplying factor, the provision amount totals EUR 590,291.66.

<sup>b</sup> Lothar Holzwarth received compensation of EUR 11,333.33 from Telekom Deutschland GmbH (formerly T-Mobile Deutschland GmbH), Bonn, a wholly owned subsidiary of Deutsche Telekom AG, for the 2010 financial year for a mandate as member of the supervisory board of this company.

<sup>c</sup> Hans-Jürgen Kallmeier received compensation of EUR 833.33 from T-Systems International GmbH, Frankfurt/Main, a wholly owned subsidiary of Deutsche Telekom AG, for the 2010 financial year for a mandate as member of the supervisory board of this company.

<sup>d</sup> Lothar Schröder received compensation of EUR 18,800.00 from Telekom Deutschland GmbH (formerly T-Mobile Deutschland GmbH), Bonn, a wholly owned subsidiary of Deutsche Telekom AG, for the 2010 financial year for a mandate as member of the supervisory board of this company.





## 40 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](http://www.telekom.com)) under Investor Relations in the Corporate Governance section.

## 41 Events after the reporting period.

**Ministerial Decision on IKA-ETAM social security fund.** The Greek Ministry of Labor and Social Affairs issued a Ministerial Decision and informed OTE that it may, subject to an audit, be required to make additional payments to cover a deficit in the fund. OTE has appealed the Ministerial Decision. In January 2011, the Greek Ministry of Labor and Social Affairs submitted a demand for payment of EUR 130 million to OTE. Before taking additional legal steps, OTE will again submit an objection against the demand for payment. The issue has been taken account of in the consolidated financial statements. OTE believes its chances of winning its case by filing an action are good.

**Agreement concluded with French company Vivendi, Polish company Elektrim and the creditors of Elektrim.** The agreement on ownership of the Polish mobile communications company PTC was signed on January 14, 2011. Deutsche Telekom paid EUR 1.4 billion in January 2011, and has now secured undisputed ownership of PTC. Deutsche Telekom holds all shares in PTC.

## 42 Auditors' fees and services in accordance with § 314 HGB.

The following tables provide a breakdown of professional fees recognized as expenses in the 2010 financial year:

### PricewaterhouseCoopers Aktiengesellschaft.

	2010 millions of €
Auditing services	5
Other assurance services	6
Tax advisory services	1
Other non-audit services	8
	<b>20</b>

### Ernst & Young GmbH.

	2010 millions of €
Auditing services	7
Other assurance services	6
Tax advisory services	1
Other non-audit services	1
	<b>15</b>

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 consulting services and assistance 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 18, 2011

Deutsche Telekom AG  
Board of Management

René Obermann

Dr. Manfred Balz

Reinhard Clemens

Niek Jan van Damme

Timotheus Höttges

Guido Kerkhoff

Edward R. Kozel

Thomas Sattelberger

# Auditors' report.

We have audited the consolidated financial statements prepared by Deutsche Telekom AG, Bonn, comprising the statement of financial position, income statement and statement of comprehensive income, statement of changes in equity, statement of cash flows, and the notes to the financial statements, together with the Group management report, which is combined with the management report of Deutsche Telekom AG, for the financial year from January 1 to December 31, 2010. The preparation of the consolidated financial statements and the combined management report in accordance with the IFRS, as adopted by the EU, and the additional requirements of German commercial law pursuant to § 315a (1) HGB are the responsibility of the parent company's Board of Management. Our responsibility is to express an opinion on the consolidated financial statements and the combined management report based on our audit. In addition, we have been instructed to express an opinion as to whether the consolidated financial statements comply with IFRS as issued by the IASB.

We conducted our audit of the consolidated financial statements in accordance with § 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the Institute of Public Auditors in Germany (Institut der Wirtschaftsprüfer – IDW) and additionally observed the International Standards on Auditing (ISA). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with the applicable financial reporting framework and in the combined management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the combined management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of those entities included in consolidation, the determination of the entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by the Company's Board of Management, as well as evaluating the overall presentation of the consolidated financial statements and the combined management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on our findings of our audit, the consolidated financial statements comply with the IFRS as adopted by the EU, the additional requirements of German commercial law pursuant to § 315a (1) HGB and IFRS as issued by the IASB, and 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 combined management report is consistent with the consolidated financial statements and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development.

Stuttgart/Frankfurt (Main), February 8, 2011 / February 18, 2011

Ernst & Young GmbH  
Wirtschaftsprüfungsgesellschaft

(Prof. Dr. Wollmert)  
Wirtschaftsprüfer

(Forst)  
Wirtschaftsprüfer


PricewaterhouseCoopers  
Aktiengesellschaft  
Wirtschaftsprüfungsgesellschaft

(Kayser)  
Wirtschaftsprüfer

(Tandetzki)  
Wirtschaftsprüfer

We are laying the foundations  
for our commercial success  
in the gigabit society with our  
Fix – Transform – Innovate strategy.



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# Members of the Supervisory Board of Deutsche Telekom AG in 2010

including seats on the supervisory boards of other companies.

## 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  
 – Porsche Automobil Holding SE, Stuttgart (since 11/2007)  
 – Dr. Ing. h.c. F. Porsche AG, Stuttgart (from 1/2007 to 11/2009)  
 – E.ON AG, Düsseldorf (since 4/2003)  
 – Henkel Management AG, Düsseldorf (since 2/2008)  
 – HSBC Trinkaus & Burkhardt AG, Düsseldorf (since 6/2004)  
 – ThyssenKrupp AG, Düsseldorf (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  
 – Telekom Deutschland GmbH (formerly T-Mobile Deutschland GmbH), Bonn (since 8/2003), Deputy Chairman of the Supervisory Board (since 9/2003)

## Jörg Asmussen.

Member of the Supervisory Board since July 1, 2008  
 State Secretary, Federal Ministry of Finance, Berlin  
 – Deutsche Gesellschaft für Internationale Zusammenarbeit GmbH (GIZ) (formerly Deutsche Gesellschaft für Technische Zusammenarbeit GmbH (GTZ)), Frankfurt/Main (since 9/2008)

## Hermann Josef Becker.

Member of the Supervisory Board since January 1, 2008.  
 Member of the management of Deutsche Telekom Direct Sales and Consulting and Chairman of the Group Executive Staff Representation Committee and Executive Staff Representation Committee at Deutsche Telekom AG, Bonn  
 – no other seats –

## 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  
 – Allianz SE, Munich (since 4/2003)  
 – Bertelsmann AG, Gütersloh (since 5/2006)  
 – Metro AG, Düsseldorf (since 5/2003)  
 – E.ON Energie AG<sup>1</sup>, Munich, Chairman of the Supervisory Board (from 5/2003 to 4/2010)  
 – E.ON Ruhrgas AG<sup>1</sup>, Essen, Chairman of the Supervisory Board (from 5/2003 to 7/2010)

### Member of comparable supervisory bodies of companies in Germany or abroad:

– E.ON Sverige AB<sup>1</sup>, Malmö, Sweden, Chairman of the Supervisory Board (from 4/2004 to 9/2010)  
 – E.ON US Investments Corp.<sup>1</sup>, Delaware, United States, Chairman of the Supervisory Board (from 1/2004 to 4/2010)

## 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 –

## Hans Martin Bury.

Member of the Supervisory Board since May 15, 2008  
 Managing Partner, HERING SCHUPPENER Consulting Corporate Affairs & Public Strategies GmbH, Düsseldorf (formerly Hering Schuppener Strategieberatung für Kommunikation GmbH)  
 – 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  
 – 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, Board of Directors (since 5/1999)

## Lawrence H. Guffey.

Member of the Supervisory Board since June 1, 2006  
 Senior Managing Director, The Blackstone Group International Partners Ltd., London, United Kingdom

### Member of comparable supervisory bodies of companies in Germany or abroad:

– Axtel Ote Corp., San Pedro Gaza Garcia, Nuevo Leon, Mexico (since 4/2000)  
 – Cineworld Corp., London, United Kingdom (from 10/2004 to 11/2009)  
 – Paris Review, New York, United States (since 7/2006)  
 – TDC AS Corp., Copenhagen, Denmark (since 2/2006)

## Ulrich Hocker.

Member of the Supervisory Board since October 14, 2006  
 Manager in Chief, Deutsche Schutzvereinigung für Wertpapierbesitz e.V. (DSW), Düsseldorf  
 – E.ON AG, Düsseldorf (since 6/2000)  
 – 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:

– Gartmore SICAV, Luxembourg, Luxembourg (since 5/2005)  
 – Phoenix Mecano AG, Stein am Rhein, Switzerland (since 8/1988), President of the Administrative Board (since 7/2003)

<sup>1</sup> E.ON AG: supervisory board seat in companies that are part of the same group, as defined in § 100 (2), Sentence 2 AktG (German Stock Corporation Act).

**Lothar Holzwarth.**

Member of the Supervisory Board since November 6, 2002  
 Chairman of the Central Works Council at Telekom Deutschland GmbH, Bonn (since 6/2010)  
 – PSD Bank RheinNeckarSaar eG (since 1/1996),  
 Deputy Chairman of the Supervisory Board (since 6/2008)  
 – Telekom Deutschland GmbH  
 (formerly T-Mobile 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  
 – T-Systems International GmbH, Frankfurt/Main (since 12/2010)

**Sylvia Kühnast.**

Member of the Supervisory Board since May 3, 2007  
 Member of the Central Works Council's executive committee at Telekom Deutschland GmbH, Hanover  
 – Telekom Deutschland GmbH  
 (formerly T-Mobile Deutschland GmbH), Bonn (since 1/2011)

**Waltraud Litzberger.**

Member of the Supervisory Board since June 1, 1999  
 Chairwoman of the Group Works Council and the European Works Council at Deutsche Telekom AG, Bonn  
 – no other seats –

**Michael Löffler.**

Member of the Supervisory Board since January 1, 1995  
 Member of the Works Council at Deutsche Telekom Netzproduktion GmbH, Bonn, Technical Infrastructure Branch Office, Central/Eastern District  
 – 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  
 – Commerzbank AG, Frankfurt/Main (since 4/2006)  
 – E.ON Ruhrgas AG, Essen (from 9/2005 to 6/2010)  
 – LANXESS AG, Leverkusen (since 3/2005)  
 – LANXESS Deutschland GmbH, Leverkusen (since 3/2005)  
 – ThyssenKrupp Elevator AG<sup>1</sup>, Düsseldorf (from 10/2006 to 4/2010)  
 – ThyssenKrupp Marine Systems AG<sup>1</sup>, Hamburg  
 (from 10/2009 to 2/2010)  
 – ThyssenKrupp Materials International GmbH<sup>1</sup>, Düsseldorf  
 (since 10/2009)  
 – ThyssenKrupp Nirosta GmbH<sup>1</sup>, Krefeld (from 9/1997 to 4/2010)  
 – ThyssenKrupp Steel Europe AG<sup>1</sup>, Duisburg (since 9/1997)

**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)  
 – ThyssenKrupp Acciai Speciali Terni S.p.A.<sup>1</sup>, Terni, Italy  
 (from 1/1997 to 4/2010)  
 – ThyssenKrupp (China) Ltd.<sup>1</sup>, Beijing, Peoples Republic of China  
 (from 7/2005 to 4/2010)

**Dr. Ulrich Schröder.**

Member of the Supervisory Board since October 1, 2008  
 Chairman of the Board of Managing Directors of KfW, Frankfurt/Main  
 – DEG – Deutsche Investitions- und Entwicklungsgesellschaft mbH<sup>2</sup>,  
 Cologne (since 10/2009)  
 – Deutsche Post AG, Bonn (since 9/2008)  
 – KfW IPEX-Bank GmbH<sup>2</sup>, Frankfurt/Main (since 10/2009)  
 – 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  
 – Deutsche Postbank AG, Bonn,  
 Deputy Chairman of the Supervisory Board (from 11/1997 to 6/2010)

**Member of comparable supervisory bodies of companies in Germany or abroad:**

– KfW, Frankfurt/Main, Board of Supervisory Directors (since 1/2003)

**Sybille 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  
 – 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 (since 5/1998)

**The following individuals resigned from the Supervisory Board in 2010:****Josef Falbisoner.**

Member of the Supervisory Board from October 2, 1997 to May 3, 2010  
 Chairman of the District of Bavaria, ver.di trade union, Munich  
 (until April 16, 2010)  
 – PSD Bank eG, Munich, Augsburg office (since 6/1994)

<sup>1</sup> ThyssenKrupp AG: supervisory board seat in companies that are part of the same group, as defined in § 100 (2), Sentence 2 AktG (German Stock Corporation Act).

<sup>2</sup> Supervisory board seat 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 2010

including seats on the supervisory boards of other companies.

## René Obermann.

Chairman of the Board of Management since November 13, 2006

### Member of the supervisory boards 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)

## Dr. Manfred Balz.

Board member responsible for Data Privacy, Legal Affairs and Compliance since October 22, 2008

### Member of comparable supervisory bodies of companies in Germany or abroad:

- Arcandor AG (insolvent), Essen (since 4/2009)

## 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 boards 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

### Member of the supervisory boards of the following subsidiaries, associates and joint ventures:

- Telekom Deutschland GmbH  
(formerly T-Mobile Deutschland GmbH), Bonn (since 4/2005),  
Chairman of the Supervisory Board (since 7/2009)
- Everything Everywhere Limited, Hertfordshire, United Kingdom,  
Chairman of the Board of Directors (since 4/2010)

### Member of comparable supervisory bodies of companies in Germany or abroad:

- FC Bayern München AG, Munich (since 2/2010)

## Guido Kerkhoff.

Board member responsible for Europe since April 1, 2010  
Board member responsible for Southern and Eastern Europe from March 1, 2009 to March 31, 2010

### Member of the supervisory boards of the following subsidiaries, associates and joint ventures:

- Deutsche Telekom Venture Funds GmbH, Bonn  
(from 11/2008 to 10/2010)
- HELLENIC TELECOMMUNICATIONS ORGANIZATION S.A. (OTE S.A.),  
Maroussi, Athens, Greece (since 3/2009)
- HT-Hrvatski telekomunikacije d.d., Zagreb, Croatia,  
Chairman of the Supervisory Board (since 4/2009)
- Magyar Telekom Nyrt., Budapest, Hungary,  
Board of Directors (since 4/2009)
- Polska Telefonia Cyfrowa, Spółka z ograniczoną odpowiedzialnością,  
Warsaw, Poland (since 7/2010)
- T-Mobile Austria GmbH, Vienna, Austria,  
Chairman of the Supervisory Board (since 4/2010)
- T-Mobile Austria Holding GmbH, Vienna, Austria  
Chairman of the Supervisory Board (since 4/2010)
- Everything Everywhere Limited, Hertfordshire, United Kingdom,  
Board of Directors (since 7/2010)
- T-Venture Holding GmbH, Bonn (from 5/2006 to 10/2010)





**Edward R. Kozel.**

Board member responsible for Technology and Innovation since May 3, 2010

**Member of the supervisory boards of the following subsidiaries, associates and joint ventures:**

- Deutsche Telekom Venture Funds GmbH, Bonn (since 6/2010), Chairman of the Supervisory Board (since 9/2010)
- T-Venture Holding GmbH, Bonn (since 6/2010), Chairman of the Supervisory Board (since 9/2010)

**Thomas Sattelberger.**

Board member responsible for Human Resources since May 3, 2007

**Member of the supervisory boards of the following subsidiaries, associates and joint ventures:**

- Telekom Deutschland GmbH (formerly T-Mobile Deutschland GmbH), Bonn (since 7/2009)
- T-Systems International GmbH, Frankfurt/Main (since 6/2007)

**Board members who left during 2010:**

**Hamid Akhavan.**

Board member and Chief Operating Officer (COO) from July 1, 2009 to February 14, 2010

**Member of the supervisory boards of the following subsidiaries, associates and joint ventures:**

- Deutsche Telekom Venture Funds GmbH, Bonn, Chairman of the Supervisory Board (from 11/2008 to 2/2010)
- HELLENIC TELECOMMUNICATIONS ORGANIZATION S.A. (OTE S.A.), Maroussi, Athens, Greece (from 6/2008 to 2/2010)
- T-Mobile USA, Inc., Bellevue, United States, Board of Directors (from 7/2007 to 2/2010)
- T-Venture Holding GmbH, Bonn (from 1/2007 to 2/2010), Chairman of the Supervisory Board (from 3/2007 to 2/2010)

# Glossary.

**3G.** 3G is the third-generation mobile communications standard that supports higher transmission rates. In Germany, this is the Universal Mobile Telecommunications System (UMTS) standard.

**4G.** This is what the industry calls the fourth-generation mobile communications standard (see LTE).

**Access.** Internet access.

**ADSL, ADSL2+.** See DSL.

**All-IP.** An all-IP network makes services such as VoIP, 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 Market.** Android Market is a platform for mobile devices and is based largely on Linux and Java. The platform is being developed by the Open Handset Alliance, a Google initiative that counts T-Mobile among its members. In October 2008 T-Mobile launched the first cell phone in the United States to use this platform – the T-Mobile G1 – on the market. (Launch in the United Kingdom in November 2008, in Germany in February 2009.)

**APM – Application Performance Management.** Managed service designed to optimize corporate networks. T-Systems' APM solution portfolio uses three modules to ensure that customers can keep track of and optimize their entire ICT infrastructures, from the servers right through to users. The consulting package offers a comprehensive analysis of the performance of a company's applications and ICT infrastructure. The monitoring module allows faults and bottlenecks in the system to be identified at an early stage and eliminated as a result of targeted investment in the infrastructure. The optimization measures improve application response times by, for example, avoiding duplicated data transmission. This enables data transmission speeds within the network to be accelerated by a factor of up to 50. In addition, early fault diagnosis also helps to reduce operating costs.

**App.** Short for application. Apps are application programs for smartphones in particular. They are usually available via an online shop that is directly integrated into the smartphone's operating system and can be directly installed on the device.

**ASP – Application Service Providing.** Service that enables enterprises to lease IT applications. The advantage: Customers can always use the latest version that the provider maintains centrally (e.g., in a computer center) and do not have to worry about buying and maintaining software applications (licenses, updates) themselves.

**Backhaul link.** Refers to the connection of an upstream (often subordinate) network node to a central network node.

**Bandwidth.** Denotes the width of the frequency band used to transmit data. The broader the bandwidth, the faster the connection.

**Bitstream access.** Wholesale service used by alternative telephone companies to provide broadband lines.

**Change management.** Covers all the tasks and activities that are performed in order to bring about broad changes within an organization.

**Cloud computing.** Cloud computing is 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.** The convenient management of all personal data and Internet services on any screen, whether PC, cell phone or television, based on the secure storage of data in the network, which can then be accessed by all devices via broadband networks.

**Delisting.** Refers to the practice of a company removing its shares from a stock exchange.

**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 access and voice communication (telephone service).

**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 client, such as a cell phone.

**DSL – Digital Subscriber Line.** In Deutsche Telekom's service portfolio as: ADSL (Asymmetrical Digital Subscriber Line) for private end-customer lines: Technology used to transmit data at fast rates (between 16 kbit/s and 640 kbit/s upstream; up to 8 Mbit/s downstream) via standard copper wire pairs in the local loop within a radius of approximately three kilometers.

ADSL2+: Successor product to ADSL that raises the maximum data rate to 16 Mbit/s (downstream) or 1 Mbit/s (upstream).

VDSL (Very high bit rate Digital Subscriber Line) is a new technology used to transmit exceptionally high data rates (10 Mbit/s upstream, 50 Mbit/s downstream) via a fiber-optic network.

**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, and decoding of filters.

Embedded systems perform dedicated 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, cell phones or other consumer electronics 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).

**Enabling.** Enabling services are a key component of our business model. We enable other companies or software developers to integrate our network and IT abilities into their own services via standard interfaces. For this purpose we bundle our products to create a toolkit of standard services, supporting the growth of our business partners and benefiting ourselves at the same time.

**Entertain.** Deutsche Telekom's Internet Protocol TV service (see also IPTV). TV signals are transported over the digital subscriber line, facilitating interactive features such as time-shift TV or access to online video stores.

**Flat rate.** Rate plan for network access with unlimited online time and data volumes.

**FTTH – Fiber To The Home.** Optical-fiber technology laid right to the customer's home. Provides bandwidths of one Gbit/s and more.

**Gigabit.** 1 billion bits. Unit of measurement of data transfer rates.

**Gigabyte.** 1 billion bytes. Unit of measurement of data storage.

**GSM – Global System for Mobile Communications.** Global standard for digital mobile communications.

**Home gateway.** Central device used for remotely controlling electronic household appliances from anywhere.

**Hosting.** 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 computer center – including Internet connections, regular and emergency power supply, etc.

**HotSpot.** HotSpot is the name of a public area where customers can access the Internet using WiFi (wireless fidelity) technology.

**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+.** Evolved HSPA offering higher bit rates/ bandwidths. HSPA+ enhances the data transfer rates further, making it an ideal standard for use in data-intensive mobile applications.

**HSUPA – High Speed Uplink Packet Access.** HSUPA technology accelerates data upstreaming from mobile devices into the network and significantly reduces transfer durations (ping time). This makes HSUPA the ideal complement to HSDPA on T-Mobile's network. Together, HSDPA and HSUPA ensure that users can surf the Internet or work in the intranet while on the move, experiencing a similar level of user comfort as with fixed-network DSL.

**ICT – Information and Communication Technology.**

**Infotainment.** A contraction of the words information and entertainment.

**Internet/intranet.** The Internet is a worldwide Internet Protocol (IP)-based computer network that has no central network management. By contrast, intranets are managed IP networks that can be accessed only by specific user groups.

**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).

**ISDN – Integrated Services Digital Network.** ISDN integrates telecommunications services such as telephone, fax and data communications in a single network. Contrary to the standard analog transmission system, ISDN digitizes the data, which improves transmission quality, enhances transmission speed, and enables packet-switched transmission.

**ISP – 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.

**IT – Information Technology.**

**Joint venture.** Two or more companies set up a joint enterprise for cooperation.

**LAN – Local Area Network.** Refers to a computer network limited to the premises of a company 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 to be offered for mobile phones, smartphones, and tablet PCs.

**LTE dongle.** Fourth-generation USB flash drive.

**M2M – Machine-to-machine communication.** 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.

**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.

**One Company.** Refers to the merger of Deutsche Telekom's previously separate mobile communications and fixed-network operations as a single company within the Group.

**Optical fiber.** Channel for optical data transmission.

**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.** The globally available public telephone network comprising elements such as telephones, connecting cables (twisted pairs) and exchanges. The public telephone network is also sometimes referred to as POTS (Plain Old Telephone Service).

**Quad play (quadruple play).** When a triple-play package of TV, telephone and Internet access is combined with a mobile service this is called quad play.



**Rating.** Assessment of the credit-worthiness of securities or debtors by rating agencies.

**Retail.** The sale of goods and services to end users; as opposed to resale or wholesale business.

**Roaming.** A feature of cellular mobile communications networks that ensures that activated mobile stations remain accessible, regardless of location, in all radio cells of the entire area served by the network. Roaming can also include similar networks run by different operators, as is the case with international roaming within the pan-European GSM system.

**SIM card.** Chip card that is inserted into a cell phone and which contains all the data of the subscriber.

**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 allows access to a mass-marketable service. In particular, it gives energy providers, meter operators, and the housing sector the opportunity to offer their customers innovative products and services, as it delivers consumption data virtually in real time.

**Smartphone.** Mobile handset that can perform the functionalities of a cell phone, a Web browser, and an e-mail program 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 is now also available in the fixed network. The further development of 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. SMS and MMS in particular refer not only to the services, but also to the messages themselves.

**Stakeholder.** The stakeholder approach is an extension of the shareholder value approach widely used in business management. 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-mails, access photos and videos, listen to music, make phone calls, and read electronic books anytime, whether at home or on the move.

**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.

**UMTS – Universal Mobile Telecommunications System.** Third-generation international mobile communications standard that unites mobile multimedia and telematics services in the frequency spectrum of 2 GHz.

**USB flash drive.** A data storage device that uses the USB (Universal Serial Bus) standard. It has an integrated data memory and can also be used as a removable data carrier.

**VDSL.** See DSL.

**VoIP – Voice over Internet Protocol.** Technology used to make telephone calls via the Internet. Three methods are available: PC to PC, PC to fixed-network lines, and telephone calls via IP-based internal networks.

**Webhosting.** Provision of storage capacity via the Internet.

**Wholesale.** The business of selling services to third parties who in turn sell them to their own end customers either directly or after further processing.

**WiFi – Wireless Fidelity.** Popular name for IEEE 802.11 protocol for wireless local area networks (wireless LANs) (see also WLAN).

**WiMAX – Worldwide interoperability for Microwave Access.** Technology that uses fixed, local radio cells to provide high-speed Internet access via the air interface.

**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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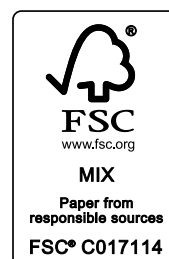
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## 2011 financial calendar

Group report Jan. 1 to Mar. 31, 2011	May 6, 2011*
Shareholders' meeting of Deutsche Telekom AG	May 12, 2011*
Group report Jan. 1 to June 30, 2011	August 4, 2011*
Group report Jan. 1 to Sept. 30, 2011	November 10, 2011*

\* Planned.



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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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# Deutsche Telekom worldwide.

For details of where we are, please refer to [www.telekom.com/worldwide](http://www.telekom.com/worldwide)

## Deutsche Telekom Headquarters

Bonn

## Selected international subsidiaries and associates

		Stake (directly/indirectly) held by Deutsche Telekom
<b>Europe</b>		
Albania	AMC (Albanian Mobile Communications Sh.A)	97.21 % of shares held by Cosmote
Austria	Software Daten Service Gesellschaft m.b.H.	100.00 %
	T-Mobile Austria GmbH	100.00 %
	Deutsche Telekom Value Added Services Austria GmbH	100.00 %
	T-Systems Austria GmbH	100.00 %
Belgium	T-Systems Belgium NV	100.00 %
Bosnia	T-Systems d.o.o.	100.00 %
Bulgaria	Globul (Cosmo Bulgaria Mobile EAD)	100.00 % of shares held by Cosmote
	Novatel EOOD	100.00 % of shares held by Magyar Telekom
	T-Systems Bulgaria EOOD (Jan. 3, 2011)	100.00 %
Croatia	Hrvatski Telekom d.d. *	51.00 %
Czech Republic	T-Mobile Czech Republic a.s.	60.77 %
	T-Systems Czech Republic a.s.	100.00 %
Denmark	T-Systems Nordic A/S	100.00 %
France	T-Systems France SAS	100.00 %
F.Y.R.O. Macedonia	Makedonski Telekom AD	51.00 % of shares held by Magyar Telekom
	T-Mobile Macedonia AD	100.00 % of shares held by Makedonski Telekom
Greece	OTE (Hellenic Telecommunications Organization S.A.)	30.00 % plus one share
	Cosmote (Cosmote Mobile Telecommunications S.A.)	100.00 % of shares held by OTE
	T-Systems Information and Communication Technology E.P.E.	100.00 %
Hungary	Magyar Telekom Nyrt. *	59.30 %
	IT Services Hungary Szolgáltató Kft.	100.00 %
	IQSYS Zrt.	100.00 % of shares held by Magyar Telekom
Italy	T-Systems Italia S.p.A.	100.00 %
Luxembourg	T-Systems Luxembourg S.A.	100.00 %
Montenegro	Crnogorski Telekom A.D. *	76.53 % of shares held by Magyar Telekom
Netherlands	T-Mobile Netherlands B.V.	100.00 %
	T-Systems Nederland B.V.	100.00 %
Poland	PTC (Polska Telefonia Cyfrowa Sp.z o.o.)	100.00 %
	T-Systems Polska Sp.z o.o.	100.00 %
Romania	Combridge S.R.L.	100.00 % of shares held by Magyar Telekom
	Cosmote Romanian Mobile Telecommunications S.A.	70.00 % of shares held by Cosmote
	Romtelecom S.A.	54.01 % of shares held by OTE
	T-Systems ICT Romania S.R.L. (Jan. 10, 2011)	100.00 %
Russia	T-Systems CIS	100.00 %
Serbia	Telekom Srbija a.d.	20.00 % of shares held by OTE
Slovakia	Slovak Telekom, a.s. *	51.00 %
	T-Systems Slovakia s.r.o.	100.00 %
Slovenia	T-Systems, informacijski sistemi, d.o.o.	100.00 %
Spain	T-Systems ITC Iberia, S.A.	100.00 %
Switzerland	T-Systems Schweiz AG	100.00 %
Turkey	T SYSTEMS TELEKOMÜNİKASYON LIMITED SİRKETİ	100.00 %
Ukraine	Novatel Ukraine LLC.	100.00 % of shares held by Magyar Telekom
	TOB T-Systems Ukraine	100.00 %
United Kingdom	Everything Everywhere Limited	50.00 %
	T-Systems Limited	100.00 %
<b>North America</b>		
Canada	T-Systems Canada, Inc.	100.00 %
Mexico	T-Systems Mexico S.A. de C.V.	100.00 %
United States	T-Mobile USA, Inc.	100.00 %
	T-Systems North America, Inc.	100.00 %
<b>South America</b>		
Argentina	T-Systems Argentina S.A.	100.00 %
Brazil	T-Systems do Brasil Ltda.	100.00 %
<b>Asia</b>		
Hong Kong	T-Systems China Limited	100.00 %
India	T-Systems Information and Communication Technology India Private Limited	100.00 %
Japan	T-Systems Japan K.K.	100.00 %
Malaysia	T-Systems Malaysia Sdn. Bhd.	100.00 %
People's Republic of China	T-Systems P.R. China Ltd.	100.00 %
Singapore	T-Systems Singapore Pte. Ltd.	100.00 %
<b>Africa</b>		
South Africa	T-Systems South Africa (Pty) Limited	70.00 %

\* Mobile communications services are marketed under the T-Mobile brand.

As of: January 2011

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# Key data of the Group's operating segments.

		2010	2009	2008	2007
<b>Key data of the Group's operating segments</b>	<b>millions</b>				
Fixed-network lines <sup>a</sup>		36.0	38.5	41.5	44.7
Retail broadband lines <sup>b</sup>		16.4	15.4	13.9	11.4
Mobile customers		128.5	134.5	130.9	118.4
<b>Germany</b>	<b>millions</b>				
Fixed network					
Fixed-network lines <sup>a</sup>		24.7	26.2	28.3	30.8
Retail broadband lines <sup>a</sup>		12.0	11.5	10.6	9.0
Wholesale bundled lines <sup>b</sup>		1.0	1.6	2.5	3.5
Unbundled local loop lines (ULLs) <sup>c</sup>		9.5	9.1	8.3	6.4
Wholesale unbundled lines <sup>d</sup>		1.0	0.6	0.2	-
Mobile communications					
Mobile customers <sup>e</sup>		34.7	39.1	39.1	36.0
<b>Europe</b>	<b>millions</b>				
Fixed network					
Fixed-network lines <sup>a</sup>		11.3	12.3	13.2	13.9
Retail broadband lines <sup>b</sup>		4.4	3.9	3.3	2.4
Wholesale bundled lines <sup>b</sup>		0.2	0.2	0.3	0.4
Unbundled local loop lines (ULLs) <sup>c</sup>		1.5	1.1	0.7	0.3
Mobile communications					
Mobile customers		60.1	61.6	59.0	52.6
<b>United States</b>	<b>millions</b>				
Mobile customers		33.7	33.8	32.8	29.8
<b>Systems Solutions</b>					
Computing & Desktop Services					
Number of servers managed and serviced	units	58,073	47,092	56,734	39,419
Number of workstations managed and serviced	millions	1.95	1.86	1.51	1.46
Systems Integration <sup>a</sup>					
Hours billed <sup>b</sup>	millions	9.2	9.6	10.7	11.4
Utilization rate <sup>c</sup>	%	84.0	81.3	80.9	80.2

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

One mobile communications card corresponds to one customer.

#### Group

- <sup>a</sup> Lines in operation. Telephone lines including IP-based lines, excluding internal use and public telecommunications and including wholesale services and business customers.  
<sup>b</sup> Broadband lines in operation.

#### Germany

- <sup>a</sup> Lines in operation excluding internal use and public telecommunications systems, including IP-based lines and congstar.  
<sup>b</sup> Wholesale bundled lines: sale of broadband lines based on DSL technology to alternative providers outside Deutsche Telekom, including bundled IP-BSA. In the case of IP-Bitstream Access (IP-BSA), Deutsche Telekom leases DSL lines to the competitor and transports the datastream carried over the lines.  
<sup>c</sup> Unbundled local loop lines: Deutsche Telekom wholesale service that can be leased by alternative telecommunications operators without upstream technical equipment in order to offer their own customers a telephone or DSL line.  
<sup>d</sup> Wholesale unbundled lines: wholesale service not bundled with a PSTN line. Allows competitors to offer an all-IP product range.  
<sup>e</sup> On April 1, 2010, Telekom Deutschland GmbH began to automatically terminate prepaid cards that have not been topped up for two years and have been inactive for three months.

#### Europe

The Europe operating segment includes the following fixed-network and mobile communications subsidiaries: OTE Greece, Cosmote Greece, Romtelecom, Cosmote Romania, Zapp (Romania), Globul (Bulgaria), AMC (Albania), Magyar Telekom, Makedonski Telekom, Crnogorski Telekom, PTC, T-Mobile Czech Republic, T-Hrvatski Telekom, T-Mobile Netherlands, Slovak Telekom, and T-Mobile Austria.

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.

<sup>a</sup> Lines in operation excluding internal use and public telecommunications, including IP-based lines.

<sup>b</sup> See definition in Germany, footnote b.

<sup>c</sup> See definition Germany, footnote c.

#### Systems Solutions

<sup>a</sup> Domestic: excluding changes in the composition of the Group.

<sup>b</sup> Cumulative figures as of the reporting date.

<sup>c</sup> Ratio of average number of hours billed to maximum possible hours billed per period.

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