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Consolidated statement of financial position.

	Note	Dec. 31, 2011 millions of €	Dec. 31, 2010 millions of €
Assets			
Current assets		**15,865**	**15,243**
Cash and cash equivalents	1	3,749	2,808
Trade and other receivables	2	6,557	6,889
Current recoverable income taxes	25	129	224
Other financial assets	8	2,373	2,372
Inventories	3	1,084	1,310
Non-current assets and disposal groups held for sale	4	436	51
Other assets	9	1,537	1,589
Non-current assets		**106,677**	**112,569**
Intangible assets	5	50,097	53,807
Property, plant and equipment	6	41,927	44,298
Investments accounted for using the equity method	7	6,873	7,242
Other financial assets	8	2,096	1,695
Deferred tax assets	25	4,449	5,129
Other assets	9	1,235	398
Total assets		**122,542**	**127,812**

	Note	Dec. 31, 2011 millions of €	Dec. 31, 2010 millions of €
Liabilities and shareholders' equity			
Current liabilities		**24,338**	**26,452**
Financial liabilities	10	10,219	11,689
Trade and other payables	11	6,436	6,750
Income tax liabilities	25	577	545
Other provisions	13	3,217	3,193
Liabilities directly associated with non-current assets and disposal groups held for sale	4	–	–
Other liabilities	14	3,889	4,275
Non-current liabilities		**58,263**	**58,332**
Financial liabilities	10	38,099	38,857
Provisions for pensions and other employee benefits	12	6,095	6,373
Other provisions	13	1,689	1,628
Deferred tax liabilities	25	8,492	7,635
Other liabilities	14	3,888	3,839
Liabilities		**82,601**	**84,784**
Shareholders' equity	15	**39,941**	**43,028**
Issued capital		11,063	11,063
Treasury shares		(6)	(5)
		11,057	**11,058**
Capital reserves		51,504	51,635
Retained earnings including carryforwards		(25,498)	(24,355)
Total other comprehensive income		(2,326)	(2,017)
Net profit (loss)		557	1,695
Issued capital and reserves attributable to owners of the parent		**35,294**	**38,016**
Non-controlling interests		4,647	5,012
Total liabilities and shareholders' equity		**122,542**	**127,812**

Consolidated income statement.

	Note	2011 millions of €	2010 millions of €	2009 millions of €
Net revenue	16	**58,653**	**62,421**	**64,602**
Cost of sales	17	(33,885)	(35,725)	(36,259)
Gross profit		**24,768**	**26,696**	**28,343**
Selling expenses	18	(14,060)	(14,620)	(15,863)
General and administrative expenses	19	(5,284)	(5,252)	(4,653)
Other operating income	20	4,362	1,498	1,504
Other operating expenses	21	(4,200)	(2,817)	(3,319)
Profit from operations		**5,586**	**5,505**	**6,012**
Finance costs	22	(2,325)	(2,500)	(2,555)
Interest income		268	349	341
Interest expense		(2,593)	(2,849)	(2,896)
Share of profit (loss) of associates and joint ventures accounted for using the equity method	23	(73)	(57)	24
Other financial income (expense)	24	(169)	(253)	(826)
Profit (loss) from financial activities		**(2,567)**	**(2,810)**	**(3,357)**
Profit before income taxes		**3,019**	**2,695**	**2,655**
Income taxes	25	(2,349)	(935)	(1,782)
Profit (loss)		**670**	**1,760**	**873**
Profit (loss) attributable to:		**670**	**1,760**	**873**
Owners of the parent (net profit (loss))		557	1,695	353
Non-controlling interests	26	113	65	520
Earnings per share	27			
Basic	€	0.13	0.39	0.08
Diluted	€	0.13	0.39	0.08

Consolidated statement of comprehensive income.

	2011 millions of €	2010 millions of €	2009 millions of €
Profit (loss)	**670**	**1,760**	**873**
Actuarial gains and losses on defined benefit pension plans	177	(32)	(461)
Revaluation due to business combinations	0	(2)	(38)
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)	10	1,547	(211)
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)	242	(3)	(4)
Gains (losses) from hedging instruments			
Recognition of other comprehensive income in income statement	200	0	8
Change in other comprehensive income (not recognized in income statement)	(765)	58	(56)
Share of profit (loss) of investments accounted for using the equity method	–	28	–
Other income and expense recognized directly in equity	–	0	11
Income taxes relating to components of other comprehensive income	102	(5)	138
Other comprehensive income	**(34)**	**3,742**	**(613)**
Total comprehensive income	**636**	**5,502**	**260**
Total comprehensive income attributable to:	**636**	**5,502**	**260**
Owners of the parent	425	5,443	(261)
Non-controlling interests	211	59	521

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)
	thousands	millions of €	millions of €	millions of €	millions of €	millions of €
Balance at January 1, 2009	**4,361,320**	**11,165**	**(5)**	**51,526**	**(18,761)**	**1,483**
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	
Balance at December 31, 2009	**4,361,320**	**11,165**	**(5)**	**51,530**	**(20,951)**	**353**
Balance at January 1, 2010	**4,361,320**	**11,165**	**(5)**	**51,530**	**(20,951)**	**353**
Changes in the composition of the Group						
Unappropriated profit (loss) carried forward					353	(353)
Dividends					(3,386)	
Proceeds from the exercise of stock options				3	2	
Capital decrease	(40,001)	(102)		102	(400)	
Profit (loss)						1,695
Other comprehensive income					(52)	
Transfer to retained earnings					79	
Balance at December 31, 2010	**4,321,319**	**11,063**	**(5)**	**51,635**	**(24,355)**	**1,695**
Balance at January 1, 2011	**4,321,319**	**11,063**	**(5)**	**51,635**	**(24,355)**	**1,695**
Changes in the composition of the Group				(131)		
Unappropriated profit (loss) carried forward					1,695	(1,695)
Dividends					(3,011)	
Proceeds from the exercise of stock options						
Share buy-back			(1)		(2)	
Profit (loss)						557
Other comprehensive income					105	
Transfer to retained earnings					70	
Balance at December 31, 2011	**4,321,319**	**11,063**	**(6)**	**51,504**	**(25,498)**	**557**

Issued capital and reserves attributable to owners of the parent							Non-controlling interests	Total shareholders' equity
Total other comprehensive income						Total		
Translation of foreign operations millions of €	Revaluation surplus millions of €	Available-for-sale financial assets millions of €	Hedges millions of €	Other comprehensive income millions of €	Taxes millions of €	millions of €	millions of €	millions of €
(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**
(2,843)	**37**	**(4)**	**1,122**	**0**	**(329)**	**38,016**	**5,012**	**43,028**
(2)						(133)	(77)	(210)
						0		0
						(3,011)	(497)	(3,508)
						0	(2)	(2)
						(3)		(3)
						557	113	670
67		106	(565)		155	(132)	98	(34)
	(70)					0		0
(2,778)	**(33)**	**102**	**557**	**0**	**(174)**	**35,294**	**4,647**	**39,941**

Consolidated statement of cash flows.

	Note	2011 millions of €	2010 millions of €	2009 millions of €
	31			
Profit (loss)		**670**	**1,760**	**873**
Depreciation, amortization and impairment losses		14,436	11,808	13,894
Income tax expense (benefit)		2,349	935	1,782
Interest income and interest expense		2,325	2,500	2,555
Other financial (income) expense		169	253	826
Share of (profit) loss of associates and joint ventures accounted for using the equity method		73	57	(24)
(Profit) loss on the disposal of fully consolidated subsidiaries		(4)	349	(26)
Non-cash transactions in connection with the compensation from AT&T		(705)	–	–
Other non-cash transactions		27	(21)	(230)
(Gain) loss from the disposal of intangible assets and property, plant and equipment		28	90	51
Change in assets carried as working capital		690	(243)	1,936
Change in provisions		535	(68)	(891)
Change in other liabilities carried as working capital		(1,578)	(209)	(1,818)
Income taxes received (paid)		(778)	(819)	(928)
Dividends received		515	412	29
Net payments from entering into or canceling interest rate swaps		–	265	242
Cash generated from operations		**18,752**	**17,069**	**18,271**
Interest paid		(3,397)	(3,223)	(3,456)
Interest received		859	885	980
Net cash from operating activities		**16,214**	**14,731**	**15,795**
Cash outflows for investments in				
Intangible assets		(1,837)	(2,978)	(1,598)
Property, plant and equipment		(6,569)	(6,873)	(7,604)
Non-current financial assets		(430)	(997)	(176)
Investments in fully consolidated subsidiaries and business units		(1,239)	(448)	(1,007)
Proceeds from disposal of				
Intangible assets		20	26	7
Property, plant and equipment		336	318	369
Non-current financial assets		61	162	99
Investments in fully consolidated subsidiaries and business units		5	4	116
Net change in short-term investments and marketable securities and receivables		339	491	(320)
Net change in cash and cash equivalents due to the first-time full consolidation of OTE		–	–	1,558
Other		39	(416)	(93)
Net cash used in investing activities		**(9,275)**	**(10,711)**	**(8,649)**
Proceeds from issue of current financial liabilities		66,349	30,046	3,318
Repayment of current financial liabilities		(71,685)	(34,762)	(9,314)
Proceeds from issue of non-current financial liabilities		3,303	3,219	5,379
Repayment of non-current financial liabilities		(51)	(149)	(93)
Dividends		(3,521)	(4,003)	(4,287)
Proceeds from the exercise of stock options		–	–	2
Share buy-back		(3)	(400)	–
Repayment of lease liabilities		(163)	(139)	(128)
Other		(187)	(181)	–
Net cash used in financing activities		**(5,958)**	**(6,369)**	**(5,123)**
Effect of exchange rate changes on cash and cash equivalents		(40)	50	58
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		**941**	**(2,214)**	**1,996**
Cash and cash equivalents, at the beginning of the year		**2,808**	**5,022**	**3,026**
Cash and cash equivalents, at the end of the year		**3,749**	**2,808**	**5,022**

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) via the following path: Investor Relations/Corporate Governance/Declaration of Conformity.

The shares of Deutsche Telekom AG are traded on the Frankfurt/Main Stock Exchange as well as on other German stock exchanges.

The annual financial statements of Deutsche Telekom AG as well as the consolidated financial statements of Deutsche Telekom AG, which have an unqualified audit opinion from PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Frankfurt/Main, are published in the electronic Federal Gazette (elektronischer Bundesanzeiger). The annual report is available upon request from Deutsche Telekom AG, Bonn, Investor Relations, and on Deutsche Telekom's homepage at www.telekom.com.

The consolidated financial statements of Deutsche Telekom for the 2011 financial year were released for publication by the Board of Management on February 6, 2012.

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
IAS 32	October 8, 2009	Financial Instruments: Presentation
IFRIC 14	November 26, 2009	Prepayments of a Minimum Funding Requirement
IFRIC 19	November 26, 2009	Extinguishing Financial Liabilities with Equity Instruments
Annual Improvements Project	May 6, 2010	Improvements to IFRSs 2010

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 did not 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 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. It 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. The adoption of IFRIC 14 did not 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 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 did not 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 endorsed the amendments in February 2011. The amendments are effective for financial years beginning on or after January 1, 2011 and 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 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, 2015. Prior periods do not have to be adjusted for first-time adoption, but there is a requirement to disclose the effects of first-time adoption. Deutsche Telekom is analyzing the resulting effects on the presentation of results of operations, financial position or cash flows.

In October 2010, the IASB issued the pronouncement "Disclosures – Transfers of Financial Assets" as an amendment to **IFRS 7 "Financial Instruments: Disclosures."** The amendment requires quantitative and qualitative disclosures to be made for transfers of financial assets where the transferred assets are derecognized in their entirety or the transferor retains continuing involvement. The amendment is intended to provide greater transparency around such transactions (e.g., securitizations) and help users understand the possible effects of any risks that may remain with the entity that transferred the assets. The amendment 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 endorsed this pronouncement in November 2011. Deutsche Telekom is analyzing the resulting effects on the presentation of results of operations, financial position or cash flows and is expecting additional disclosure requirements.

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. The new IFRS 9 modifies the requirements relating to fair value option for financial liabilities to address the issue of an entity's own credit risk. The prohibition of fair value measurement of derivative liabilities that are linked to an unquoted equity instrument and must be settled by delivery of an unquoted equity instrument, has been eliminated. The pronouncement is effective for financial years beginning on or after January 1, 2015. Prior periods do not have to be adjusted for first-time adoption, but there is a requirement to disclose the effects of first-time adoption. 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, but does not currently expect any major changes to result from the amendments to IAS 12.

In May 2011, the IASB published three new IFRSs (IFRS 10, IFRS 11, IFRS 12) and two revised standards (IAS 27, IAS 28) that govern the accounting for investments in subsidiaries, joint arrangements and associates. The provisions have not yet been endorsed by the European Union and are effective for financial years beginning on or after January 1, 2013. The adoption of the new and amended IFRSs will have an impact on the presentation of Deutsche Telekom's results of operations, financial position or cash flows. This does not apply to the revised IAS 27, however, because this standard exclusively relates to separate financial statements under IFRS which Deutsche Telekom does not prepare in accordance with § 325 (2a) HGB.

The IASB is introducing a harmonized consolidation model by issuing **IFRS 10 "Consolidated Financial Statements."** This new standard does away with the distinction between "traditional" subsidiaries (IAS 27) and special-purpose entities (SIC-12). Control only exists if an investor has the power, is exposed to variable returns, and is able to use power to affect its amount of variable returns. Upon its entry into force, IFRS 10 will replace SIC-12 "Consolidation – Special Purpose Entities" as well as the requirements relevant to consolidated financial statements in IAS 27 "Consolidated and Separate Financial Statements."

IFRS 11 "Joint Arrangements" will replace IAS 31 "Interests in Joint Ventures" and SIC-13 "Jointly Controlled Entities – Non-Monetary Contributions by Venturers." It governs the accounting for joint ventures and joint operations. Proportionate consolidation for joint ventures will no longer be permissible as a result of the discontinuation of IAS 31. The amended **IAS 28 "Interests in Associates and Joint Ventures"** governs the application of the equity method when accounting for investments in both associates and joint ventures. In case of a joint operation, the share of assets, liabilities, expenses and revenues is directly recognized in the consolidated financial statements and annual financial statements of a joint operator.

IFRS 12 "Disclosure of Interests in Other Entities" combines all disclosures required in the consolidated financial statements regarding subsidiaries, joint arrangements and associates, as well as unconsolidated structured entities.

The amended **IAS 27 "Separate Financial Statements"** exclusively governs the accounting for subsidiaries, joint ventures and associates in the annual financial statements and the corresponding notes (separate financial statements according to § 325 (2a) HGB).

The amended **IAS 28 "Investments in Associates and Joint Ventures"** governs the accounting of investments in associates and joint ventures using the equity method.

In May 2011, the IASB also published **IFRS 13 "Fair Value Measurement."** With this standard, the IASB has created a uniform, comprehensive standard for fair value measurement. IFRS 13 is effective for financial years beginning on or after January 1, 2013. IFRS 13 provides guidance on how to measure at fair value when other IFRSs require fair value measurement (or disclosure). A new definition of fair value applies which characterizes fair value as the selling price of an actual or hypothetical transaction between any independent market participants under normal market conditions on the reporting date. The standard is almost universally applicable, with the only exemptions being IAS 2 "Inventories," IAS 17 "Leases," and IFRS 2 "Share-based Payment." While the guidance remains virtually unchanged for financial instruments, the guidance for other items (e.g., investment property, intangible assets and property, plant and equipment) is now more comprehensively and/or precisely defined. The established three-level fair-value hierarchy has to be applied across the board. The adoption of IFRS 13 is likely to result in additional disclosures in Deutsche Telekom's financial statements. The European Union has not yet endorsed the new IFRS standard.

In June 2011, the IASB issued amendments to **IAS 1 "Presentation of Financial Statements."** The amendments require that the items listed under other comprehensive income be split into two categories, according to whether or not they will be recognized in the income statement in future periods (recycling). The amendments to IAS 1 are effective for financial years beginning on or after July 1, 2012 and have not yet been endorsed by the European Union. Deutsche Telekom is analyzing the resulting effects on the presentation of results of operations, financial position or cash flows and currently expects the aforementioned presentation changes to be reflected in its statement of comprehensive income.

In June 2011, the IASB also issued amendments to **IAS 19 "Employee Benefits."** These amendments mean the discontinuation of existing options for the recognition of actuarial gains and losses. As the corridor method, as it is known, will no longer be permissible, with immediate effect actuarial gains and losses have to be recognized in full and exclusively directly in equity, which corresponds to the method we currently apply.

Other amendments concern the recognition of past service cost and of the net interest income/expense resulting from defined benefit plans as well as the differentiation between termination benefits and other employee benefits. One significant consequence of these amendments is that top-up payments made as part of partial retirement programs may no longer be recognized as termination benefits and therefore have to be accrued over their vesting period. Disclosure requirements are also being extended, e.g., for characteristics of defined benefit plans and the risks arising from those plans. The amendments to IAS 19 are effective retrospectively for financial years beginning on or after January 1, 2013 and have not yet been endorsed by the European Union. Deutsche Telekom currently assumes the extended disclosure requirements are relevant to the financial statements and is also evaluating the effects resulting from the amendment on the presentation of results of operations, financial position or cash flows.

In December 2011, the IASB published amendments to **IAS 32 "Financial Instruments: Presentation"** specifying the requirements for offsetting financial instruments. To meet the new offsetting requirements in IAS 32, an entity's right to set off must not be contingent on a future event and must be enforceable both in the normal course of business and in the event of default or insolvency of the entity and all counterparties. It is further specified that a gross settlement system also complies with the offsetting requirements according to IAS 32, provided no major credit liquidity risks remain, receivables and payables are processed in a single settlement step, making it equivalent to a net settlement. The new requirements must be applied retrospectively for financial years beginning on or after January 1, 2014 and have not yet been endorsed by the European Union. Deutsche Telekom is analyzing the resulting effects on the presentation of results of operations, financial position or cash flows, but does not currently expect any major changes.

In December 2011, the IASB also issued extended disclosure requirements regarding offsetting rights in **IFRS 7 "Financial Instruments: Disclosures."** In addition to extended disclosures on offsetting activities actually carried out pursuant to IAS 32, disclosure requirements on existing rights to set off are introduced regardless of whether the offsetting under IAS 32 is actually carried out. The new requirements must be applied retrospectively for financial years beginning on or after January 1, 2013 and have not yet been endorsed by the European Union. Deutsche Telekom is analyzing the resulting effects on the presentation of results of operations, financial position or cash flows and expects additional disclosure requirements.

Accounting policies.

Key assets and liabilities shown in the consolidated statement of financial position are measured as follows:

Items of the statement of financial position	Measurement principle
Assets	
Current assets	
Cash and cash equivalents	Amortized cost
Trade and other receivables	Amortized cost
Current recoverable income taxes	Amount expected to be recovered from the taxation authorities, using the tax rates that have been enacted or substantively enacted by the end of the reporting period
Other financial assets	
Other non-derivative financial assets	
Held-to-maturity investments	Amortized cost
Available-for-sale financial assets	Fair value or at cost
Originated loans and receivables	Amortized cost
Derivative financial assets	Fair value
Inventories	Lower of net realizable value and cost
Non-current assets and disposal groups held for sale	Lower of carrying amount or fair value less costs to sell
Non-current assets	
Intangible assets	
Of which: with finite useful lives	Amortized cost
Of which: with indefinite useful lives (including goodwill)	Impairment-only approach
Property, plant and equipment	Amortized cost
Investments accounted for using the equity method	Pro-rata value of the investment's equity carried forward
Other financial assets	
Other non-derivative financial assets	
Held-to-maturity investments	Amortized cost
Available-for-sale financial assets	Fair value or at cost
Originated loans and receivables	Amortized cost
Derivative financial assets	Fair value
Deferred tax assets	Non-discounted amount measured at the tax rates that are expected to apply to the period when the asset is realized or the liability settled

Items of the statement of financial position	Measurement principle
Liabilities and shareholders' equity	
Current liabilities	
Financial liabilities	
Non-derivative interest-bearing and non-interest-bearing liabilities	Amortized cost
Derivative financial liabilities	Fair value
Trade payables	Amortized cost
Income tax liabilities	Amount expected to be paid to the taxation authorities, using the tax rates that have been enacted or substantively enacted by the end of the reporting period
Other provisions	Present value of the settlement amount
Liabilities directly associated with non-current assets and disposal groups held for sale	Lower of carrying amount or fair value less costs to sell
Non-current liabilities	
Financial liabilities	
Non-derivative interest-bearing and non-interest-bearing liabilities	Amortized cost
Derivative financial liabilities	Fair value
Provisions for pensions and other employee benefits	Actuarial projected unit credit method
Other provisions	Present value of the settlement amount
Deferred tax liabilities	Non-discounted amount measured at the tax rates that are expected to apply to the period when the asset is realized or the liability settled

The material principles on recognition and measurement outlined below were applied uniformly to all accounting periods presented in these consolidated financial statements.

Intangible assets (excluding goodwill) with finite useful lives, including UMTS and LTE licenses, are measured at cost and amortized on a straight-line basis over their useful lives. Such assets are impaired if their recoverable amount, which is measured at the higher of fair value less costs to sell and value in use, is lower than the carrying amount. Indefinite-lived intangible assets (mobile communications licenses granted by the Federal Communications Commission in the United States (FCC licenses)) are carried at cost. While FCC licenses are issued for a fixed time, renewals of FCC licenses have occurred routinely and at negligible costs. Moreover, Deutsche Telekom has determined that there are currently no legal, regulatory, contractual, competitive, economic or other factors that limit the useful lives of the FCC licenses, and therefore treats the FCC licenses as an indefinite-lived intangible asset. They are not amortized, but tested for impairment annually or whenever there are indications of impairment and, if necessary, written down to the recoverable amount. Impairment losses are reversed if the reasons for recognizing the original impairment loss no longer apply and the asset is recognized at a value that would have been applied if no impairment losses had been recognized in prior periods.

The useful lives and the amortization method of the assets are reviewed at least at each financial year-end and, if expectations differ from previous estimates, the changes are accounted for as changes in accounting estimates in accordance with IAS 8.

Amortization of mobile communications licenses begins as soon as the related network is ready for use. The useful lives of mobile communications licenses are determined based on several factors, including the term of the licenses granted by the respective regulatory body in each country, the availability and expected cost of renewing the licenses, as well as the development of future technologies.

The remaining useful lives of Deutsche Telekom's most important mobile communications licenses are as follows:

Mobile communications licenses	Years
FCC licenses	Indefinite
LTE licenses	14
UMTS licenses	3 to 13
GSM licenses	1 to 13

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 temporis in the year of acquisition. The residual values, useful lives and the depreciation method of the assets are reviewed at least at each financial year-end and, if expectations differ from previous estimates, the changes are accounted for as changes in accounting estimates in accordance with IAS 8. In addition to directly attributable costs, the costs of internally developed assets include proportionate indirect material and labor costs, as well as administrative expenses relating to production or the provision of services. In addition to the purchase price and costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management, costs also include the estimated costs for dismantling and removing the asset, and restoring the site on which it is located. If an item of property, plant and equipment consists of several components with different estimated useful lives, the individual significant components are depreciated over their individual useful lives. Maintenance and repair costs are expensed as incurred. Public investment grants reduce the cost of the assets for which the grants were made.

On disposal of an item of property, plant and equipment or when no future economic benefits are expected from its use or disposal, the carrying amount of the item is derecognized. The gain or loss arising from the disposal of an item of property, plant and equipment is the difference between the net disposal proceeds, if any, and the carrying amount of the item and is recognized as other operating income or other operating expenses when the item is derecognized. The useful lives of material asset categories are presented in 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 with a potential need for a write-down are grouped together on the basis of similar credit risk characteristics, tested collectively for impairment and written down, if necessary. 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 and some through incorporation in a contractual trust agreement (CTA). **Provisions for pensions** are measured using the projected unit credit method for defined benefit plans, taking into account not only the pension obligations and vested pension rights known at the reporting date, but also expected future salary and benefit increases. The interest rate used to determine the present value of the obligations is set on the basis of the yield on high-quality corporate bonds in the respective currency area. In countries without a deep market for such bonds, estimates based on the yield on government bonds are used instead.

The return on plan assets and expenses for interest added to obligations are reported in finance costs. Service cost is classified as operating expenses. Past service cost is recognized immediately to the extent that the benefits are vested; otherwise, they are recognized on a straight-line basis over the average remaining vesting period.

The existing option relating to the recognition of actuarial gains and losses arising from adjustments and changes in actuarial assumptions is exercised in such a way that gains and losses are recognized in the period in which they occur directly in equity. This entails two major consequences relative to the alternatively permissible corridor method, as it is known: On the one hand, actuarial gains and losses are fully included in the pension obligation recognized in the statement of financial position, i.e., there are no unrecognized gains or losses outside the statement of financial position, which, by contrast, exist when applying the corridor method. On the other hand, actuarial gains and losses are recognized directly in equity rather than in the income statement. Deutsche Telekom prefers its selected method as it provides more information and greater transparency, particularly in view of the fact that this method will be the sole permissible form of presentation from January 1, 2013 onwards as a result of the published amendments to the standard.

The Group’s defined benefit plans primarily relate to 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). Since 2000, Deutsche Telekom AG has been legally obliged to make an annual contribution to the special pension fund amounting to 33 percent of the pensionable gross emoluments of active civil servants and the notional pensionable gross emoluments of civil servants on leave of absence.

In the past, Deutsche Telekom AG and its domestic subsidiaries agreed on **partial retirement arrangements** with varying terms and conditions, predominantly based on what is known as the block model. Two types of obligations, both measured at their present value in accordance with actuarial principles, arise and are accounted for separately. The first type of obligation relates to the cumulative outstanding settlement amount, which is recorded on a pro-rata basis during the active or working phase. The cumulative outstanding settlement amount is based on the difference between the employee's remuneration before entering partial retirement (including the employer's social security contributions) and the remuneration for the part-time service (including the employer's social security contributions, but excluding top-up payments). The second type of obligation relates to the employer's obligation to make top-up payments plus an additional contribution to the statutory pension scheme. Top-up payments are often hybrid in nature, i.e., although the agreement is often considered a form of compensation for terminating the employment relationship at an earlier date, payments to be made at a later date are subject to the performance of work in the future. Insofar as partial retirement programs are mainly to be considered severance instruments, top-up payments are recognized in full as soon as the obligation arises. In cases where the focus is on the future performance of work, the top-up payments are recognized over their vesting period.

Provisions for voluntary redundancy and severance payments and in connection with early retirement arrangements for civil servants are recognized when Deutsche Telekom is demonstrably committed to granting those benefits. This is the case when Deutsche Telekom has a detailed formal plan for the termination of the employment relationship and is without realistic possibility of withdrawal. The termination benefits are measured based on the number of employees expected to be affected by the measures. Where termination benefits fall due more than twelve months after the reporting date, the expected amount to be paid is discounted to the reporting date.

Other provisions are recognized for current legal or constructive obligations to third parties that are uncertain with regard to their maturities or their amount. Provisions are recognized for these obligations provided they relate to past transactions or events, will probably require an outflow of resources to settle, and this outflow can be reliably measured. Provisions are carried at their expected settlement amount, taking into account all identifiable risks. The settlement amount is calculated on the basis of a best estimate; suitable estimation methods and sources of information are used depending on the characteristics of the obligation. In case of a number of similar obligations, the group of obligations is treated as one single obligation. The expected value method is used as the estimation method. If there is a range of potential events with the same probability of occurrence, the average value is taken. Individual obligations (e.g., legal and litigation risks) are regularly evaluated based on the most probable outcome, provided an exceptional probability distribution does not mean that other estimates would lead to a more appropriate evaluation. The measurement of provisions is based on past experience, current costing and price information, as well as estimates and reports from experts. If experience or current costing or price information is used to determine the settlement amount, these values are extrapolated to the expected settlement date. Suitable price trend indicators (e.g., construction price indexes or inflation rates) are used for this purpose. Provisions are discounted when the effect of the time value of money is material. Provisions are discounted using pre-tax market interest rates that reflect the term of the obligation and the risk associated with it (insofar as not already taken into consideration in the calculation of the settlement amount). Reimbursement claims are not netted against provisions; they are recognized separately as soon as their realization is virtually certain.

Provisions for decommissioning, restoration, and similar obligations arising from the acquisition of property, plant and equipment are recognized directly in equity as part of the cost of the relevant asset. Changes at a later date in estimates of the amount or timing of payments or changes to the interest rate applied in measuring such obligations are also recognized directly in equity and result in retrospective increases or decreases in the carrying amount of the relevant item of property, plant and equipment. Where the decrease in the amount of a provision exceeds the carrying amount of the related asset, the excess is recognized immediately in profit or loss.

Contingencies (contingent liabilities and assets) are potential liabilities or assets arising from past events whose existence will be confirmed by the occurrence or non-occurrence of one or more uncertain future events not entirely within the control of Deutsche Telekom. Contingent liabilities can also be present obligations that arise from past events for which an outflow of resources embodying economic benefits is not probable or for which the amount of the obligation cannot be measured reliably. Contingent liabilities are only recognized at their fair value if they were assumed in the course of a business combination. Contingent liabilities not assumed in the course of a business combination are not recognized. Contingent assets are not recognized. However, when the realization of income is virtually certain, then the related asset is no longer a contingent asset, but it is recognized as an asset. Information on contingent liabilities is disclosed in the notes to the consolidated financial statements, unless the possibility of an outflow of resources embodying economic benefits is remote. The same applies to contingent assets where an inflow of economic benefits is probable.

A **financial instrument** is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. Financial assets include, in particular, cash and cash equivalents, trade receivables and other originated loans and receivables, held-to-maturity investments, and derivative and non-derivative financial assets held for trading. Financial liabilities generally substantiate claims for repayment in cash or another financial asset. In particular, this includes bonds and other securitized liabilities, trade payables, liabilities to banks, finance lease payables, liabilities to non-banks from promissory notes, and derivative financial liabilities. Financial instruments are recognized as soon as Deutsche Telekom becomes a party to the contractual regulations of the financial instrument. However, in the case of regular way purchase or sale (purchase or sale of a financial asset under a contract whose terms require delivery of the asset within the timeframe established generally by regulation or convention in the marketplace concerned), the settlement date is relevant for the initial recognition and derecognition. This is the day on which the asset is delivered to or by Deutsche Telekom. In general, financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the entity currently has a right to set off the recognized amounts and intends to settle on a net basis. To the extent that contracts to buy or sell non-financial assets fall within the scope of IAS 39, they are accounted for in accordance with this standard.

Financial assets held for trading are measured at fair value. These mainly include derivatives that are not part of an effective hedging relationship as set out in IAS 39 and therefore shall be classified as held for trading. Any gains or losses arising from subsequent measurement are recognized in the income statement.

Certain types of investment are intended and expected to be **held to maturity** with reasonable economic certainty. These financial assets are measured at amortized cost using the effective interest method.

Non-derivative financial assets that do not fulfill the definition of another category of financial instruments are classified as **available for sale** and generally measured at fair value. The gains and losses arising from fair value measurement are recognized directly in equity, unless the impairment is permanent or significant, or the changes in the fair value of debt instruments resulting from currency fluctuations are recognized in profit or loss. The cumulative gains and losses arising from fair value measurement are only recognized in profit or loss on disposal of the related financial assets. If the fair value of unquoted equity instruments cannot be measured with sufficient reliability, these instruments are measured at cost (less any impairment losses, if applicable).

Deutsche Telekom has not yet made use of the option of designating financial assets upon initial recognition as **financial assets at fair value through profit or loss.**

The carrying amounts of the financial assets that are not measured at fair value through profit or loss are tested at each reporting date to determine whether there is objective, material evidence of **impairment** (e.g., a debtor is facing serious financial difficulties, it is highly probable that insolvency proceedings will be initiated against the debtor, an active market for the financial asset disappears, there is a substantial change in the technological, economic or legal environment and the market environment of the issuer, or there is a continuous decline in the fair value of the financial asset to a level below amortized cost). Any impairment losses caused by the fair value being lower than the carrying amount are recognized in profit or loss. Where impairments of the fair values of available-for-sale financial assets were recognized directly in equity in the past, these must now be reclassified from equity in the amount of the impairment determined to the income statement. If, in a subsequent period, the fair value of the financial asset increases and this increase can be related objectively to events occurring after the impairment was recognized, the impairment loss is reversed in the appropriate amount. In the case of debt instruments, these reversed impairment losses are recognized in profit or loss. Impairment losses on unquoted equity instruments that are classified as available for sale and carried at cost may not be reversed. Both the fair value of held-to-maturity securities to be determined by testing for impairment and the fair value of the loans and receivables measured at amortized cost, which are required for impairment testing, correspond to the present value of the estimated future cash flows, discounted using the original effective interest rate. The fair value of unquoted equity instruments measured at cost is calculated as the present value of the expected future cash flows, discounted using the current interest rate that corresponds to the investment's special risk position.

Financial liabilities are measured at fair value on initial recognition. For all financial liabilities not subsequently measured at fair value through profit or loss, the transaction costs directly attributable to the acquisition are also recognized.

Trade payables and other non-derivative financial liabilities are generally measured at amortized cost using the effective interest method.

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, commissions) are generally recognized as a decrease in revenue. If the consideration provides a benefit in its own right and can be reliably measured, the payments are recognized as expenses.

Revenue recognition at Deutsche Telekom is as follows:

Revenue generated by the **mobile communications business** of the operating segments Germany, Europe, and United States includes revenues from the provision of mobile services, customer activation fees, and sales of mobile handsets and accessories. Mobile service revenue includes monthly service charges, charges for special features, call charges, and roaming charges billed to Deutsche Telekom customers, as well as other mobile operators. Mobile service revenue is recognized based upon minutes of use or other agreed calling plans less credits and adjustments for discounts. The revenue and related expenses associated with the sale of mobile phones, wireless data devices, and accessories are recognized when the products are delivered and accepted by the customer.

The **fixed-network business** in the operating segments Germany and Europe provides narrow and broadband access to the fixed network as well as the Internet. Revenue generated from these types of access for the use of voice and data communications is recognized upon rendering of the service. The services rendered relate to use by customers (e.g., call minutes), availability over time (e.g., monthly service charges) or other agreed calling plans. Telecommunications equipment is also sold, leased, and serviced. Revenue and expenses associated with the sale of telecommunications equipment and accessories are recognized when the products are delivered, provided there are no unfulfilled company obligations that affect the customer's final acceptance of the arrangement. Revenue from rentals and operating leases is recognized monthly as the entitlement to the fees accrues. Revenues from customer activation fees are deferred over the average customer retention period. Revenues also result from charges for advertising and e-commerce. Advertising revenues are recognized in the period in which the advertisements are exhibited. Transaction revenues are recognized upon notification from the customer that qualifying transactions have occurred and collection of the resulting receivable is reasonably assured.

In the **Systems Solutions** operating segment, revenue is recognized when persuasive evidence of a sales arrangement exists, products are delivered or services are rendered, the selling price or fee is fixed or determinable and collectability is reasonably assured.

Revenue from Computing & Desktop Services is recognized as the services are provided using a proportional performance model. Revenue is recognized ratably over the contractual service period for fixed-price contracts and on an output or consumption basis for all other service contracts. Revenue from service contracts billed on the basis of time and material used is recognized at the contractual hourly rates as labor hours are delivered and direct expenses are incurred.

Revenue from hardware sales or sales-type leases is recognized when the product is shipped to the customer, provided there are no unfulfilled company obligations that affect the customer's final acceptance of the arrangement. Any costs of these obligations are recognized when the corresponding revenue is recognized.

Telecommunication services include network services and hosting & ASP services. Contracts for network services, which consist of the installation and operation of communication networks for customers, have an average duration of approximately three years. Customer activation fees and related costs are deferred and amortized over the estimated average period of customer retention. Revenues for voice and data services are recognized under such contracts when used by the customer. When an arrangement contains a lease, the lease is accounted for separately in accordance with IFRIC 4 and IAS 17. Revenues from hosting & ASP services are recognized as the services are provided.

Revenue from rentals and leases is recognized on a straight-line basis over the rental period.

Income taxes include current income taxes as well as deferred taxes. Tax liabilities/tax receivables mainly comprise liabilities/receivables relating to domestic and foreign income taxes. They include liabilities/receivables for the current period as well as for prior periods. The liabilities/receivables are measured based on the applicable tax law in the countries Deutsche Telekom operates in and include all facts the Company is aware of.

Deferred taxes are recognized for temporary differences between the carrying amounts in the consolidated statement of financial position and the tax base, as well as for tax loss carryforwards. Deferred tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized. Deferred tax is provided on temporary differences arising on the investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference 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. When determining the fair values, additional planning uncertainties are factored in that reflect the risks of macroeconomic development, which could adversely affect future operating results.

The determination of the **recoverable amount of a cash-generating unit** involves the use of estimates by management. Methods used to determine the fair value less costs to sell include discounted cash flow-based methods and methods that use quoted stock market prices as a basis. The measurements on the basis of discounted cash flows are founded on projections that are based on financial plans that have been approved by management and are also used for internal purposes. The planning horizon reflects the assumptions for short- to mid-term market developments. Cash flows beyond the planning horizon are extrapolated using appropriate growth rates. The key assumptions on which management has based its determination of fair value less costs to sell include the following assumptions that were primarily derived from internal sources and 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 future changes in the aforementioned assumptions could have a significant impact on the fair values of the cash-generating units.

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 at April 1, 2010.

Management maintains an **allowance for doubtful accounts** to account for estimated losses resulting from the inability of customers to make required payments. When evaluating the adequacy of an allowance for doubtful accounts, management bases its estimates on the aging of accounts receivable balances and historical write-off experience, customer creditworthiness and changes in customer payment terms. If the financial condition of customers were to deteriorate, actual write-offs might be higher than expected.

Income taxes must be estimated for each of the jurisdictions in which the Group operates, involving a specific calculation of the expected actual income tax exposure for each tax object and an assessment of temporary differences resulting from the different treatment of certain items for IFRS consolidated financial and tax reporting purposes. Any temporary differences will generally result in the recognition of deferred tax assets and liabilities in the consolidated financial statements. Management judgment is required for the calculation of actual and deferred taxes. Deferred tax assets are recognized to the extent that their utilization is probable. The utilization of deferred tax assets will depend on whether it is possible to generate sufficient taxable income in the respective tax type and jurisdiction, taking into account any legal restrictions on the length of the loss carry-forward period. Various factors are used to assess the probability of the future utilization of deferred tax assets, including past operating results, operational plans, loss carryforward periods, and tax planning strategies. If actual results differ from these estimates or if these estimates must be adjusted in future periods, results of operations, the financial position, and cash flows may be negatively affected. In the event that the assessment of future utilization of deferred tax assets changes, the recognized deferred tax assets must be reduced in profit or loss or directly in equity, or the impaired deferred tax assets must be recognized in profit or loss or directly in equity, depending on how the deferred tax assets were originally recognized.

Pension obligations for benefits to non-civil servants are generally satisfied by defined benefit plans. Pension benefit costs for non-civil servants are determined in accordance with actuarial valuations, which rely on assumptions including discount rates, life expectancies and, if applicable, expected return on plan assets. The assumptions concerning the expected return on plan assets are determined on a uniform basis, considering long-term historical returns, asset allocation and future estimates of long-term investment returns. In the event that changes in assumptions are required with respect to discount rates and expected returns on invested assets, the future amounts of the pension benefit costs may be affected materially.

Deutsche Telekom is obligated, under the German Federal Posts and Telecommunications Agency Reorganization Act (Gesetz zur Reorganisation der Bundesanstalt für Post und Telekommunikation Deutsche Bundespost), to pay for its share of any operating cost shortfalls between the income of the **Civil Service Health Insurance Fund** (Postbeamtenkrankenkasse) and benefits paid. The Civil Service Health Insurance Fund provides services mainly in cases of illness, birth, or death for its members, who are civil servants employed by or retired from Deutsche Telekom AG, Deutsche Post AG and Deutsche Postbank AG, and their relatives. When Postreform II came into effect, participation in the Civil Service Health Insurance Fund was closed to new members. The insurance premiums collected by the Civil Service Health Insurance Fund may not exceed the insurance premiums imposed by alternative private health insurance enterprises for comparable insurance benefits, and, therefore, do not reflect the changing age distribution of the participants in the fund. Deutsche Telekom recognizes provisions in the amount of the actuarially determined present value of Deutsche Telekom's share in the fund's future deficit, using a discount rate and making assumptions about life expectancies and projections for contributions and future increases in general health care costs in Germany. Since the calculation of these provisions involves long-term projections over periods of more than 50 years, the present value of the liability may be highly sensitive even to small variations in the underlying assumptions.

Deutsche Telekom exercises considerable judgment in measuring and recognizing **provisions** and the exposure to **contingent liabilities** related to pending litigation or other outstanding claims subject to negotiated settlement, mediation, arbitration or government regulation, as well as other contingent liabilities. Judgment is necessary in assessing the likelihood that a pending claim will succeed, or a liability will arise, and to quantify the possible range of the final settlement. Provisions are recorded for liabilities when losses are expected from executory contracts, a loss is considered probable and can be reasonably estimated. Because of the inherent uncertainties in this evaluation process, actual losses may be different from the originally estimated provision. In addition, significant estimates are involved in the determination of provisions related to taxes and litigation risks. These estimates are subject to change as new information becomes available, primarily with the support of internal specialists, if available, or with the support of outside consultants, such as actuaries or legal counsel. Revisions to the estimates of these losses from executory contracts may significantly affect future operating results.

Revenue recognition.

Customer activation fees. The operating segments Germany, Europe, and United States receive installation and activation fees from new customers. These fees (and related directly attributable costs) are deferred and amortized over the expected duration of the customer relationship. The estimation of the expected average duration of the relationship is based on historical customer turnover. If management's estimates are revised, material differences may result in the amount and timing of revenue for any period.

Multiple-element arrangements. The fair values of individual units of accounting of bundled products or services are complex to determine, because some of the elements are price-sensitive and, thus, volatile in a competitive marketplace. Revisions to the estimates of these relative fair values may significantly affect the allocation of total arrangement consideration among the different units of accounting, affecting future operating results.

Consolidated group.

All subsidiaries, joint ventures and associates are included in the consolidated financial statements. Subsidiaries are companies that are directly or indirectly controlled by Deutsche Telekom and are fully consolidated. The existence and effect of potential voting rights that are currently exercisable or convertible, including potential voting rights held by another entity, are considered when assessing whether an entity is controlled. Joint ventures are companies jointly controlled by Deutsche Telekom and other companies. Associates are companies on which Deutsche Telekom has a significant influence, and that are neither subsidiaries nor joint ventures. As with joint ventures, associates are accounted for using the equity method.

Subsidiaries are not included in the consolidated financial statements if an operating segment or the Group considers them to be insignificant based on the following criterion: The sum of all unconsolidated subsidiaries must not account for more than 1 percent of the Group's total assets, revenue, profit/loss for the year, contingent assets/liabilities, and other financial obligations. If the 1 percent limit is exceeded, the subsidiary to be included in the consolidated financial statements will be determined taking expected duration and consolidation effects into account. The materiality assessment for associates and jointly controlled entities is limited solely to the criteria of profit/loss for the year, contingencies, and other financial obligations. Aside from the quantitative criteria, qualitative criteria will also be used to assess the materiality of an entity for the consolidated group. Excluding a subsidiary must not significantly change the segment result or the Group's profit/loss for the year, or obscure other significant trends.

The composition of the Deutsche Telekom Group changed as follows in the 2011 financial year:

	Domestic	International	Total
Consolidated subsidiaries			
January 1, 2011	64	177	241
Additions	2	6	8
Disposals (including mergers)	(2)	(9)	(11)
December 31, 2011	**64**	**174**	**238**
Associates accounted for using the equity method			
January 1, 2011	5	8	13
Additions	0	0	0
Disposals	0	(3)	(3)
December 31, 2011	**5**	**5**	**10**
Joint ventures accounted for using the equity method			
January 1, 2011	2	3	5
Additions	0	2	2
Disposals	0	0	0
December 31, 2011	**2**	**5**	**7**
Total			
January 1, 2011	71	188	259
Additions	2	8	10
Disposals (including mergers)	(2)	(12)	(14)
December 31, 2011	**71**	**184**	**255**

Additions to the consolidated group in the 2011 financial year include NetWorkS!, a company established in cooperation with PTK Centertel for the joint operation of the wireless access network in Poland, and the procurement joint venture BUYIN, established in cooperation with France Télécom-Orange.

All other changes to the consolidated group were of no material significance for Deutsche Telekom's consolidated financial statements.

Deutsche Telekom held 40 percent plus one vote of the shares in the OTE group as of the reporting date. In accordance with shareholder agreements between Deutsche Telekom and the Hellenic Republic, Deutsche Telekom has taken control of 50 percent plus two voting shares and therefore the OTE group's financial and operating policy. Consequently, the OTE group companies are fully consolidated subsidiaries.

Business combinations and other transactions.

Business combinations.

Deutsche Telekom did not effect any material business combinations in the 2011 financial year.

Transaction involving T-Mobile USA.

On March 20, 2011, Deutsche Telekom AG and AT&T Inc., Dallas, United States (AT&T) entered into an agreement on the sale of T-Mobile USA to AT&T. The agreement provided for a purchase price of USD 39 billion, consisting of USD 25 billion in cash and approximately USD 14 billion of AT&T common stock.

As a result of this agreement, Deutsche Telekom recognized T-Mobile USA's assets and the directly associated liabilities as held for sale in the consolidated statements of financial position within the consolidated interim reports as of March 31, 2011, June 30, 2011, and September 30, 2011. The discontinued operation's profit/loss after taxes was shown in aggregate form in the consolidated income statements for the aforementioned periods as profit/loss from discontinued operations.

The transaction was subject to approval by the U.S. Department of Justice (DOJ) and the U.S. telecommunications regulatory authority, the Federal Communications Commission (FCC). The DOJ initiated legal proceedings against the transaction at the U.S. District Court in Washington, District of Columbia, in August 2011. After the FCC announced on November 22, 2011 that it had circulated a draft order to seek an administrative hearing on the take-over of T-Mobile USA by AT&T, Deutsche Telekom and AT&T withdrew their pending applications to the FCC for approval of the take-over of T-Mobile USA by AT&T on November 24, 2011 without prejudice to their own legal positions. AT&T and Deutsche Telekom terminated their agreement for the sale of T-Mobile USA to AT&T on December 19, 2011 in response to the universal opposition shown by the U.S. authorities.

Following the decision to terminate the agreement for the sale of T-Mobile USA to AT&T, Deutsche Telekom now reports the assets and liabilities of T-Mobile USA as a continuing operation since December 20, 2011.

As a result of the termination of the agreement, AT&T compensated Deutsche Telekom in line with the provisions of the purchase agreement between the two companies signed on March 20, 2011. The compensation consists of various components that were accounted for as follows as of December 31, 2011:

- A break-up fee of EUR 2.3 billion (USD 3 billion) received in 2011 was recognized in other operating income. This income was partially offset by a negative amount of EUR 0.2 billion relating to a cash flow hedge to compensate for fluctuation in the U.S. dollar spot exchange rate (please also refer to Note 37).
- The right to the transfer of Advanced Wireless Service (AWS) spectrum licenses was recognized in the statement of financial position under other non-current assets (please also refer to Note 9), since the transfer is still subject to formal approval by the FCC. The amount was recognized under operating income in the income statement. The right to the transfer of the license was measured at fair value in the amount of EUR 0.9 billion (USD 1.2 billion).
- An agreement on UMTS roaming services for voice and data traffic within the United States covering a term of more than seven years that Deutsche Telekom had been assured of was not recognized in the financial statements, since it is an executory contract for both parties. There are no indications that the agreement was not concluded at market terms.

The termination of the agreement also had the following effects on Deutsche Telekom's statement of financial position and income statement as of December 31, 2011:

Effects arising from the reclassification of T-Mobile USA from discontinued operations to continuing operations:

- Retrospective depreciation and amortization: No depreciation and amortization was permitted to be recognized for the period March 20, 2011 to December 19, 2011 when T-Mobile USA was recognized as a discontinued operation. In a first step following the reclassification of T-Mobile USA as a continuing operation, the assets and liabilities of T-Mobile USA had to be reported at their amortized carrying amount from that point in time onwards. Depreciation and amortization amounting to EUR 1.6 billion were therefore recorded from March 20, 2011 to December 19, 2011 under functional costs in the income statement (please also refer to Note 30).
- Impairment to recoverable amount: The carrying amount of the United States cash-generating unit was written down to the recoverable amount in a second step. The recoverable amount was determined as part of the annual impairment tests as of December 31, 2011. The corresponding goodwill impairment loss of EUR 2.3 billion was recognized under other operating expense (please also refer to Note 5).

Other effects:

- Tax effects: The break-up fee and the transfer of the right to spectrum licenses were fully subject to income tax in Germany in the 2011 financial year. Loss carryforwards were utilized for 60 percent of the total amount. The compensation, including the cash flow hedge, resulted in a tax expense of EUR 0.9 billion.
- Hedging of a net investment: Hedging instruments were used to hedge the purchase price for T-Mobile USA with the purpose of eliminating exchange rate effects. These hedging instruments with a nominal value of USD 7.0 billion were designated as a net investment hedge with a change in the U.S. dollar spot exchange rate change being the hedged risk (please also refer to Note 37). The hedging volume was reduced to USD 5.8 billion at the end of the 2011 financial year. The remainder is equivalent to the value of the licenses as of the end of the financial year. In the 2011 financial year, total value fluctuations of EUR –0.4 billion were recognized directly in equity under hedging instruments in total other comprehensive income.

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 2009 through 2011, as if they had been included in the consolidated financial statements from the beginning of each financial year in which they were acquired. There were no new principal subsidiaries to be fully consolidated in Deutsche Telekom's consolidated financial statements in the 2011 financial year.

		2011 millions of €	2010 millions of €	2009 millions of €
Net revenue				
Reported		58,653	62,421	64,602
Pro forma		58,653	62,421	65,101
Net profit				
Reported		557	1,695	353
Pro forma		557	1,695	377
Earnings per share				
Reported	€	0.13	0.39	0.08
Pro forma	€	0.13	0.39	0.09

Principal subsidiaries.

The Group's principal subsidiaries are presented in the following table:

Name and registered office	Deutsche Telekom share % Dec. 31, 2011	Net revenue millions of € 2011	Average number of employees 2011
Telekom Deutschland GmbH, Bonn, Germany	100.00	22,876	18,186
T-Mobile USA, Inc., Bellevue, Washington, United States [a, b]	100.00	14,811	34,518
T-Systems International GmbH, Frankfurt/Main, Germany	100.00	5,342	18,990
Hellenic Telecommunications Organization S.A. (OTE), Athens, Greece [a]	40.00	5,038	28,265
Magyar Telekom Nyrt., Budapest, Hungary [a, b]	59.23	2,049	10,126
T-Mobile Netherlands Holding B.V., The Hague, Netherlands [a, b]	100.00	1,747	1,952
PTC, Polska Telefonia Cyfrowa S.A., Warsaw, Poland [b]	100.00	1,740	5,083
T-Mobile Czech Republic a.s., Prague, Czech Republic [b]	60.77	1,092	2,947
Hrvatski Telekom d.d., Zagreb, Croatia [a]	51.00	1,084	6,158
T-Mobile Austria Holding GmbH, Vienna, Austria [a, b]	100.00	924	1,328
Slovak Telekom a.s., Bratislava, Slovakia [a]	51.00	886	4,619

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

In accordance with § 313 HGB, the full list of investment holdings, which forms part of the notes to the consolidated financial statements, is published in the electronic Federal Gazette (elektronischer Bundesanzeiger) together with the consolidated financial statements. 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	
	2011 **€**	2010 €	2009 €	**Dec. 31, 2011** **€**	Dec. 31, 2010 €
100 Czech korunas (CZK)	4.06830	3.95536	3.78123	3.87758	3.98728
1 Pound sterling (GBP)	1.15203	1.16553	1.12218	1.19583	1.15979
100 Croatian kuna (HRK)	13.44360	13.72000	13.62190	13.28090	13.54730
1,000 Hungarian forints (HUF)	3.58103	3.63022	3.56631	3.18883	3.59999
100 Macedonian denars (MKD)	1.62472	1.62536	1.62428	1.62320	1.59628
100 Polish zlotys (PLN)	24.27060	25.03330	23.09760	22.39550	25.25810
1 U.S. dollar (USD)	0.71801	0.75398	0.71692	0.77246	0.74698

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 640 million (December 31, 2010: EUR 625 million) on the basis of collateral contracts as surety for potential credit risks arising from derivative transactions.

In the reporting period, cash and cash equivalents increased by EUR 0.9 billion to EUR 3.7 billion primarily due to higher net cash from operating activities. Net cash from operating activities included a break-up fee of EUR 2.3 billion from AT&T in connection with the termination of the agreement on the sale of T-Mobile USA as well as EUR 0.4 billion lower cash outflows for civil servant pensions. Cash outflows related to payments to Elektrim and Vivendi in connection with the agreement on the equity interest in PTC.

The decrease in net cash used in investing activities of EUR 1.4 billion and in net cash used in financial activities of EUR 0.4 billion also contributed to the increase in cash and cash equivalents.

For further details, please refer to the consolidated statement of cash flows in Note 31.

As of December 31, 2011, the Group reported cash and cash equivalents of EUR 20 million (December 31, 2010: EUR 0.5 billion (including Croatia)) held by subsidiaries in 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, 2011 millions of €	Dec. 31, 2010 millions of €
Trade receivables	6,455	6,766
Other receivables	102	123
	6,557	**6,889**

Of the total of trade and other receivables, EUR 6,454 million (December 31, 2010: EUR 6,849 million) is due within one year.

The development in receivables largely corresponds to the revenue trend. Major negative effects from the challenging macroeconomic situation in the Europe operating segment were prevented by means of improved collection activities. Against the background of a stable macroeconomic situation, improved collection activities in the Germany operating segment resulted in receivables decreasing at a faster rate than the revenue trend.

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	Of which: not impaired on the reporting date and past due in the following periods					
Trade receivables	millions of €	Less than 30 days millions of €	Between 30 and 60 days millions of €	Between 61 and 90 days millions of €	Between 91 and 180 days millions of €	Between 181 and 360 days millions of €	More than 360 days millions of €
As of Dec. 31, 2011	3,190	490	78	47	71	71	20
As of Dec. 31, 2010	3,295	483	93	59	96	97	32

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:

	2011 millions of €	2010 millions of €
Allowances as of January 1	**1,323**	**1,178**
Currency translation adjustments	(9)	15
Additions (allowances recognized as expense)	830	822
Use	(589)	(529)
Reversal	(323)	(163)
Allowances as of December 31	**1,232**	**1,323**

The following table presents expenses for the full write-off of trade receivables as well as income from recoveries on trade receivables written off:

	2011 millions of €	2010 millions of €	2009 millions of €
Expenses for full write-off of receivables	107	138	327
Income from recoveries on receivables written off	28	7	39

All income and expenses relating to allowances and write-offs of trade receivables are reported under selling expenses.

3 Inventories.

	Dec. 31, 2011 millions of €	Dec. 31, 2010 millions of €
Raw materials and supplies	124	167
Work in process	82	108
Finished goods and merchandise	878	1,033
Advance payments	–	2
	1,084	**1,310**

Of the inventories reported as of December 31, 2011, write-downs of EUR 69 million (2010: EUR 50 million, 2009: EUR 33 million) on the net realizable value were recognized in profit or loss.

The carrying amount of inventories recognized as expense amounted to EUR 5,905 million (2010: EUR 5,774 million, 2009: EUR 6,311 million).

The finished goods and merchandise included in inventories primarily comprise retail products (e.g., telephones and accessories) not manufactured by ourselves, and services rendered but not yet invoiced, primarily to business customers.

4 Non-current assets and disposal groups held for sale.

As of December 31, 2011, current assets recognized in the consolidated statement of financial position included EUR 0.4 billion in non-current assets and disposal groups held for sale.

Non-current assets held for sale primarily consist of the carrying amount of the stake in Telekom Srbija totaling EUR 0.4 billion in the Europe operating segment. The fair value of the stake in Telekom Srbija less costs to sell was increased by EUR 0.2 billion, after OTE had signed the sales agreement on December 30, 2011. This effect which is not recognized in profit or loss was recorded under total other comprehensive income as financial assets available for sale. The sale was closed on January 25, 2012.

5 Intangible assets.

	Internally generated intangible assets millions of €	Total millions of €	Acquired concessions, industrial and similar rights and assets millions of €
Cost			
At December 31, 2009	**2,515**	**40,205**	**1,530**
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
At December 31, 2010	**2,916**	**43,952**	**1,591**
Currency translation	46	369	(18)
Changes in the composition of the Group	2	8	1
Other changes	0	0	0
Additions	122	845	7
Disposals	282	709	51
Change from non-current assets and disposal groups held for sale	0	(24)	0
Reclassifications	677	648	(696)
At December 31, 2011	**3,481**	**45,089**	**834**
Accumulated amortization			
At December 31, 2009	**1,455**	**11,002**	**735**
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)
At December 31, 2010	**1,725**	**12,916**	**895**
Currency translation	35	(211)	(18)
Changes in the composition of the Group	1	(2)	0
Additions (amortization)	662	2,662	78
Additions (impairment)	14	7	4
Disposals	278	692	51
Change from non-current assets and disposal groups held for sale	0	0	0
Reclassifications	4	(3)	(272)
At December 31, 2011	**2,163**	**14,677**	**636**
Net carrying amounts			
At December 31, 2010	1,191	31,036	696
At December 31, 2011	**1,318**	**30,412**	**198**

Acquired intangible assets					Goodwill	Advance payments and intangible assets under development	Total
LTE licenses	UMTS licenses	GSM licenses	FCC licenses (T-Mobile USA)	Other acquired intangible assets			
millions of €	millions of €	millions of €	millions of €	millions of €	millions of €	millions of €	millions of €
0	**10,022**	**1,491**	**17,115**	**10,047**	**26,553**	**1,109**	**70,382**
0	12	13	1,308	176	702	1	2,283
0	4	0	8	185	4	0	237
0	0	0	0	0	(260)	0	(260)
1,323	8	0	14	713	465	829	3,520
0	0	0	0	1,066	19	19	1,439
0	0	0	(4)	0	0	0	(4)
0	0	71	1	920	2	(861)	655
1,323	**10,046**	**1,575**	**18,442**	**10,975**	**27,447**	**1,059**	**75,374**
0	(40)	(34)	629	(168)	(75)	(5)	335
0	0	0	0	7	1	0	11
0	0	0	0	0	0	0	0
21	17	48	54	698	71	1,000	2,038
0	0	0	0	658	39	36	1,066
0	0	0	(24)	0	0	0	(24)
11	0	119	0	1,214	14	(809)	530
1,355	**10,023**	**1,708**	**19,101**	**12,068**	**27,419**	**1,209**	**77,198**
0	**3,385**	**809**	**0**	**6,073**	**6,219**	**1**	**18,677**
0	1	7	0	131	312	(1)	500
0	0	0	0	11	0	0	11
0	605	138	0	1,866	0	0	3,344
0	0	0	0	3	395	1	399
0	0	0	0	1,055	0	1	1,394
0	0	0	0	0	0	0	0
0	0	0	0	47	0	0	30
0	**3,991**	**954**	**0**	**7,076**	**6,926**	**0**	**21,567**
0	(14)	(22)	0	(157)	221	0	45
0	0	0	0	(2)	0	0	(1)
66	606	129	0	1,783	0	0	3,324
0	0	0	0	3	3,100	0	3,121
0	0	0	0	641	0	0	970
0	0	0	0	0	0	0	0
0	1	(1)	0	269	14	0	15
66	**4,584**	**1,060**	**0**	**8,331**	**10,261**	**0**	**27,101**
1,323	6,055	621	18,442	3,899	20,521	1,059	53,807
1,289	**5,439**	**648**	**19,101**	**3,737**	**17,158**	**1,209**	**50,097**

The net carrying amount of the UMTS licenses of EUR 5.4 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, 2010: EUR 0.3 billion) as of the reporting date. These are largely related to the network build-out in the Germany and United States operating segments.

The **carrying amounts of goodwill** are mainly allocated to the following operating segments and cash-generating units:

	Dec. 31, 2011 millions of €	Dec. 31, 2010 millions of € *
Germany	**4,021**	**4,016**
Europe	**7,379**	**8,683**
Of which:		
Poland	1,463	1,650
Netherlands	1,317	1,317
Austria	1,163	1,202
Hungary	996	1,299
Czech Republic	648	666
Croatia	489	499
Greece – Mobile communications	422	838
Slovakia	399	399
Romania – Mobile communications	149	145
Bulgaria	138	262
Macedonia	110	156
Greece – Fixed network	–	124
Other	85	126
United States	**2,600**	**4,827**
Systems Solutions	**3,158**	**2,995**
	17,158	**20,521**

* The composition of cash-generating units was partially changed as of December 31, 2011. Prior-year figures have been adjusted accordingly.

The cash-generating units in Hungary, Croatia, Slovakia, Macedonia and Montenegro (each with both fixed network and mobile communications) were aggregated at national level as of December 31, 2011. This step reflects the change as a result of the now integrated planning and management of the fixed-network and mobile divisions in these countries.

In the 2011 financial year, the main changes in the carrying amounts of goodwill at cash-generating units were as follows:

United States. In connection with the reclassification of T-Mobile USA from a discontinued operation held for sale in the 2011 financial year to a continuing operation (please also refer to “Business combinations and other transactions” in the section “Summary of accounting policies”), the carrying amount of the United States cash-generating unit was reduced to the recoverable amount following retrospective depreciation and amortization. The goodwill of the United States cash-generating unit was reduced by EUR 2.3 billion as a result. The recoverable amount was determined as part of the annual impairment tests as of December 31, 2011.

Europe. The carrying amounts of goodwill of the cash-generating units **Greece – Mobile communications, Greece – Fixed network, Bulgaria** and **Macedonia** decreased by EUR 0.7 billion due to impairment losses to be recognized as a result of the impairment tests.

Disclosures on impairment tests. Deutsche Telekom performed its annual impairment tests of the goodwill recognized for the cash-generating units at December 31, 2011. 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 €	Impairments of property, plant and equipment millions of €	Assigned to segment
United States	2,297	–	United States
Greece – Mobile communications	439	–	Europe
Greece – Fixed network	135	–	Europe
Bulgaria	130	–	Europe
Macedonia	92	–	Europe
Romania – Fixed network	7	237	Europe
Impairments (other operating expenses)	**3,100**	**237**	
Deferred taxes	–	(38)	
Effect on profit (loss)	**3,100**	**199**	
Of which: non-controlling interests	(38)	(162)	
Of which: owners of the parent (net profit (loss))	**3,062**	**37**	

The impairment loss at the United States cash-generating unit was primarily recognized to account for sustained customer losses in the contract customer segment as well as for high pressure on margins from new contracts due to continuing market saturation and the associated intensification of competition.

The impairment losses recognized on the goodwill of the cash-generating units in the Europe operating segments were largely attributable to continued uncertainties regarding the economic growth prospects of the gross domestic product. In addition, competition intensified yet again. In Greece the significant increase in discount rates as a result of the Greek debt crisis also had a negative impact on the goodwill assigned to the two cash-generating units Greece – Mobile communications and Greece – Fixed network.

The impairment loss recognized on property, plant and equipment of the cash-generating unit Romania – Fixed network results from impairment tests and relates to technical equipment and machinery.

The measurements of the cash-generating units are generally founded on projections that are based on financial plans that have been approved by management and are also used for internal purposes. The planning horizon reflects the assumptions for short- to mid-term market developments. Cash flows beyond the planning horizon are extrapolated using appropriate growth rates. The key assumptions on which the determination of fair value less costs to sell are based 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 shares, 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 in the assumptions may have a negative impact, in particular in the Europe operating segment, as a result of the future macroeconomic trends, continued intense competition, further possible legislation changes (e.g., as part of national austerity programs) and regulatory intervention.

On March 20, 2011, Deutsche Telekom AG and AT&T Inc. entered into an agreement on the sale of T-Mobile USA to AT&T. The agreement was terminated on December 19, 2011. The carrying amount of the United States cash-generating unit was determined using a third-party expert opinion. The fair value was also determined on current estimates of the Company regarding future cash flows, but mid-term financial plans approved by management had not been available due to the termination of the sales agreement signed with AT&T.

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	5.96
Europe	10	1.5 – 2.0	6.60 – 11.21
United States	10	1.0	6.74
Systems Solutions	10	1.5	7.17

If the discount rates used for impairment testing had been 0.5 percentage points higher, the resulting impairment losses would have increased by EUR 2.6 billion. If, by contrast, the discount rates had been 0.5 percentage points lower, the resulting impairment losses would have been EUR 2.5 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 1.6 billion higher. In turn, impairment losses would have been EUR 1.7 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 €	Total millions of €
Cost					
At December 31, 2009	**18,892**	**97,715**	**7,106**	**2,794**	**126,507**
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)
At December 31, 2010	**19,420**	**99,823**	**7,483**	**3,023**	**129,749**
Currency translation	(38)	(66)	(17)	2	(119)
Changes in the composition of the Group	0	4	0	0	4
Additions	117	2,493	495	3,410	6,515
Disposals	81	3,460	623	43	4,207
Change from non-current assets and disposal groups held for sale	(285)	(4)	(2)	(1)	(292)
Reclassifications	326	2,693	245	(3,794)	(530)
At December 31, 2011	**19,459**	**101,483**	**7,581**	**2,597**	**131,120**
Accumulated depreciation					
At December 31, 2009	**8,189**	**68,024**	**4,810**	**16**	**81,039**
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)
At December 31, 2010	**9,031**	**71,190**	**5,199**	**31**	**85,451**
Currency translation	(1)	(77)	(12)	0	(90)
Changes in the composition of the Group	0	1	0	0	1
Additions (depreciation)	799	6,146	716	0	7,661
Additions (impairment)	77	247	2	4	330
Disposals	67	3,285	541	6	3,899
Change from non-current assets and disposal groups held for sale	(223)	(3)	(1)	0	(227)
Reclassifications	30	(47)	2	0	(15)
Reversal of impairment losses	(19)	0	0	0	(19)
At December 31, 2011	**9,627**	**74,172**	**5,365**	**29**	**89,193**
Net carrying amounts					
At December 31, 2010	10,389	28,633	2,284	2,992	44,298
At December 31, 2011	**9,832**	**27,311**	**2,216**	**2,568**	**41,927**

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, 2011 (December 31, 2010: EUR 0.2 billion). Deutsche Telekom had commitments for the acquisition of property, plant and equipment in the amount of EUR 0.7 billion (December 31, 2010: EUR 0.6 billion) as of the reporting date.

Deutsche Telekom reduced the useful lives of certain items of property, plant and equipment in the Europe operating segment. This change to assessment is related to the establishment of the company NetWorkS! for shared operation of the mobile access network in Poland together with PTK Centertel. This resulted in a total increase in depreciation of EUR 0.1 billion in the 2011 financial year.

7 Investments accounted for using the equity method.

Significant investments in entities accounted for using the equity method are as follows:

	Dec. 31, 2011		Dec. 31, 2010	
Name	Deutsche Telekom share %	Net carrying amounts millions of €	Deutsche Telekom share %	Net carrying amounts millions of €
Everything Everywhere [a]	50.00	6,725	50.00	7,095
HT Mostar [b]	39.10	52	39.10	47
Toll Collect [a]	45.00	28	45.00	40
Other		68		60
		6,873		**7,242**

[a] Joint venture.
[b] 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, 2011 billions of €	Dec. 31, 2010 billions of €
Total assets	0.2	0.2
Total liabilities	0.1	0.1

	2011 billions of €	2010 billions of €
Net revenue	0.1	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, 2011 billions of €	Total as of Dec. 31, 2010 billions of €
Total assets	**9.1**	**0.4**	**9.5**	**9.9**
Current	1.0	0.3	1.3	1.5
Non-current	8.1	0.1	8.2	8.4
Total liabilities	**2.4**	**0.4**	**2.8**	**2.7**
Current	1.6	0.3	1.9	2.3
Non-current	0.8	0.1	0.9	0.4

	Everything Everywhere billions of €	Other billions of €	Total in 2011 billions of €	Total in 2010 billions of €
Net revenue	4.0	0.2	4.2	3.3
Profit (loss)	(0.1)	0.0	(0.1)	(0.1)

8 Other financial assets.

	Dec. 31, 2011		Dec. 31, 2010	
	Total millions of €	Of which: current millions of €	Total millions of €	Of which: current millions of €
Originated loans and receivables	2,030	1,504	2,628	2,124
Available-for-sale financial assets	729	403	513	79
Derivative financial assets	1,533	346	835	126
Held-to-maturity investments	177	120	91	43
	4,469	**2,373**	**4,067**	**2,372**

Originated loans and receivables	Of which: neither impaired nor past due on the reporting date millions of €	Of which: not impaired on the reporting date and past due in the following periods					
		Less than 30 days millions of €	Between 30 and 60 days millions of €	Between 61 and 90 days millions of €	Between 91 and 180 days millions of €	Between 181 and 360 days millions of €	More than 360 days millions of €
As of Dec. 31, 2011							
Due within one year	1,435	11	7	5	14	4	1
Due after more than one year	516	–	–	–	–	–	2
As of Dec. 31, 2010							
Due within one year	1,960	76	11	4	21	11	12
Due after more than one year	491	–	–	–	–	–	2

With respect to the originated loans and receivables that are neither impaired nor past due, there are no indications as of the reporting date that the debtors will not meet their payment obligations.

Receivables of EUR 302 million (December 31, 2010: EUR 223 million) were used in connection with collateral agreements as surety for potential credit risks arising from derivative transactions.

Originated loans and receivables decreased primarily as a result of the net repayment of a bond issued by the Everything Everywhere joint venture amounting to EUR 0.5 billion.

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 270 million as of December 31, 2011 (December 31, 2010: EUR 335 million). No plans existed as of the reporting date to sell these instruments. The increase here is mainly attributable to the acquisition of government bonds amounting to EUR 0.3 billion. This was partially offset by the reclassification of Telekom Srbija accounting for EUR 0.2 billion to non-current assets and disposal groups held for sale.

In the 2011 financial year, EUR 15 million (2010: EUR 101 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 increased by EUR 0.8 billion to EUR 2.8 billion, comprising as of December 31, 2011 a right to the transfer of AWS spectrum licenses worth EUR 0.9 billion. Since the transfer is still subject to formal approval by the FCC, it has to be shown under other assets. Other assets otherwise mainly include deferred expenses of EUR 1.3 billion (December 31, 2010: EUR 1.4 billion).

10 Financial liabilities.

	Dec. 31, 2011				Dec. 31, 2010			
	Total millions of €	Due within 1 year millions of €	Due > 1 year ≤ 5 years millions of €	Due > 5 years millions of €	Total millions of €	Due within 1 year millions of €	Due > 1 year ≤ 5 years millions of €	Due > 5 years millions of €
Bonds and other securitized liabilities								
Non-convertible bonds	20,649	1,997	9,279	9,373	23,078	3,894	9,317	9,867
Commercial paper, medium-term notes and similar liabilities	15,579	3,269	7,726	4,584	15,112	2,843	6,195	6,074
Liabilities to banks	4,916	1,562	3,225	129	4,190	472	3,284	434
	41,144	**6,828**	**20,230**	**14,086**	**42,380**	**7,209**	**18,796**	**16,375**
Lease liabilities	1,885	159	987	739	1,934	142	426	1,366
Liabilities to non-banks from promissory notes	1,188	10	587	591	1,164	–	192	972
Other interest-bearing liabilities	1,179	941	122	116	1,304	1,056	139	109
Other non-interest-bearing liabilities	1,528	1,489	36	3	3,193	3,176	15	2
Derivative financial liabilities	1,394	792	453	149	571	106	457	8
	7,174	**3,391**	**2,185**	**1,598**	**8,166**	**4,480**	**1,229**	**2,457**
Financial liabilities	**48,318**	**10,219**	**22,415**	**15,684**	**50,546**	**11,689**	**20,025**	**18,832**

Deutsche Telekom paid EUR 1.2 billion to Elektrim and Vivendi in the first quarter of 2011. This gave Deutsche Telekom full, undisputed ownership of PTC (PTC transaction). The amount was recognized under other non-interest-bearing liabilities as of December 31, 2010.

As of December 31, 2010, other non-interest-bearing liabilities also included an amount of EUR 0.3 billion for the acquisition of another 10 percent of the shares in OTE as part of the Share Purchase Agreement concluded in May 2008. In July 2011 Deutsche Telekom acquired 49,015,038 shares in OTE from the Hellenic Republic.

Deutsche Telekom has established ongoing liquidity management. To ensure the Group's and Deutsche Telekom AG's solvency and financial flexibility at all times, Deutsche Telekom maintains a liquidity reserve in the form of credit lines and cash. This liquidity reserve is to cover the maturities of the next 24 months at any time.

At December 31, 2011, Deutsche Telekom had standardized bilateral credit agreements with 22 banks for a total of EUR 13.2 billion. None of the credit lines had been utilized by December 31, 2011. Pursuant to the credit agreements, the terms and conditions depend on Deutsche Telekom's rating. The bilateral credit agreements have an original maturity of 36 months and can, after each period of 12 months, be extended by a further 12 months to renew the maturity of 36 months. From today's perspective, access to the international debt capital markets is not jeopardized. Deutsche Telekom issued a bond amounting to USD 1.25 billion (approximately EUR 0.9 billion) in 2011. A further bond amounting to EUR 500 million was issued by OTE in April 2011. In the prior year, debt capital raised on the capital market totaled EUR 3.1 billion.

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, 2011 millions of €	Cash flows in 2012		
		Fixed interest rate millions of €	Variable interest rate millions of €	Repayment millions of €
Non-derivative financial liabilities:				
Bonds, other securitized liabilities, liabilities to banks and liabilities to non-banks from promissory notes and similar liabilities	(42,332)	(2,018)	(143)	(6,853)
Finance lease liabilities	(1,351)	(99)		(180)
Other interest-bearing liabilities	(1,713)	(72)		(961)
Other non-interest-bearing liabilities	(1,528)			(1,489)
Derivative financial liabilities and assets:				
Derivative financial liabilities:				
Currency derivatives without a hedging relationship	(581)			(603)
Currency derivatives in connection with cash flow hedges	(13)			(9)
Currency derivatives in connection with net investment hedges	(78)			(83)
Interest rate derivatives without a hedging relationship	(245)	(17)	1	(97)
Interest rate derivatives in connection with fair value hedges	–			
Interest rate derivatives in connection with cash flow hedges	(470)	(109)	55	
Derivative financial assets:				
Currency derivatives without a hedging relationship	259			271
Currency derivatives in connection with cash flow hedges	21			16
Interest rate derivatives without a hedging relationship	574	43	(36)	34
Interest rate derivatives in connection with fair value hedges	431	242	(122)	
Interest rate derivatives in connection with cash flow hedges	248	12		24
Financial guarantees and loan commitments *	n.a.			(369)

* For more detailed information, please refer to Note 37. In each case, the maximum payment at the earliest possible date of utilization is shown.

Cash flows in 2013			Cash flows in 2014 – 2016			Cash flows in 2017 – 2021			Cash flows in 2022 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 €
(1,700)	(83)	(6,305)	(3,819)	(55)	(14,295)	(3,344)		(7,123)	(3,770)		(7,917)
(87)		(112)	(225)		(321)	(225)		(364)	(174)		(374)
(10)		(508)	(21)		(73)	(80)		(133)	(22)		(38)
		(18)			(18)			(3)			
		(3)									
(38)	13	(64)	(49)	2		(27)	(2)	(2)	(5)	(3)	14
(161)	67		(473)	175		(112)	23				
		2			1						
		3			3						
23	(19)	210	35	(41)	163	45	(60)	11	125	(123)	63
245	(110)		278	(94)		41	(15)		51	(16)	
9			28		38	52		25	28		104

	Carrying amounts Dec. 31, 2010 millions of €	Cashflows in 2011 millions of €	2012 millions of €	2013 – 2015 millions of €	2016 – 2020 millions of €	2021 and thereafter millions of €
Non-derivative financial liabilities:						
Bonds, other securitized liabilities, liabilities to banks and liabilities to non-banks from promissory notes and similar liabilities	(43,544)	(10,294)	(6,487)	(18,485)	(13,783)	(12,303)
Finance lease liabilities	(1,400)	(273)	(195)	(536)	(688)	(593)
Other interest-bearing liabilities	(1,838)	(1,115)	(93)	(253)	(801)	(68)
Other non-interest-bearing liabilities	(3,193)	(3,176)	(8)	(7)	(1)	(1)
Derivative financial liabilities and assets:						
Derivative financial liabilities:						
Currency derivatives without a hedging relationship	(43)	(44)				
Currency derivatives in connection with cash flow hedges	(56)	(50)	(4)			
Interest rate derivatives without a hedging relationship	(196)	(14)	(111)	(109)	(5)	(8)
Interest rate derivatives in connection with fair value hedges	–					
Interest rate derivatives in connection with cash flow hedges	(266)	(35)	(87)	(343)		
Derivative financial assets:						
Currency derivatives without a hedging relationship	53	56	1			
Currency derivatives in connection with cash flow hedges	13	8	2	3		
Interest rate derivatives without a hedging relationship	507	67	46	356	(19)	100
Interest rate derivatives in connection with fair value hedges	144	106	108	202	27	43
Interest rate derivatives in connection with cash flow hedges	118	8	23	17	80	88
Financial guarantees and loan commitments *	n.a.	(115)				

* For more detailed information, please refer to Note 37. In each case, the maximum payment at the earliest possible date of utilization is shown.

The tables showing the contractually agreed (undiscounted) interest payments and repayments do not include the funding commitment granted to Everything Everywhere regarding the follow-up funding of the bond (please also refer to Note 37).

All instruments held at December 31, 2011 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, 2011. 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, 2011, this figure was a nominal EUR 2.0 billion (December 31, 2010: EUR 2.0 billion).

11 Trade and other payables.

	Dec. 31, 2011 millions of €	Dec. 31, 2010 millions of €
Trade payables	6,409	6,737
Other liabilities	27	13
	6,436	**6,750**

Of the total of trade and other payables, EUR 6,430 million (December 31, 2010: EUR 6,745 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, 2011 millions of €	Dec. 31, 2010 millions of €
Defined benefit liability	**6,095**	**6,373**
Defined benefit asset	(14)	(28)
Net defined benefit liability	**6,081**	**6,345**
Pension obligations		
Unfunded	5,710	5,996
Funded	369	346
Obligations in accordance with Article 131 GG	2	3

The defined benefit asset is recognized under other non-current assets in the consolidated statement of financial position.

Calculation of net defined benefit liabilities (defined benefit assets):

	Dec. 31, 2011 millions of €	Dec. 31, 2010 millions of €
Present value of wholly or partially funded obligations	5,009	977
Plan assets at fair value	(860)	(629)
Defined benefit obligations in excess of plan assets	**4,149**	**348**
Present value of unfunded obligations	1,960	6,040
Unrecognized past service cost	(31)	(43)
Defined benefit liability (defined benefit asset) according to IAS 19.54	**6,078**	**6,345**
Adjustment due to asset ceiling (according to IAS 19.58)	3	–
Net defined benefit liability	**6,081**	**6,345**

Effective from the 2011 financial year, direct commitments financed on the basis of a contractual trust agreement are shown as funded obligations. In the 2010 financial year, such commitments had been shown as unfunded obligations.

Assumptions for the measurement of defined benefit obligations as of December 31:

		2011 %	2010 %
Discount rate	Germany	5.31	5.16
	Switzerland (T-Systems)	2.57	3.05
	Greece (OTE S.A.)	4.72/4.18	4.56/3.71
Projected salary increase	Germany (pay-scale employees)	2.75	3.25
	Germany (non-pay-scale employees)	2.75	3.50
	Switzerland (T-Systems)	1.50	1.50
	Greece (OTE S.A.)	(10.06)/ (7.04)/ (3.93)/9.09 *	2.20/ 3.20/ 2.40/2.50
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.

* Based on an agreement with the trade union, the salaries will decrease from 2012 through 2014 and return to the current level from 2015 onwards.

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:

		2011 %	2010 %	2009 %
Discount rate	Germany	5.16	5.25	5.80
	Switzerland (T-Systems)	3.05	3.15	3.00
	Greece (OTE S.A.)	4.56/3.71	4.56/3.89	5.50/5.00
Projected salary increase	Germany (pay-scale employees)	3.25	3.25	3.50
	Germany (non-pay-scale employees)	3.50	3.50	4.25
	Switzerland (T-Systems)	1.50	1.50	1.50
	Greece (OTE S.A.)	2.20/3.20/ 2.40/2.50	4.50/5.50	6.50/4.50
Return on plan assets	Germany	3.00	3.90	3.50
	Switzerland (T-Systems)	4.50	4.50	4.50
Projected pension increase	Germany (general)	1.50	1.50	2.00
	Germany (according to articles of association)	1.00	1.00	1.00
	Switzerland (T-Systems)	0.30	0.30	0.30
	Greece (OTE S.A.)	n.a.	n.a.	n.a.

Development of the present value of projected benefit obligations in the reporting year:

	2011 millions of €	2010 millions of €
Present value of the defined benefit obligations as of January 1	**7,017**	**6,833**
Changes attributable to business combinations/ transfers of operation/acquisitions and disposals	6	(10)
Current service cost	192	193
Interest cost	342	344
Contributions by plan participants	4	5
Actuarial losses (gains)	(185)	39
Total benefits actually paid	(419)	(401)
Curtailments	(2)	(2)
Settlements	11	(15)
Past service cost to be recognized in the financial year	(3)	2
Exchange rate fluctuations for foreign-currency plans	6	29
Present value of the defined benefit obligations as of December 31	**6,969**	**7,017**

Taking the plan assets into consideration, the pension obligations were accounted for in full.

Sensitivity of defined benefit obligations:

	–25 basic points millions of €	Dec. 31, 2011 millions of €	+25 basic points millions of €
Present value of the defined benefit obligations	7,166	6,969	6,781

A change in interest rate of +/–25 basic points with otherwise unchanged assumptions would have impacted the present value of the defined benefit obligation as of December 31, 2011 to the extent shown in the table above.

Development of plan assets at fair value in the respective reporting year:

	2011 millions of €	2010 millions of €
Plan assets at fair value as of January 1	**629**	**618**
Changes attributable to business combinations/ transfers of operation/acquisitions and disposals	(11)	15
Expected return on plan assets	23	27
Actuarial (losses) gains	(5)	7
Contributions by employer	267	2
Contributions by plan participants	4	5
Benefits actually paid through pension funds	(52)	(56)
Settlements	(1)	(12)
Exchange rate fluctuations for foreign-currency plans	6	23
Plan assets at fair value as of December 31	**860**	**629**

The contributions by employer include a payment of EUR 250 million to a third-party trust company as part of a contractual trust agreement.

Breakdown of plan assets at fair value by investment category:

	Dec. 31, 2011 %	Dec. 31, 2010 %
Equity securities	20	19
Debt securities	66	65
Real estate	5	6
Other	9	10

The investment structure is defined, managed and regularly reviewed using asset/liability studies. The resulting target allocations for the plan assets of the respective pension plans therefore reflect the duration of the obligations, the defined benefit obligation, the minimum requirements for the policy reserve, and other factors.

At the reporting date, the plan assets include shares issued by Deutsche Telekom AG amounting to EUR 1.0 million (December 31, 2010: shares totaling EUR 0.8 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	2011 millions of €	2010 millions of €	2009 millions of €
Current service cost	Functional costs *	192	193	204
Interest cost	Other financial income (expense)	342	344	371
Expected return on plan assets	Other financial income (expense)	(23)	(27)	(50)
Past service cost	Functional costs *	9	9	–
Pension expense before curtailments/settlements		**520**	**519**	**525**
Curtailments	Functional costs *	(2)	(2)	–
Settlements	Functional costs *	12	(3)	–
Pension expense		**530**	**514**	**525**
Actual return on plan assets		18	34	(41)

* Including other operating expenses.

The consolidated statement of comprehensive income contains the following amounts:

	2011 millions of €	2010 millions of €	2009 millions of €
Cumulative losses (gains) recognized directly in equity as of January 1	**608**	**576**	**115**
Actuarial (gains) losses as shown in the consolidated statement of comprehensive income	(177)	32	461
Of which: recognition directly in equity of actuarial (gains) losses in the reporting period	(180)	32	464
Of which: adjustment due to asset ceiling (according to IAS 19.58)	3	–	(3)
Cumulative losses (gains) recognized directly in equity as of December 31	**431**	**608**	**576**
Actuarial (gains) losses resulting from pension obligations formerly attributable to the Group	(55)	(55)	13
	376	**553**	**589**

Pension payments expected:

	2012 millions of €	2013 millions of €	2014 millions of €	2015 millions of €	2016 millions of €
Total pension payments	359	382	411	439	468

Expected pension payments comprise ongoing pensions and one-time payments to eligible persons. In addition, future contributions by the employer to plan assets to fund direct commitments should amount to at least EUR 250 million each year.

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:

	2011 millions of €	2010 millions of €	2009 millions of €	2008 millions of €	2007 millions of €
Defined benefit obligations (present value)	6,969	7,017	6,833	6,101	6,327
Plan assets at fair value	(860)	(629)	(618)	(952)	(986)
Defined benefit obligations in excess of plan assets	**6,109**	**6,388**	**6,215**	**5,149**	**5,341**

Adjustment	2011 %	2010 %	2009 %	2008 %	2007 %
Experience-based increase (decrease) of pension obligations	(0.3)	0.1	(0.7)	(0.1)	(0.8)
Experience-based increase (decrease) of plan assets	(0.6)	1.1	(9.9)	(0.2)	(2.5)

Defined contribution plans.

In the 2011 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 118 million (2010: EUR 114 million, 2009: EUR 73 million).

Civil-servant retirement arrangements at Deutsche Telekom.

An expense of EUR 610 million was recognized in the 2011 financial year (2010: EUR 676 million, 2009: EUR 684 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 5.2 billion as of the reporting date (December 31, 2010: EUR 5.9 billion).

13 Other provisions.

	Provisions for termination benefits millions of €	Other provisions for personnel costs millions of €	Provisions for restoration obligations millions of €	Provisions for litigation risks millions of €	Provisions for sales and procurement support millions of €	Miscellaneous other provisions millions of €	Total millions of €
At December 31, 2009	**1,280**	**1,601**	**798**	**450**	**407**	**994**	**5,530**
Of which: current	500	1,349	39	424	407	650	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	189	1,510	88	126	508	432	2,853
Use	(991)	(1,433)	(36)	(104)	(443)	(358)	(3,365)
Reversal	(66)	(110)	(30)	(19)	(22)	(152)	(399)
Interest effect	(9)	25	46	2	0	6	70
Other changes	35	11	0	2	(1)	21	68
At December 31, 2010	**437**	**1,639**	**874**	**457**	**454**	**960**	**4,821**
Of which: current	260	1,360	32	427	454	660	3,193
Changes in the composition of the Group	0	0	0	0	0	0	0
Currency translation adjustments	(1)	13	(6)	0	0	0	6
Addition	312	1,592	113	132	305	572	3,026
Use	(304)	(1,369)	(44)	(55)	(341)	(320)	(2,433)
Reversal	(87)	(122)	(38)	(83)	(82)	(205)	(617)
Interest effect	0	5	28	1	0	8	42
Other changes	(1)	5	(2)	0	0	59	61
At December 31, 2011	**356**	**1,763**	**925**	**452**	**336**	**1,074**	**4,906**
Of which: current	219	1,424	32	425	336	781	3,217

Provisions for termination benefits include provisions for staff restructuring. These provisions developed as follows in the financial year:

	Jan. 1, 2011 millions of €	Additions millions of €	Use millions of €	Reversal millions of €	Other changes millions of €	Dec. 31, 2011 millions of €
Early retirement	12	0	(13)	0	1	0
Severance and voluntary redundancy models	201	215	(134)	(85)	(6)	191
Partial retirement	224	97	(157)	(2)	3	165
	437	**312**	**(304)**	**(87)**	**(2)**	**356**
Of which: current	260					219

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 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 executory contracts, the disposal of businesses and site closures in particular in prior financial years, warranty provisions as well as a variety of other items for which the individually recognized amounts are not material.

14 Other liabilities.

	Dec. 31, 2011 millions of €	Dec. 31, 2010 millions of €
Deferred revenue	1,838	1,980
Early retirement	2,437	2,325
Liabilities from other taxes	1,076	1,221
Liabilities from straight-line leases	1,292	1,080
Other deferred revenue	468	601
Miscellaneous other liabilities	666	907
	7,777	**8,114**

15 Shareholders' equity.

Issued capital.

As of December 31, 2011, 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.

	2011	
	thousands	%
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
	4,321,319	**100.0**

Buy-back of Deutsche Telekom shares. The shareholders' meeting resolved on May 12, 2011 to authorize the Board of Management to purchase shares in the Company by November 11, 2012, with the amount of share capital accounted for by these shares totaling up to EUR 1,106,257,716.74, provided the shares to be purchased on the basis of this authorization in conjunction with the other shares of the Company which the Company has already purchased and still possesses or are to be assigned to it under § 71d and § 71e of the German Stock Corporation Act (Aktiengesetz – AktG) do not at any time account for more than 10 percent of the Company's share capital. Moreover, the requirements under § 71 (2) sentences 2 and 3 AktG must be complied with. Shares shall not be purchased for the purpose of trading in treasury shares. This authorization may be exercised in full or in part. The purchase can be carried out in partial tranches spread over various purchase dates within the authorization period until the maximum purchase volume is reached. Dependent Group companies of Deutsche Telekom AG within the meaning of § 17 AktG or third parties acting for the account of Deutsche Telekom AG or for the account of dependent Group companies of Deutsche Telekom AG within the meaning of § 17 AktG are also entitled to purchase the shares. The shares are purchased through the stock exchange in adherence to the principle of equal treatment (§ 53a AktG). Shares can instead also be purchased by means of a public purchase or share exchange offer addressed to all shareholders, which, subject to a subsequently approved exclusion of the right to offer shares, must also comply with the principle of equal treatment.

The shares are to be used for one or several of the purposes permitted by the authorization granted by the shareholders' meeting on May 12, 2011 under item 7 on the agenda. The shares are also to be used for purposes for which an exclusion of subscription rights is intended, but can also be withdrawn or sold through the stock market or by way of an offer to all shareholders. The shares are to be available to fulfill the rights of Board of Management members to receive shares in Deutsche Telekom AG, which the Supervisory Board has granted to these members as part of the arrangements governing the compensation of the Board of Management, on the basis of a decision by the Supervisory Board to this effect.

As part of this authorization, the Board of Management decided on May 27, 2011 and September 20, 2011 to purchase a total of 316 thousand shares for a total price of EUR 3 million with an average purchase price of EUR 8.74 per share. These buy-backs were executed on June 6, 2011 and September 23, 2011. As a result, treasury shares of EUR 1 million were openly deducted from issued capital (imputed value of EUR 2.56 per share) and the retained earnings of the Group decreased by EUR 2 million.

Voting rights. Each share entitles the holder to one vote. These voting rights are nevertheless restricted in relation to treasury shares (around 2 million as of December 31, 2011) and trust shares (around 19 million as of December 31, 2011). The trust shares are connected with the acquisition of VoiceStream and Powertel (now T-Mobile USA) in 2001. As part of these acquisitions, Deutsche Telekom AG issued new shares from authorized capital to trustees for the benefit of holders of warrants, options, and conversion rights, among others. As regards the shares issued to trusts, the trustees in question waived voting rights and subscription rights and, in general, dividend rights for the duration of the trusts' existence. The shares issued to the trusts can be sold on the stock exchange on the instruction of Deutsche Telekom AG if the beneficiaries do not exercise their options or conversion rights or if these expire. The proceeds from the sale accrue to Deutsche Telekom AG.

Authorized capital and contingent capital. Authorized capital and contingent capital comprised the following components as of December 31, 2011:

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.

Total other comprehensive income.

EUR 0.2 billion of total other comprehensive income related to the sale of the stake in Telekom Srbija.

	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 subscription rights to shares from stock options under the 2001 Stock Option Plan
2010 Contingent capital	1,100	429,688	Servicing guaranteed convertible bonds or bonds with warrants issued on or before May 2, 2015

* The Supervisory Board's approval is required.

Notes to the consolidated income statement.

For detailed information on special factors, please refer to the combined management report in the section "Development of business in the Group," pages 79 – 80.

16 Net revenue.

Net revenue breaks down into the following revenue categories:

	2011 millions of €	2010 millions of €	2009 millions of €
Revenue from the rendering of services	54,812	58,159	61,017
Revenue from the sale of goods and merchandise	3,650	4,067	3,442
Revenue from the use of entity assets by others	191	195	143
	58,653	**62,421**	**64,602**

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.

Cost of sales incurred in connection with fixed-network and mobile communications relate to all costs arising from the operation and maintenance of the telecommunications network. They include depreciation and amortization of network-related assets, personnel costs for employees assigned to the operation and maintenance of the network, other repair costs, rent and incidental costs for network sites as well as interconnection and roaming costs. Costs for the purchase of terminal equipment are also shown under this item.

Cost of sales attributable to the systems solutions business primarily relate to software development and maintenance, the operation of computing centers and workstations as well as the construction and operation of customer networks. They include in particular depreciation of technical equipment, personnel costs for information technology and telecommunications development and support services, and costs for upstream services as well as material.

	2011 millions of €	2010 millions of €	2009 millions of €
Cost of sales from fixed-network and mobile communications	28,321	30,277	31,217
Cost of sales from systems solutions business	5,290	5,105	4,881
Other cost of sales	274	343	161
	33,885	**35,725**	**36,259**

Cost of sales decreased year-on-year by EUR 1.8 billion, thus following the revenue trend. Positive exchange rate effects of EUR 0.5 billion impacted cost of sales, in particular in the United States operating segment, in the reporting year. Cost of sales that were included in the prior-year period until April 1, 2010 from T-Mobile UK, which was deconsolidated with effect from this date, accounted for EUR 0.4 billion of the decrease. In the reporting year, by contrast, civil servant early retirement arrangements resulted in higher expenses of EUR 0.2 billion.

18 Selling expenses.

Selling expenses comprise all costs of activities that do not directly increase the value of the Group's products and services, but serve to secure sales. In addition to material and personnel costs incurred in the area of sales and depreciation and amortization, these include any sales-specific costs such as allowances for write-downs of customer receivables, receivables written off, freight out, and transport insurance.

	2011 millions of €	2010 millions of €	2009 millions of €
Costs of operational sales	9,553	9,880	9,885
Marketing costs	2,143	2,183	2,149
Order management costs	258	243	400
Costs of accounts receivable management	1,078	1,202	1,262
Other selling expenses	1,028	1,112	2,167
	14,060	**14,620**	**15,863**

In line with the revenue decrease, selling expenses declined by EUR 0.6 billion year-on-year, EUR 0.2 billion of which was attributable to exchange rate effects. Other major effects were selling expenses of EUR 0.2 billion at T-Mobile UK included in the prior year until the date of deconsolidation, whereas in the reporting year, expenses for civil servants early retirement arrangements accounted for an increase of EUR 0.2 billion.

19 General and administrative expenses.

General and administrative expenses comprise all expenses attributable to the core administrative functions that cannot be allocated directly to the production or selling process. As such, general and administrative expenses include all expenses incurred in conjunction with the activities of administrative functions at units such as Finance, Human Resources, Group Strategy and Organization, Internal Audit as well as Data Privacy, Legal Affairs and Compliance. These generally comprise costs for goods and services purchased, personnel costs, depreciation and amortization, as well as other costs that can be specifically allocated to the functional areas, such as expenses for shareholders' meetings.

	2011 millions of €	2010 millions of €	2009 millions of €
General and administrative expenses incurred by the operating segments	3,471	3,578	3,489
General and administrative expenses incurred at Group Headquarters & Shared Services	1,813	1,674	1,164
	5,284	**5,252**	**4,653**

General and administrative expenses are at prior-year level. As in the prior year, they included expenses for civil servant early retirement arrangements of EUR 0.2 billion. In addition, settlements agreed with U.S. authorities to bring the investigations in Macedonia and Montenegro regarding external companies and consultants to an end accounted for expenses of EUR 0.1 billion.

20 Other operating income.

	2011 millions of €	2010 millions of €	2009 millions of €
Income from reimbursements	409	381	344
Income from the reversal of impairment losses on non-current financial assets in accordance with IFRS 5	19	47	131
Income from disposal of non-current assets	121	70	104
Income from insurance compensation	47	42	49
Income from divestitures	4	3	20
Income from the compensation from AT&T	3,000	–	–
Miscellaneous other operating income	762	955	856
	4,362	**1,498**	**1,504**

The increase in other operating income of EUR 2.9 billion is primarily attributable to the compensation from AT&T as a result of the termination of the agreement on the sale of T-Mobile USA. A break-up fee of EUR 2.3 billion as well as a right to the transfer of Advanced Wireless Service (AWS) spectrum licenses worth EUR 0.9 billion were recorded in the reporting year. These payments were partially offset by a negative amount of EUR 0.2 billion relating to a cash flow hedge to compensate for fluctuations in the U.S. dollar spot exchange rate. Miscellaneous other operating income includes income of EUR 0.1 billion generated in connection with the procurement joint venture BUYIN established by Deutsche Telekom and France Télécom-Orange. In addition, miscellaneous other operating income includes a large number of individual items accounting for marginal amounts.

21 Other operating expenses.

	2011 millions of €	2010 millions of €	2009 millions of €
Impairment losses from the year-end impairment test			
Of which: goodwill	3,100	395	2,345
Of which: property, plant and equipment	237	285	–
Expenses in connection with the agreement with Vivendi (France) and Elektrim (Poland) concerning the stake in PTC	–	400	–
Losses from divestitures	–	350	1
Losses on disposal of non-current assets	137	159	154
Miscellaneous other operating expenses	726	1,228	819
	4,200	**2,817**	**3,319**

Other operating expenses increased year-on-year by EUR 1.4 billion, mainly due to impairment losses recognized on goodwill amounting to EUR 3.1 billion and on property, plant and equipment amounting to EUR 0.2 billion as part of our annual impairment tests. **For further details, please refer to Note 5 "Intangible assets."** Miscellaneous other operating expenses include expenses of EUR 0.2 billion incurred in connection with existing financial factoring agreements and impairment losses of EUR 0.1 billion on property, plant and equipment. In addition, miscellaneous other operating expenses include a large number of individual items accounting for marginal amounts. The increase in other operating expenses was partially offset by expenses recorded in the prior year, in connection with the agreement on the remaining stake in PTC accounting for EUR 0.4 billion and from the deconsolidation of T-Mobile UK in the second quarter of 2010 which also accounted for expenses EUR 0.4 billion.

22 Finance costs.

	2011 millions of €	2010 millions of €	2009 millions of €
Interest income	268	349	341
Interest expense	(2,593)	(2,849)	(2,896)
	(2,325)	**(2,500)**	**(2,555)**
Of which: from financial instruments relating to categories in accordance with IAS 39:			
Loans and receivables (LaR)	67	77	132
Held-to-maturity investments (HtM)	4	2	3
Available-for-sale financial assets (AfS)	14	15	42
Financial liabilities measured at amortized cost (FLAC) *	(2,315)	(2,490)	(2,637)

* 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 (2011: interest income of EUR 126 million, 2010: interest income of EUR 155 million, 2009: interest income of EUR 107 million).

EUR 80 million (2010: EUR 69 million, 2009: EUR 27 million) was recognized as part of acquisition costs in the financial year. The amount was calculated on the basis of an interest rate in the average range between 5.2 and 5.9 percent (2009 through 2010: between 5.9 and 6.8 percent) applied across the Group.

Interest payments (including capitalized interest) of EUR 3.5 billion (2010: EUR 3.3 billion, 2009: EUR 3.5 billion) were made in the financial year. Finance costs were lower than net interest payments. This was attributable to the fact that liability items due in 2011 resulted in differing effects in terms of interest payments and finance costs.

Accrued interest payments from derivatives (interest rate swaps) that were designated as hedging instruments in a fair value hedge in accordance with IAS 39 are netted per swap contract and recognized as interest income or interest expense depending on the net amount. Finance costs are assigned to the categories on the basis of the hedged item; only financial liabilities were hedged in the reporting period.

The decrease in finance costs of EUR 0.2 billion was primarily attributable to lower interest expense from bonds and other securitized liabilities, since against the background of the uncertain cash inflows from the planned T-Mobile USA transaction, refinancing in the 2011 financial year was primarily short-term which resulted in lower interest.

23 Share of profit/loss of associates and joint ventures accounted for using the equity method.

	2011 millions of €	2010 millions of €	2009 millions of €
Share of profit (loss) of joint ventures	(67)	(59)	9
Share of profit (loss) of associates	(6)	2	15
	(73)	**(57)**	**24**

The share of profit/loss of associates and joint ventures accounted for using the equity method did not change significantly. The share of profit/loss of joint ventures includes the proportion of profit/loss generated by the Everything Everywhere joint venture and allocated to Deutsche Telekom of EUR –61 million (2010: EUR –49 million).

24 Other financial income/expense.

	2011 millions of €	2010 millions of €	2009 millions of €
Income from investments	29	30	22
Gain (loss) from financial instruments	216	133	(171)
Interest component from measurement of provisions and liabilities	(414)	(416)	(677)
	(169)	**(253)**	**(826)**

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 –249 million (2010: EUR –424 million, 2009: EUR –22 million). The item includes EUR 465 million (2010: EUR 557 million, 2009: EUR –149 million) in gains from financial instruments that were used mainly to hedge against currency effects.

Other financial income/expense improved year-on-year in particular as a result of the gain/loss from financial instruments.

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:

	2011 millions of €	2010 millions of €	2009 millions of €
Current taxes	**956**	**768**	**873**
Germany	498	87	163
International	458	681	710
Deferred taxes	**1,393**	**167**	**909**
Germany	790	197	353
International	603	(30)	556
	2,349	**935**	**1,782**

Deutsche Telekom's combined income tax rate for 2011 amounted to 30.7 percent. It consists of corporate income tax at a rate of 15.0 percent, the solidarity surcharge of 5.5 percent on corporate income tax, and trade tax at an average multiplier of 425 percent (2010: 419 percent, 2009: 419 percent). The combined income tax rate amounted to 30.5 percent for 2010 and 2009.

Reconciliation of the effective tax rate. Income taxes of EUR 2,349 million in the reporting year (2010: EUR 935 million, 2009: EUR 1,782 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:

	2011 millions of €	2010 millions of €	2009 millions of €
Profit (loss) before income taxes	**3,019**	**2,695**	**2,655**
Expected income tax expense (income tax rate applicable to Deutsche Telekom AG: 2011: 30.7 %, 2010: 30.5 %, 2009: 30.5 %)	927	822	810
Adjustments to expected tax expense			
Effect of changes in statutory tax rates	83	(113)	26
Tax effects from prior years	54	112	(26)
Tax effects from other income taxes	37	68	161
Non-taxable income	(30)	(85)	(106)
Tax effects from equity investments	(21)	16	(9)
Non-deductible expenses	115	130	136
Permanent differences	45	123	64
Goodwill impairment losses	913	106	702
Tax effects from loss carryforwards	304	(385)	51
Tax effects from additions to and reductions of local taxes	64	91	71
Adjustment of taxes to different foreign tax rates	(137)	52	(102)
Other tax effects	(5)	(2)	4
Income tax expense (benefit) according to the consolidated income statement	**2,349**	**935**	**1,782**
Effective income tax rate %	78	35	67

Current income taxes in the consolidated income statement. The following table provides a breakdown of current income taxes:

	2011 millions of €	2010 millions of €	2009 millions of €
Current income taxes	**956**	**768**	**873**
Of which:			
Current tax expense	902	560	744
Prior-period tax expense (income)	54	208	129

Deferred taxes in the consolidated income statement. The following table shows the development of deferred taxes:

	2011 millions of €	2010 millions of €	2009 millions of €
Deferred tax expense (income)	**1,393**	**167**	**909**
Of which:			
On temporary differences	632	21	692
On loss carryforwards	735	165	232
From tax credits	26	(19)	(15)

Income tax expense more than doubled year-on-year, which is in particular due to the compensation from the termination of the agreement with AT&T on the sale of T-Mobile USA (please also refer to "Business combinations and other transactions" in the section "Summary of accounting policies"). The compensation increased profit/loss before income tax and resulted in income tax expense of EUR 0.9 billion. The increase in profit before income tax was partially offset by impairment losses recognized on goodwill in the United States and Europe operating segments (EUR 2.3 billion and EUR 0.8 billion, respectively). These impairment losses had no tax effect, however, so that the tax rate increased significantly. The tax rate also rose due to the reversal of deferred taxes totaling EUR 0.2 billion on local loss carryforwards to be recognized in the United States, as it was no longer probable that they would be utilized. The same applies to part of the loss carryforwards in Austria resulting in a deferred tax expense of EUR 0.1 billion.

Income taxes in the consolidated statement of financial position.

Current income taxes in the consolidated statement of financial position:

	Dec. 31, 2011 millions of €	Dec. 31, 2010 millions of €
Recoverable taxes	129	224
Tax liabilities	(577)	(545)
Current taxes recognized in equity:		
Hedging instruments	54	–

Deferred taxes in the consolidated statement of financial position:

	Dec. 31, 2011 millions of €	Dec. 31, 2010 millions of €
Deferred tax assets	4,449	5,129
Deferred tax liabilities	(8,492)	(7,635)
	(4,043)	**(2,506)**
Of which: recognized in equity		
Actuarial gains and losses	136	175
Revaluation surplus	(6)	3
Hedging instruments	(222)	(338)
Financial assets available for sale	–	3
Recognized in equity before non-controlling interests	**(92)**	**(157)**
Non-controlling interests	(18)	(4)
	(110)	**(161)**

Development of deferred taxes:

	Dec. 31, 2011 millions of €	Dec. 31, 2010 millions of €
Deferred taxes recognized in the statement of financial position	(4,043)	(2,506)
Difference to prior year	(1,537)	(515)
Of which:		
Recognized in income statement	(1,393)	(167)
Recognized in equity	48	5
Acquisitions/disposals	(1)	(63)
Currency translation adjustments	(191)	(290)

Development of deferred taxes on loss carryforwards:

	Dec. 31, 2011 millions of €	Dec. 31, 2010 millions of €
Deferred taxes recognized in the statement of financial position	3,654	3,973
Difference to prior year	(319)	(955)
Of which:		
Recognition/derecognition	(394)	(604)
Acquisitions/disposals	(2)	(515)
Currency translation adjustments	77	164

Deferred taxes relate to the following key items in the statement of financial position, loss carryforwards, and tax credits:

	Dec. 31, 2011		Dec. 31, 2010	
	Deferred tax assets millions of €	Deferred tax liabilities millions of €	Deferred tax assets millions of €	Deferred tax liabilities millions of €
Current assets	**1,141**	**(438)**	**895**	**(415)**
Trade and other receivables	1,029	(346)	699	(344)
Inventories	58	(27)	86	(25)
Other assets	54	(65)	110	(46)
Non-current assets	**2,392**	**(12,759)**	**2,448**	**(11,315)**
Intangible assets	1,010	(7,553)	996	(7,216)
Property, plant and equipment	734	(3,511)	579	(2,844)
Other financial assets	648	(1,695)	873	(1,255)
Current liabilities	**857**	**(771)**	**784**	**(741)**
Financial liabilities	493	(353)	326	(415)
Trade and other payables	59	(22)	146	(81)
Other provisions	120	(257)	119	(21)
Other liabilities	185	(139)	193	(224)
Non-current liabilities	**3,294**	**(645)**	**2,942**	**(630)**
Financial liabilities	1,752	(302)	1,464	(352)
Provisions for pensions and other employee benefits	454	(238)	491	(165)
Other provisions	307	(101)	287	(74)
Other liabilities	781	(4)	700	(39)
Tax credits	**198**	**–**	**224**	**–**
Loss carryforwards	**3,654**	**–**	**3,973**	**–**
Interest carryforwards	**27**	**–**	**–**	**–**
Total	**11,563**	**(14,613)**	**11,266**	**(13,101)**
Of which: non-current	9,091	13,404	9,587	(11,946)
Allowance	(993)	–	(671)	–
Netting	(6,121)	6,121	(5,466)	5,466
Recognition	**4,449**	**(8,492)**	**5,129**	**(7,635)**

The allowances relate primarily to loss carryforwards.

The loss carryforwards are shown in the following table:

	Dec. 31, 2011 millions of €	Dec. 31, 2010 millions of €
Loss carryforwards for corporate income tax purposes	**10,785**	**11,972**
Expiry within		
1 year	117	88
2 years	71	119
3 years	21	76
4 years	30	29
5 years	46	32
After 5 years	4,690	3,873
Unlimited carryforward period	5,810	7,755

Loss carryforwards and temporary differences for which no deferred taxes were recorded amount to:

	Dec. 31, 2011 millions of €	Dec. 31, 2010 millions of €
Loss carryforwards for corporate income tax purposes	**2,055**	**1,669**
Expiry within		
1 year	97	7
2 years	63	67
3 years	7	57
4 years	5	10
5 years	11	15
After 5 years	148	300
Unlimited carryforward period	1,724	1,213
Temporary differences in corporate income tax	**543**	**348**

In addition, no deferred taxes are recognized on trade tax loss carryforwards of EUR 95 million (December 31, 2010: EUR 88 million) and on temporary differences for trade tax purposes in the amount of EUR 3 million (December 31, 2010: EUR 1 million). Apart from corporate income tax loss carryforwards, no deferred taxes amounting to EUR 342 million (December 31, 2010: EUR 160 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 6 million (2010: EUR 301 million, 2009: EUR 12 million) attributable to the utilization of tax loss carryforwards on which deferred tax assets had not yet been recognized, was recorded in the reporting year.

No deferred tax liabilities were recognized on temporary differences in connection with equity interests in subsidiaries amounting to EUR 705 million (December 31, 2010: EUR 1,130 million) as it is unlikely that these differences will be reversed in the near future.

Disclosure of tax effects relating to each component of other comprehensive income.

Actuarial gains and losses on defined benefit pension plans
Revaluation due to business combinations
Exchange differences on translating foreign operations
Of which: recognized in income statement
Available-for-sale financial assets
Of which: recognized in income statement
Gains (losses) from hedging instruments
Of which: recognized in income statement
Share of profit (loss) of investments accounted for using the equity method
Other income and expense recognized directly in equity
Other comprehensive income
Profit (loss)
Total comprehensive income

26 Profit/loss attributable to non-controlling interests.

Profit attributable to non-controlling interests of EUR 113 million (2010: EUR 65 million, 2009: EUR 520 million) comprises gains of EUR 472 million (2010: EUR 484 million, 2009: EUR 527 million) and losses of EUR 359 million (2010: EUR 419 million, 2009: EUR 7 million).

The share in profit attributable to non-controlling interests in 2011 primarily relates to T-Mobile Czech Republic, Hrvatski Telekom, Slovak Telekom and T-Mobile Macedonia.

The share in loss attributable to non-controlling interests in 2011 is mainly attributable to entities within the OTE group.

	2011			2010			2009		
	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 €
	177	(53)	124	(32)	12	(20)	(461)	116	(345)
	0	0	0	(2)	0	(2)	(38)	3	(35)
	10	0	10	3,698	0	3,698	(211)	0	(211)
	0	0	0	2,151	0	2,151	0	0	0
	242	(9)	233	(3)	1	(2)	(4)	0	(4)
	0	0	0	0	0	0	0	0	0
	(565)	164	(401)	58	(18)	40	(48)	19	(29)
	200	(61)	139	0	0	0	8	(1)	7
	0	0	0	28	0	28	0	0	0
	0	0	0	0	0	0	11	0	11
	(136)	**102**	**(34)**	**3,747**	**(5)**	**3,742**	**(751)**	**138**	**(613)**
			670			1,760			873
			636			**5,502**			**260**

27 Earnings per share.

Basic and diluted earnings per share are calculated in accordance with IAS 33 as follows:

Basic earnings per share.

		2011	2010	2009
Profit attributable to the owners of the parent (net profit)	millions of €	557	1,695	353
Adjustment	millions of €	–	–	–
Adjusted net profit (basic)	**millions of €**	**557**	**1,695**	**353**
Number of ordinary shares issued	millions	4,321	4,358	4,361
Treasury shares	millions	(2)	(5)	(2)
Shares reserved for outstanding options (T-Mobile USA/Powertel)	millions	(19)	(19)	(19)
Adjusted weighted average number of ordinary shares outstanding (basic)	**millions**	**4,300**	**4,334**	**4,340**
Basic earnings per share	**€**	**0.13**	**0.39**	**0.08**

The calculation of basic earnings per share is based on the time-weighted number of all ordinary shares outstanding. Furthermore, the weighted average number of ordinary shares outstanding is determined by deducting the weighted average number of treasury shares held by Deutsche Telekom AG as well as the shares that, as part of the issue of new shares in the course of the acquisition of T-Mobile USA/Powertel, are held in a trust deposit account for later issue and later trading as registered shares.

The calculation of diluted earnings per share generally corresponds to the method for calculating basic earnings per share. However, the calculation must be adjusted for all dilutive effects arising from potential ordinary shares. Equity instruments may dilute basic earnings per share in the future and – to the extent that a potential dilution already occurred in the respective reporting period – have been included in the calculation of diluted earnings per share. No major dilutive effects were recorded in the 2011 financial year. For further details on the equity instruments currently applicable, please refer to Notes 15 and 35.

Diluted earnings per share.

		2011	2010	2009
Adjusted profit attributable to the owners of the parent (net profit) (basic)	millions of €	557	1,695	353
Dilutive effects on profit (loss) from stock options (after taxes)	millions of €	0	0	0
Net profit (diluted)	**millions of €**	**557**	**1,695**	**353**
Adjusted weighted average number of ordinary shares outstanding (basic)	millions	4,300	4,334	4,340
Dilutive potential ordinary shares from stock options and warrants	millions	0	0	0
Weighted average number of ordinary shares outstanding (diluted)	**millions**	**4,300**	**4,334**	**4,340**
Diluted earnings per share	**€**	**0.13**	**0.39**	**0.08**

28 Dividend per share.

For the 2011 financial year, the Board of Management proposes a dividend of EUR 0.70 for each no par value share carrying dividend rights. On the basis of this payout volume, total dividends in the amount of EUR 3,010 million (2010: EUR 3,011 million) will be appropriated to the no par value shares carrying dividend rights at February 6, 2012. In 2011, the Board of Management paid out a dividend of EUR 0.70 for the 2010 financial year for each no par value share carrying dividend rights.

The final amount of the total dividend payment depends on the number of no par value shares carrying dividend rights as of the date of the resolution on the appropriation of net income as adopted on the day of the shareholders' meeting.

29 Average number of employees and personnel costs.

Average number of employees.

		2011	2010	2009
Group (total)		**240,369**	**252,494**	**257,601**
Domestic		122,925	126,952	130,477
International		117,444	125,542	127,124
Non-civil servants		215,559	224,428	226,460
Civil servants (domestic)		24,810	28,066	31,141
Trainees and students on cooperative degree courses		8,889	9,217	9,805
Personnel costs	**millions of €**	**14,743**	**15,071**	**14,333**

Average headcount decreased by 4.8 percent in the financial year. This trend is largely attributable to a lower international headcount, which was down by 6.5 percent. It decreased in the Europe operating segment as a result of the deconsolidation of T-Mobile UK effective April 1, 2010. T-Mobile UK staff was included pro rata temporis in the calculation of the average headcount in the prior year. Staff reduction programs implemented as a result of efficiency enhancement programs also contributed to the lower headcount. In the United States operating segment, fewer staff were employed in customer support and sales units compared with the prior year.

Average headcount in Germany decreased by 3.2 percent, mainly due to socially responsible staff restructuring and reduction in the Germany operating segment and a reduction in Vivento's headcount at Group Headquarters & Shared Services. The overall decrease was partially offset by increased staff levels in the Systems Solutions operating segment, attributable to employees taken on in connection with large-scale contracts.

Personnel costs decreased by 2.2 percent year-on-year. This reduction resulted in particular from the aforementioned effects of a lower average headcount. An increase in expenses of EUR 0.2 billion for civil servant early retirement arrangements had an offsetting effect.

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:

	2011 millions of €	2010 millions of €	2009 millions of €
Amortization and impairment of intangible assets	**6,445**	**3,743**	**5,657**
Of which:			
Goodwill impairment losses from the year-end impairment test	803	395	2,345
Impairment losses recognized on goodwill in connection with the reclassification of T-Mobile USA	2,297	–	–
Amortization of mobile communications licenses	801	743	905
Depreciation and amortization recognized retrospectively in connection with the reclassification of T-Mobile USA	353	–	–
Depreciation and impairment of property, plant and equipment	**7,991**	**8,065**	**8,237**
Of which:			
Impairment losses on property, plant and equipment from the year-end impairment test	237	285	–
Depreciation and amortization recognized retrospectively in connection with the reclassification of T-Mobile USA	1,212	–	–
	14,436	**11,808**	**13,894**

The following table provides a breakdown of impairment losses:

	2011 millions of €	2010 millions of €	2009 millions of €
Intangible assets	**3,121**	**399**	**2,354**
Of which:			
Goodwill from the year-end impairment test	803	395	2,345
Goodwill in connection with the reclassification of T-Mobile USA	2,297	–	–
U.S. mobile communications licenses	–	–	–
Property, plant and equipment	**330**	**450**	**217**
Land and buildings	77	159	193
Of which: from the year-end impairment test	–	27	–
Technical equipment and machinery	247	271	10
Of which: from the year-end impairment test	237	258	–
Other equipment, operating and office equipment	2	1	3
Advance payments and construction in progress	4	19	11
	3,451	**849**	**2,571**

Depreciation, amortization and impairment losses increased by EUR 2.6 billion year-on-year, with depreciation and amortization remaining at prior-year level. The reclassification of T-Mobile USA as a continuing operation resulted in a need in December 2011 to recognize depreciation and amortization of EUR 1.6 billion retrospectively that was suspended during the year due to the classification as a discontinued operation.

In the reporting year, impairment losses of EUR 3.1 billion were recognized on goodwill following impairment testing at our cash-generating units. Of these impairment losses, EUR 2.3 billion related to our United States operating segment in connection with the reclassification of T-Mobile USA as a continuing operation and EUR 0.8 billion to our Europe operating segment. In addition, impairment losses on property, plant and equipment of EUR 0.2 billion had to be recognized in the Europe operating segment as a result of the annual impairment tests. **For further details, please refer to Note 5 "Intangible assets."**

31 Notes to the consolidated statement of cash flows.

Deutsche Telekom paid EUR 1.4 billion to Elektrim and Vivendi in the first quarter of 2011. This gave Deutsche Telekom full, undisputed ownership of PTC (PTC transaction). In accordance with the standards governing statements of cash flows, this total consisted of the following: EUR 0.4 billion net cash from operating activities, EUR 0.8 billion net cash used in investing activities and EUR 0.2 billion net cash used in financing activities.

A compensation of EUR 3.0 billion was made by AT&T to Deutsche Telekom in the 2011 financial year. Of this amount EUR 2.3 billion was recognized in net cash from operating activities as of December 31, 2011 while EUR 0.7 billion had no effect on cash flows (**please also refer to "Business combinations and other transactions" in the section "Summary of accounting policies"**).

Net cash from operating activities. Net cash from operating activities in the 2011 financial year increased by EUR 1.5 billion compared with the prior year to EUR 16.2 billion. This net increase is attributable to the break-up fee of EUR 2.3 billion received from AT&T in connection with the termination of the agreement on the sale of T-Mobile USA, EUR 0.4 billion higher cash outflows for civil servant pensions in the prior year and a EUR 0.1 billion higher dividend received from the Everything Everywhere joint venture.

This increase was partially offset by reducing effects from operational developments, and in particular by the following effects: cash outflows of EUR 0.4 billion for the PTC transaction, and cash inflows of EUR 0.3 billion from the canceling of interest rate swaps in 2010, for which there was no corresponding item this year. In addition, lower interest received and EUR 0.2 billion higher interest paid compared with the prior year and a decrease of EUR 0.1 billion in cash inflows from receivables sold (factoring) had an offsetting effect on net cash from operating activities.

Net cash used in investing activities. Net cash used in investing activities totaled EUR 9.3 billion as compared with EUR 10.7 billion in the previous year. This development was in particular due to the acquisition of LTE licenses accounting for EUR 1.3 billion, a bond issued by the Everything Everywhere joint venture amounting to EUR 0.8 billion, and the derecognition and related changes to cash and cash equivalents in connection with the deconsolidation of T-Mobile UK amounting to EUR 0.4 billion in the prior year. Net cash used in investing activities also declined as a result of lower cash outflows for investments: The investment activity in most countries within the Europe operating segment was restrained owing to the difficult market situation, decisions by regulatory authorities, and additional financial burdens, such as the special tax in Hungary and the real estate tax in Greece. Investing activities in the United States and Systems Solutions operating segments were also reduced.

The Germany operating segment invested more in new network infrastructure than in the prior year.

Cash outflows for the acquisition of companies, by contrast, increased by EUR 0.8 billion. EUR 0.8 billion were paid for the PTC transaction and EUR 0.4 billion for the acquisition of another 10 percent of the shares in OTE (Put Option II) in the 2011 financial year. In the prior year, cash outflows for the acquisition of companies included EUR 0.3 billion for the acquisition of STRATO and EUR 0.1 billion for the acquisition of ClickandBuy.

The 2011 financial year also saw cash outflows of EUR 0.3 billion for a payment to a third-party trust company as part of a contractual trust agreement to fund direct pension commitments.

The decrease of EUR 0.2 billion in cash inflows from the change in short-term investments and marketable securities and receivables was mainly attributable to the acquisition of government bonds amounting to EUR 0.3 billion in the 2011 financial year and the return of cash collateral deposited in the prior year for the acquisition of STRATO totaling EUR 0.3 billion reported in 2010, for which there was no corresponding item in 2011. The net repayment of the bond issued by the Everything Everywhere joint venture of EUR 0.5 billion in the 2011 financial year had an offsetting effect.

Net cash used in financing activities. Net cash used in financing activities amounted to EUR 6.0 billion in the 2011 financial year, compared with EUR 6.4 billion in the prior year.

This change was mostly attributable to EUR 0.5 billion lower net dividend payments and a EUR 0.2 billion higher net issuance of non-current financial liabilities compared with the prior year. Furthermore, EUR 0.4 billion were paid out in the prior year for the acquisition of Deutsche Telekom shares, a cash outflow for which there was no corresponding item in the reporting year. Higher net repayments of current financial liabilities of EUR 0.6 billion and payments of EUR 0.2 billion relating to the PTC transaction had an offsetting effect, with no comparable payments recorded in the prior year.

The financial liabilities issued in 2011 mainly related to drawings under the commercial paper program for a net amount of EUR 1.6 billion, the utilization of credit facilities for EUR 1.2 billion by OTE, a eurobond issued by OTE for an amount of EUR 0.5 billion, U.S. dollar bonds for an amount of EUR 0.9 billion, and loans taken out with the EIB amounting to EUR 0.7 billion. Including maturities at OTE, these issuances were offset in the same period by repayments of eurobonds amounting to EUR 4.9 billion, medium-term notes amounting to EUR 1.4 billion, a U.S. dollar bond amounting to EUR 0.4 billion, current loans with banks amounting to EUR 0.2 billion, and net funds from the Everything Everywhere joint venture amounting to EUR 0.1 billion.

32 Segment reporting.

Deutsche Telekom reports on four operating segments, as well as on Group Headquarters & Shared Services. In three operating segments, business activities are assigned by region, whereas one segment allocates its activities by product and/or customer.

The **Germany** operating segment comprises all fixed-network and mobile activities in Germany. In addition, the operating segment provides wholesale telecommunications services for the Group's other operating segments. The **Europe** operating segment encompasses all fixed-network and mobile operations of the national companies in Greece, Romania, Hungary, Poland, the Czech Republic, Croatia, the Netherlands, Slovakia, Austria, Bulgaria, Albania, the F.Y.R.O. Macedonia and Montenegro, as well as the UK joint venture. It also includes the International Carrier Sales and Solutions unit, which mainly provides wholesale telecommunications services for the Group's other operating segments. The Europe operating segment also offers ICT services to business customers in individual national companies. The **United States** operating segment combines all mobile activities in the U.S. market.

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

The mobile communications business offers mobile voice and data services to consumers and business customers. Mobile terminals and other hardware are sold in connection with the services offered. In addition, mobile communications 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 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 millions of €	Intersegment revenue millions of €	Total revenue millions of €	Profit (loss) from operations (EBIT) millions of €	Interest income millions of €	Interest expense millions of €	Share of profit (loss) of associates and joint ventures accounted for using the equity method millions of €	Income taxes millions of €
Germany	2011	22,621	1,410	24,031	4,445	92	(622)	2	(14)
	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)
Europe	2011	14,431	693	15,124	780	141	(478)	(54)	(522)
	2010	16,183	657	16,840	985	147	(840)	(52)	(319)
	2009	18,996	611	19,607	140	218	(666)	7	(582)
United States	2011	14,801	10	14,811	(710)	86	(628)	(11)	(562)
	2010	16,075	12	16,087	2,092	24	(514)	(1)	(595)
	2009	15,457	14	15,471	2,233	16	(543)	6	(643)
Systems Solutions	2011	6,567	2,682	9,249	(43)	31	(31)	(10)	(12)
	2010	6,411	2,646	9,057	44	23	(31)	(4)	(12)
	2009	6,083	2,715	8,798	(11)	39	(46)	10	(12)
Group Headquarters & Shared Services	2011	233	1,911	2,144	1,160	1,558	(2,418)	–	(1,279)
	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)
Total	**2011**	**58,653**	**6,706**	**65,359**	**5,632**	**1,908**	**(4,177)**	**(73)**	**(2,389)**
	2010	**62,421**	**6,874**	**69,295**	**5,558**	**2,110**	**(5,074)**	**(57)**	**(801)**
	2009	**64,602**	**7,107**	**71,709**	**6,175**	**1,601**	**(4,130)**	**25**	**(1,820)**
Reconciliation	2011	–	(6,706)	(6,706)	(46)	(1,640)	1,584	–	40
	2010	–	(6,874)	(6,874)	(53)	(1,761)	2,225	–	(134)
	2009	–	(7,107)	(7,107)	(163)	(1,260)	1,234	(1)	38
Group	2011	58,653	–	58,653	5,586	268	(2,593)	(73)	(2,349)
	2010	62,421	–	62,421	5,505	349	(2,849)	(57)	(935)
	2009	64,602	–	64,602	6,012	341	(2,896)	24	(1,782)

		Segment assets millions of €	Segment liabilities millions of €	Segment investments millions of €	Investments accounted for using the equity method millions of €	Depreciation and amortization millions of €	Impairment losses millions of €	Average number of employees
Germany	2011	33,522	24,450	3,717	27	(4,438)	(9)	76,028
	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
Europe	2011	37,815	12,990	1,998	6,781	(3,159)	(1,056)	60,105
	2010	46,040	20,334	2,127	7,143	(3,453)	(704)	65,435
	2009	46,759	22,063	4,813	52	(3,772)	(2,385)	69,277
United States	2011	38,075	24,110	1,787	27	(2,110)	(2,297)	34,518
	2010	38,316	23,056	2,118	24	(2,063)	(1)	37,795
	2009	36,087	19,326	2,494	18	(2,025)	(3)	38,231
Systems Solutions	2011	8,751	5,460	615	38	(626)	(14)	48,224
	2010	8,855	5,783	819	49	(619)	(4)	47,588
	2009	8,872	5,932	837	54	(718)	(3)	45,328
Group Headquarters & Shared Services	2011	101,152	57,182	623	–	(721)	(75)	21,494
	2010	107,357	60,806	675	–	(714)	(126)	22,312
	2009	120,162	78,379	747	–	(660)	(173)	20,181
Total	**2011**	**219,315**	**124,192**	**8,740**	**6,873**	**(11,054)**	**(3,451)**	**240,369**
	2010	**235,902**	**136,090**	**10,641**	**7,242**	**(11,027)**	**(850)**	**252,494**
	2009	**263,882**	**141,944**	**12,112**	**147**	**(11,364)**	**(2,571)**	**257,601**
Reconciliation	2011	(96,773)	(41,591)	(187)	–	69	–	–
	2010	(108,090)	(51,306)	(302)	–	68	1	–
	2009	(136,108)	(56,107)	(645)	–	41	–	–
Group	2011	122,542	82,601	8,553	6,873	(10,985)	(3,451)	240,369
	2010	127,812	84,784	10,339	7,242	(10,959)	(849)	252,494
	2009	127,774	85,837	11,467	147	(11,323)	(2,571)	257,601

		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	2011	8,323	(3,617)	(3,644)	(6,272)
	2010	9,167	(4,977)	(4,765)	(10,023)
	2009	9,777	(2,801)	(3,158)	(3,689)
Europe	2011	4,837	(493)	(1,870)	(1,895)
	2010	4,481	(3,045)	(2,012)	(2,839)
	2009	5,034	(1,510)	(2,489)	(6,071)
United States	2011	3,523	(3,013)	(1,963)	(364)
	2010	3,691	(1,870)	(2,121)	(1,920)
	2009	3,929	(3,014)	(2,666)	(1,004)
Systems Solutions	2011	606	(596)	(553)	(23)
	2010	517	(726)	(725)	(373)
	2009	325	(643)	(681)	88
Group Headquarters & Shared Services	2011	6,276	(952)	(493)	(5,457)
	2010	7,486	3,424	(406)	(5,554)
	2009	6,801	(2,995)	(449)	(2,147)
Total	**2011**	**23,565**	**(8,671)**	**(8,523)**	**(14,011)**
	2010	**25,342**	**(7,194)**	**(10,029)**	**(20,709)**
	2009	**25,866**	**(10,963)**	**(9,443)**	**(12,823)**
Reconciliation	2011	(7,351)	(604)	117	8,053
	2010	(10,611)	(3,517)	178	14,340
	2009	(10,071)	2,314	241	7,700
Group	2011	16,214	(9,275)	(8,406)	(5,958)
	2010	14,731	(10,711)	(9,851)	(6,369)
	2009	15,795	(8,649)	(9,202)	(5,123)

* 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		
	2011 millions of €	2010 millions of €	2009 millions of €
Telecommunications	51,496	55,425	58,093
ICT solutions	6,924	6,767	6,256
Other	233	229	253
	58,653	**62,421**	**64,602**

	Non-current assets			Net revenue		
	Dec. 31, 2011 millions of €	Dec. 31, 2010 millions of €	Dec. 31, 2009 millions of €	2011 millions of €	2010 millions of €	2009 millions of €
Germany	40,145	41,138	40,499	26,361	27,268	28,033
International	59,987	64,607	57,362	32,292	35,153	36,569
Of which:						
Europe (excluding Germany)	28,419	31,385	26,575	16,577	18,217	20,573
North America	31,457	33,104	30,717	14,945	16,192	15,527
Other countries	111	118	70	770	744	469
Group	**100,132**	**105,745**	**97,861**	**58,653**	**62,421**	**64,602**

33 Contingent liabilities and assets.

As part of its ordinary business activities, Deutsche Telekom is involved in various proceedings both in and out of court with government agencies, competitors, and other parties, the outcome of which often cannot be reliably anticipated. As of the reporting date, the Group was exposed to contingent liabilities amounting to EUR 0.8 billion (December 31, 2010: EUR 0.8 billion) and to contingent assets amounting to EUR 0.1 billion (December 31, 2010: EUR 0.1 billion) that, on the basis of the information and estimates available, do not fulfill the requirements for recognition as liabilities or assets in the statement of financial position. Litigation provisions include the costs of legal counsel services and any probable losses. Deutsche Telekom does not believe that any additional costs arising from legal counsel services or the results of proceedings will have a material adverse effect on the results of operations and financial position of the Group. In addition to individual cases that do not have any significant impact on their own, the aforementioned total contingent liabilities include the following items, the sequence of which does not imply an evaluation of their probability of occurrence or potential damage.

Contingencies.

Year-end bonus for civil servants. In November 2004, the Federal Republic of Germany passed the first Act to amend the Act on the Legal Provisions for the Former Deutsche Bundespost Staff (Postpersonalrechtsgesetz), which abolished the obligation on Deutsche Telekom and other successor companies to Deutsche Bundespost to pay active civil servants an annual year-end bonus under the German Federal Act on Bonus Payments (Bundessonderzahlungsgesetz). Various court instances saw no conflict with constitutional law in this. In December 2008, the Federal Administrative Court decided to refer the standards in dispute to the Federal Constitutional Court for a judicial review pursuant to Article 100 of the Basic Law. We expect a decision from the Federal Constitutional Court in the next few months. If the court rules that the abolition of the bonus payment was unconstitutional, a supplementary payment of around EUR 0.2 billion 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 (Dienstrechtsneuordnungsgesetz) on February 11, 2009, the legislator integrated the previous year-end bonus paid annually in accordance with the German Federal Act on Bonus Payments into the basic monthly salary for all federal civil servants. In accordance with § 78 of the Federal Civil Service Remuneration Act (Bundesbesoldungsgesetz), this does not apply for civil servants employed by the successor companies to Deutsche Bundespost. Some civil servants also appealed the new, reduced pay tables. 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 of up to EUR 0.1 billion may have to be made for the period beginning July 2009.

Proceedings by Anti-Monopoly Commission in Poland. On November 23, 2011, the Anti-Monopoly Commission in Poland (UOKiK) concluded investigations started in 2010. It accuses Polska Telefonia Cyfrowa (PTC) and other Polish telecommunications companies of price fixing in breach of anti-trust law and imposed a fine of PLN 34 million (approximately EUR 8 million). PTC continues to believe these allegations are unfounded and filed action against the ruling. As a result, the fine is not yet due. The same applies to another fine of PLN 21 million (approximately EUR 5 million) imposed by UOKiK on PTC on January 2, 2012 for an alleged breach of consumer protection law.

Claim for compensation against Slovak Telekom. In 1999, a lawsuit was filed against Slovak Telekom based on the accusation that the legal predecessor of Slovak Telekom had ceased broadcast of an international radio program contrary to the underlying contract. The claimant originally demanded approximately EUR 100 million plus interest for damages and loss of profits. On November 9, 2011, the Bratislava Regional Court ruled partly in favor of the plaintiff and ordered Slovak Telekom to pay approximately EUR 32 million plus interest. On December 27, 2011, Slovak Telekom appealed to the Supreme Court against this judgment. Deutsche Telekom is examining whether and under what circumstances it can assert claims against third parties in the event of a legally binding ruling against Slovak Telekom.

Like many other companies, the Deutsche Telekom Group is subject to the regulations of anti-trust law. In individual countries, Deutsche Telekom and its subsidiaries, associates and joint ventures are subject to various proceedings under anti-trust or competition law. Looking at each of the proceedings individually, none has a material impact. Deutsche Telekom believes the respective allegations are unfounded. The outcome of the proceedings cannot be foreseen at this point in time.

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.

European Commission investigates Slovak Telekom. In April 2009, the European Commission started an investigation into allegedly abusive behavior of Slovak Telekom (ST) in the broadband market in Slovakia. According to the European Commission, such an infringement could consist of refusing access to the unbundled local loop or other wholesale services for the broadband infrastructure as well as margin squeeze situations in these areas. 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 European Commission ultimately ascertain an infringement of European anti-trust law, it could impose fines against ST and Deutsche Telekom.

Toll Collect arbitration proceedings. In the arbitration proceedings between the principle members of the Toll Collect consortium, Daimler Financial Services AG and Deutsche Telekom as well as 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 claimed to have lost toll revenues of approximately EUR 3.51 billion plus interest owing to a delay in the commencement of operations. The total claim for contractual penalties amounted to EUR 1.65 billion plus interest. The contractual penalty claims are based on alleged violations of the operator agreement (alleged lack of consent to subcontracting, allegedly delayed provision of on-board units and monitoring equipment). In a letter dated May 16, 2008, the Federal Republic recalculated its claim for damages for lost toll revenues and reduced it by EUR 169 million. The new claim is now approximately EUR 3.3 billion plus interest. The main claims by the Federal Republic (including the contractual penalty claims) henceforth amount to around EUR 4.99 billion.

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. Various witnesses and experts were heard at another hearing in December 2010. We expect the proceedings to continue in 2012.

- **Bank loans guarantee.** Deutsche Telekom guarantees to third parties bank loans of up to a maximum amount of EUR 74 million granted to Toll Collect GmbH. These guarantees for bank loans will expire on May 31, 2012 and on June 15, 2012, respectively.

- **Equity maintenance undertaking.** The consortium partners have the obligation, on a joint and several basis, to provide Toll Collect GmbH with additional equity in order to ensure a minimum equity ratio of 15 percent (in the single-entity financial statements prepared in accordance with German GAAP) (equity maintenance undertaking). This obligation ends when the operating agreement expires on August 31, 2015, or earlier if the operating agreement is terminated prematurely.

In June 2006, the Federal Republic of Germany began to partially offset its monthly advance payments for operating fees to Toll Collect GmbH of EUR 8 million against the contractual penalty claims that are already subject of the aforementioned arbitration proceedings. As a result, it may become necessary for the consortium members to provide Toll Collect GmbH with further liquidity.

The risks and obligations of Compagnie Financière et Industrielle des Autoroutes S.A., Sèvres Cedex (Cofiroute, which holds a 10-percent stake in Toll Collect) are limited to EUR 70 million. Deutsche Telekom AG and Daimler Financial Services AG have the obligation, on a joint and several basis, to indemnify Cofiroute against further claims. Deutsche Telekom believes the claims of the Federal Republic of Germany are unfounded. Furthermore, the amount of a possible settlement attributable to the equity maintenance undertaking or the arbitration proceedings described, which may be material, cannot be estimated because of the aforementioned uncertainties.

Eutelsat arbitration proceedings. On April 12, 2011, Deutsche Telekom AG received a request for arbitration from Eutelsat S.A. initiating ICC arbitration proceedings against Deutsche Telekom AG and Media Broadcast GmbH. Eutelsat particularly requests clarification regarding a right of use of a certain orbit position to which Eutelsat believes it has a long-standing entitlement and the term of an agreement concluded between Deutsche Telekom AG and Eutelsat S.A. on the use of this orbit position by Eutelsat satellites. Eutelsat is also asserting claims to various payments depending on the term of this agreement. Deutsche Telekom had transferred its satellite business to Media Broadcast GmbH, a company with which it is no longer associated. As part of this transaction, Deutsche Telekom AG indemnified the buyer of Media Broadcast GmbH against certain claims, some of which also relate to the agreements with Eutelsat. On January 31, 2012, the ICC arbitral tribunal refused jurisdiction over Media Broadcast GmbH.

Claim for compensation against OTE. In May 2009, Lannet Communications S.A. filed a lawsuit claiming compensation for damages of EUR 176 million arising from an allegedly unlawful termination of services (mainly interconnection services, unbundling of local loops, and leasing of dedicated lines) by OTE. The hearing was set by the competent court for February 17, 2011, but was postponed until May 30, 2013.

Patent risks. Like many other large telecommunications/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.

Mobile communications patent litigation. The patent management company IPCom GmbH & Co. KG has initiated proceedings against Deutsche Telekom AG and individual members of the Board of Management of Deutsche Telekom for alleged infringement of patents that are supposedly essential to certain standards in the field of mobile communications. In addition to damages, IPCom is seeking abstention from the use of patents in connection with important mobile services, which could lead to their deactivation. Eight infringement proceedings relating to six different patents are currently pending. IPCom lost two of the proceedings on all counts in the court of first instance and has lodged an appeal in each case; others have been suspended. In the remaining cases, hearings will take place in the course of 2012. Several nullity suits and opposition proceedings are running in parallel to the infringement proceedings to review the validity of the patents that IPCom alleges have been infringed.

Contingent assets.

Claim for compensation against the Federal Republic of Germany and Kreditanstalt für Wiederaufbau. In a class action lawsuit by shareholders in the United States, Deutsche Telekom was accused of providing false information in the prospectus in the course of the third public offering in 2000 and of not providing sufficient information about the shares offered. In 2005, Deutsche Telekom had paid out some USD 120 million in a settlement to shareholders in the United States, with part of this amount being refunded from insurance. The settlement was expressly made without acknowledgement of guilt or misconduct. Deutsche Telekom demanded repayment of the settlement amount plus costs from the Federal Republic of Germany and KfW Bankengruppe. The Federal Court of Justice ruled in Deutsche Telekom's favor on most points and referred the case back to the Cologne Higher Regional Court for further rulings, in particular on the precise amount of the damages to be paid to Deutsche Telekom.

German Main Customs Office. 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, 2011 millions of €	Of which: sale and leaseback transactions millions of €	Dec. 31, 2010 millions of €	Of which: sale and leaseback transactions millions of €
Land and buildings	883	493	954	539
Technical equipment and machinery	104	0	91	3
Other	11	0	15	1
Net carrying amounts of leased assets capitalized	**998**	**493**	**1,060**	**543**

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 €
Dec. 31, 2011						
Maturity						
Within 1 year	257	108	100	60	157	48
In 1 to 3 years	413	218	177	109	236	109
In 3 to 5 years	363	209	142	90	221	119
After 5 years	1,136	666	399	257	737	409
	2,169	**1,201**	**818**	**516**	**1,351**	**685**
Dec. 31, 2010						
Maturity						
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
	2,279	**1,288**	**879**	**563**	**1,400**	**725**

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.

The operating lease expenses recognized in profit or loss amounted to EUR 2.3 billion in the 2011 financial year (2010: EUR 2.3 billion, 2009: EUR 2.3 billion). Since the 2011 financial year, expenses from straight-line leases have also been included. The following table provides a breakdown of future obligations arising from operating leases:

	Dec. 31, 2011 millions of €	Dec. 31, 2010 millions of €
Maturity		
Within 1 year	2,746	2,627
In 1 to 3 years	4,615	4,502
In 3 to 5 years	3,773	3,767
After 5 years	6,336	6,767
	17,470	**17,663**

No new major sale and leaseback transactions were recorded in the 2011 financial year.

Deutsche Telekom as lessor.

Finance leases. Deutsche Telekom is a 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, 2011 millions of €	Dec. 31, 2010 millions of €
Minimum lease payments	348	328
Unguaranteed residual value	3	–
Gross investment	351	328
Unearned finance income	(33)	(39)
Net investment (present value of the minimum lease payments)	**318**	**289**

The gross investment amount and the present value of payable minimum lease payments are shown in the following table:

	Dec. 31, 2011		Dec. 31, 2010	
	Gross investment millions of €	Present value of minimum lease payments millions of €	Gross investment millions of €	Present value of minimum lease payments millions of €
Maturity				
Within 1 year	139	124	126	110
In 1 to 3 years	168	153	142	124
In 3 to 5 years	41	38	55	50
After 5 years	3	3	5	5
	351	**318**	**328**	**289**

Operating leases. If Deutsche Telekom is a lessor in connection with operating leases, it continues to recognize the leased assets in its statement of financial position. The lease payments received are recognized in profit or loss. The leases mainly relate to the rental of 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, 2011 millions of €	Dec. 31, 2010 millions of €
Maturity		
Within 1 year	374	359
In 1 to 3 years	476	456
In 3 to 5 years	349	346
After 5 years	737	756
	1,936	**1,917**

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 Share matching plan/Mid-term and long-term incentive plans (MTIP, LTIP)/ Phantom share plan/Stock option plans.

The Group has a variety of programs for the share matching plan, mid-term and long-term incentive plans, the phantom share plan and stock option plans, that together do not have a material impact on the presentation of the Group's results of operations, financial position or cash flows. The expense incurred for these programs totaled EUR 59 million in the reporting year (2010: EUR 47 million, 2009: EUR 31 million). Provisions total EUR 83 million as of the reporting date (December 31, 2010: EUR 68 million).

Share matching plan.

In the 2011 financial year, specific executives were contractually obliged to invest a minimum of 10 percent and a maximum of 33.33 percent of their variable remuneration component, which is based on the achievement of targets set for each person for the financial year (Variable I), in Deutsche Telekom AG shares. Deutsche Telekom AG will award one additional share for every share acquired as part of this executive's aforementioned personal investment (share matching plan). These shares will be allotted to the beneficiaries of this plan on expiration of the four-year lock-up period.

Mid-term and long-term incentive plans (MTIP, LTIP).

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. With the exception of Board of Management members who did not switch to the new compensation system for the Board of Management, the MTIP was issued for the last time in 2010.

The General Committee of the Supervisory Board determined at its meeting on February 3, 2011 that the relative plan target for the 2008 tranche of the MTIP had been achieved, a finding that was confirmed by the Supervisory Board at its meeting on February 23, 2011. Consequently, 50 percent of the award amount for the 2008 tranche was paid out in 2011.

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
2009	55	3	11.01	14.31	328.55
2010	57	3	10.29	13.38	417.62
2011	**1**	**3**	**9.79**	**12.73**	**441.12**

The proportionate amount to be expensed is calculated based on a Monte Carlo simulation.

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 2009 to 2011 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 2009 and 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 2009 to 2011 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 2011, 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 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
Stock option plans at Deutsche Telekom:									
Deutsche Telekom AG	2001 SOP	2002	3,928	2 – 3	10	€ 12.36	€ 10.30		Equity-settled
	SARs	2002	3	2 – 3	10	€ 12.36	€ 10.30	€ 20.60	Cash-settled
Deutsche Telekom AG (T-Online International AG)	2001 SOP	2002	2,067	2 – 6	10	€ 10.26	€ 8.21		Cash-settled
T-Mobile USA	SOP	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
	T-Mobile USA/ Powertel	2004	230	up to 4	max. 10	USD 19.64			Cash-settled
Stock option plans at OTE:									
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		Equity-settled
	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
		2011	6,633	up to 3	max. 6	€ 4.96	€ 5.64		Equity-settled

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 9.11 for the 2002 tranche.

The table below shows the changes in outstanding options from the stock option plans in the 2011 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
Stock options outstanding at January 1, 2011	**6,700**	**12,680**	**132**	**2,021**	**3,042**
Of which: stock options exercisable at January 1, 2011	6,700	6,713	132	2,021	3,042
Granted	–	6,633	–	–	–
Exercised	–	–	–	–	488
Forfeited	4,405	752	131	1,041	2,100
Withdrawn	–	732	–	–	–
Stock options outstanding at December 31, 2011	**2,295**	**17,829**	**1**	**980**	**454**
Of which: stock options exercisable at December 31, 2011	**2,295**	**8,339**	**1**	**980**	**454**
Weighted average exercise price at December 31, 2011 (stock options outstanding)	€ 12.36	€ 11.41	€ 12.36	€ 9.11	USD 13.38
Weighted average exercise price at December 31, 2011 (stock options exercisable)	€ 12.36	€ 16.84	€ 12.36	€ 9.11	USD 13.38

The characteristics of the options at December 31, 2011 are as follows:

	Deutsche Telekom AG		Deutsche Telekom AG (T-Online International AG)		OTE group	
Range of exercise prices €	Number thousands	Remaining contractual life years*	Number thousands	Remaining contractual life years*	Number thousands	Remaining contractual life years*
8 – 20	2,295	0.5	980	0.5	17,829	3.5
	2,295	**0.5**	**980**	**0.5**	**17,829**	**3.5**

* Weighted average.

	T-Mobile USA	
Range of exercise prices USD	Number thousands	Remaining contractual life years*
0.02 – 15.19	454	0.3
	454	**0.3**

* 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, 2011	Amounts recognized in the statement of financial position according to IAS 39			
			Amortized cost	Cost	Fair value recognized in equity	Fair value recognized in profit or loss
		millions of €	millions of €	millions of €	millions of €	millions of €
Assets						
Cash and cash equivalents	LaR	3,749	3,749			
Trade receivables	LaR	6,455	6,455			
Originated loans and receivables	LaR/n.a.	2,030	1,712			
Other non-derivative financial assets						
Held-to-maturity investments	HtM	177	177			
Financial assets available for sale [a]	AfS	729		270	459	
Derivative financial assets [b]						
Derivatives without a hedging relationship	FAHfT	833				833
Derivatives with a hedging relationship	n.a.	700			269	431
Non-current assets and disposal groups held for sale [c]	AfS	380			380	
Liabilities and shareholders' equity [d]						
Trade payables	FLAC	6,409	6,409			
Bonds and other securitized liabilities	FLAC	36,228	36,228			
Liabilities to banks	FLAC	4,916	4,916			
Liabilities to non-banks from promissory notes	FLAC	1,188	1,188			
Other interest-bearing liabilities	FLAC	1,713	1,713			
Other non-interest-bearing liabilities	FLAC	1,528	1,528			
Finance lease liabilities	n.a.	1,351				
Derivative financial liabilities [b]						
Derivatives without a hedging relationship	FLHfT	833				833
Derivatives with a hedging relationship	n.a.	561				561
Of which: aggregated by category in accordance with IAS 39:						
Loans and receivables	LaR	11,916	11,916			
Held-to-maturity investments	HtM	177	177			
Available-for-sale financial assets [a]	AfS	1,109		270	839	
Financial assets held for trading	FAHfT	833				833
Financial liabilities measured at amortized cost	FLAC	51,982	51,982			
Financial liabilities held for trading	FLHfT	833				833

[a] For details, please refer to Note 8.
[b] For more information, please refer to the detailed table on derivatives in Note 37.
[c] The stake in Telekom Srbija is shown under non-current assets and disposal groups held for sale, for which a separate class of financial instruments was created as of December 31, 2011. The stake was shown under financial assets available for sale in the prior year. For details, please refer to Note 4.
[d] For financial guarantees and loan commitments existing at the reporting date, please refer to Note 37.

Amounts recognized in the statement of financial position according to IAS 17 millions of €	Fair value Dec. 31, 2011 millions of €	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				Amounts recognized in the statement of financial position according to IAS 17 millions of €	Fair value Dec. 31, 2010 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 €		
	3,749	LaR	2,808	2,808					2,808
	6,455	LaR	6,766	6,766					6,766
318	2,030	LaR/n.a.	2,628	2,340				288	2,628
	177	HtM	91	91					91
	459	AfS	513		335	178			178
	833	FAHfT	560				560		560
	700	n.a.	275			131	144		275
	380	AfS							
	6,409	FLAC	6,737	6,737					6,737
	38,539	FLAC	38,190	38,190					41,806
	5,037	FLAC	4,190	4,190					4,346
	1,321	FLAC	1,164	1,164					1,326
	1,713	FLAC	1,838	1,838					1,838
	1,528	FLAC	3,193	3,193					3,193
1,351	1,637	n.a.	1,400					1,400	1,671
	833	FLHfT	249				249		249
	561	n.a.	322			322			322
	11,916	LaR	11,914	11,914					11,914
	177	HtM	91	91					91
	839	AfS	513		335	178			178
	833	FAHfT	560				560		560
	54,548	FLAC	55,312	55,312					59,246
	833	FLHfT	249				249		249

Classes of financial instruments according to IFRS 7.27 et seq.

	Dec. 31, 2011				Dec. 31, 2010			
	Level 1 millions of €	Level 2 millions of €	Level 3 millions of €	**Total millions of €**	Level 1 millions of €	Level 2 millions of €	Level 3 millions of €	**Total millions of €**
Assets								
Available-for-sale financial assets (AfS)	341	118		459		178		178
Financial assets held for trading (FAHfT)		833		833		560		560
Derivative financial assets with a hedging relationship		700		700		275		275
Non-current assets and disposal groups held for sale		380		380				
Liabilities and shareholders' equity								
Financial liabilities held for trading (FLHfT)		833		833		249		249
Derivative financial liabilities with a hedging relationship		561		561		322		322

Cash and cash equivalents and trade and other receivables mainly have short-term maturities. For this reason, their carrying amounts at the reporting date approximate their fair values.

The fair values of other non-current receivables and held-to-maturity financial investments due after more than one year correspond to the present values of the payments related to the assets, taking into account the current interest rate parameters that reflect market- and partner-based changes to terms and conditions, and expectations.

Trade and other payables, as well as other liabilities, generally have short times to maturity; the values reported approximate the fair values.

The fair values of the quoted bonds and other securitized liabilities equal the nominal amounts multiplied by the price quotations at the reporting date.

The fair values of unquoted bonds, liabilities to banks, liabilities to non-banks from promissory notes, and other financial liabilities are calculated as the present values of the payments associated with the debts, based on the applicable yield curve and Deutsche Telekom's credit spread curve for specific currencies.

The stake in Telekom Srbija is shown under non-current assets and disposal groups held for sale (please also refer to Note 4). The fair value of this stake is equivalent to the contractually agreed selling price.

Net gain/loss by measurement category.

	Recognized in profit or loss from interest, dividends	Recognized in profit or loss from subsequent measurement			Recognized directly in equity from subsequent measurement	Recognized in profit or loss from derecognition	Net gain (loss)	
		At fair value	Currency translation	Impairment/ reversal of impairment	At fair value		2011	2010
	millions of €	millions of €	millions of €	millions of €	millions of €	millions of €	millions of €	millions of €
Loans and receivables (LaR)	67		370	(744)			(307)	629
Held-to-maturity investments (HtM)	4			(12)			(8)	2
Available-for-sale financial assets (AfS)	43			(15)	242	4	274	(42)
Financial instruments held for trading (FAHfT and FLHfT)	n.a.	576					576	654
Financial liabilities measured at amortized cost (FLAC)	(2,440)		(616)				(3,056)	(4,362)
	(2,326)	**576**	**(246)**	**(771)**	**242**	**4**	**(2,521)**	**(3,119)**

Interest from financial instruments is recognized in finance costs, dividends in other financial income/expense (please also 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 also 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 576 million) also includes interest and currency translation effects. The net currency translation gains on financial assets classified as loans and receivables (EUR 370 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 616 million. Finance costs from financial liabilities measured at amortized cost (EUR 2,440 million) primarily consist of interest expense on bonds and other (securitized) financial liabilities. The item also includes interest expenses from interest added back and interest income from interest discounted from trade payables. However, it does not include the interest expense and interest income from interest rate derivatives Deutsche Telekom used in the reporting period to hedge the fair value risk of financial liabilities (please also refer to Note 22).

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 (hedging transactions) are used for this purpose, depending on the risk assessment. However, Deutsche Telekom only hedges the risks that affect the Group's cash flow. Derivatives are exclusively used as hedging instruments, i.e., not for trading or other speculative purposes. To reduce the credit risk, hedging instruments are generally only concluded with leading financial institutions whose credit rating is at least BBB+/Baa1. In addition, the credit risk of financial instruments with a positive fair value is minimized by way of limit management, which sets individualized relative and absolute figures for risk exposure depending on the counterparty's rating, share price development and credit default swap level.

The fundamentals of Deutsche Telekom's financial policy are established by the Board of Management and overseen by the Supervisory Board. Group Treasury is responsible for implementing the 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 to hedge currency risks, the changes in the fair values of the hedged item and the hedging instrument attributable to exchange rate movements balance out almost completely in the income statement in the same period. As a consequence, these financial instruments are not exposed to currency risks with an effect on profit or loss, or shareholders' equity, either.

In the case of net investment hedges designed to hedge currency risks, the changes in the fair values of the hedged item and the hedging instrument attributable to exchange rate movements balance out completely in shareholders' equity in the same period. As a consequence, these financial instruments are not exposed to currency risks with an effect on profit or loss, or shareholders' equity, either.

Cross-currency swaps are always assigned to non-derivative hedged items, so these instruments do not have any currency effects, either.

Deutsche Telekom is therefore only exposed to currency risks from specific currency derivatives. Some of these are currency derivatives that are part of an effective cash flow hedge for hedging payment fluctuations resulting from exchange rate movements in accordance with IAS 39. Exchange rate fluctuations of the currencies on which these transactions are based affect the hedging reserve in shareholders' equity and the fair value of these hedging instruments. Others are currency derivatives that are neither part of one of the hedges defined in IAS 39 nor part of a natural hedge. These derivatives are used to hedge planned transactions. Exchange rate fluctuations of the currencies on which such financial instruments are based affect other financial income or expense (net gain/loss from remeasurement of financial assets and liabilities to fair value).

If the euro had gained (lost) 10 percent against the U.S. dollar, the pound sterling, the Swiss franc and the Malaysian ringgit at December 31, 2011, the hedging reserve in shareholders' equity and the fair values of the hedging instruments before taxes would have been EUR 50 million lower (higher) (December 31, 2010: EUR 38 million lower (higher)). The hypothetical effect of EUR –50 million on profit or loss primarily results from the currency sensitivities EUR/USD: EUR –35 million, EUR/GBP: EUR –15 million.

If the euro had gained (lost) 10 percent against all currencies at December 31, 2011, other financial income and the fair value of the hedging instruments before taxes would have been EUR 4 million higher (lower) (December 31, 2010: EUR 17 million lower (higher)). The hypothetical effect on profit or loss of EUR 4 million primarily results from the currency sensitivities EUR/USD: EUR –41 million, EUR/PLN: EUR 42 million, EUR/CZK: EUR 7 million and EUR/INR: EUR –4 million.

Interest rate risks. Deutsche Telekom is exposed to interest rate risks, mainly in the euro zone and in the United States of America. To minimize the effects of interest rate fluctuations in these regions, Deutsche Telekom manages the interest rate risk for net debt denominated in euros and U.S. dollars separately. Once a year, the Board of Management stipulates the desired mix of fixed- and variable-interest net debt for a planning period of at least three years. Taking account of the Group's existing and planned debt structure, Treasury uses interest rate derivatives to adjust the interest structure for the net debt of the composition specified by the Board of Management.

Due to the derivative hedging instruments, an average of 63 percent (2010: 65 percent) of the net debt in 2011 denominated in euros and 60 percent (2010: 61 percent) of those denominated in U.S. dollars had a fixed rate of interest. The average value is representative for the year as a whole.

Interest rate risks are presented by way of sensitivity analyses in accordance with IFRS 7. These show the effects of changes in market interest rates on interest payments, interest income and expense, other income components and, if appropriate, shareholders' equity. The interest rate sensitivity analyses are based on the following assumptions:

Changes in the market interest rates of non-derivative financial instruments with fixed interest rates only affect income if these are measured at their fair value. As such, all financial instruments with fixed interest rates that are carried at amortized cost are not subject to interest rate risk as defined in IFRS 7.

In the case of fair value hedges designed for hedging interest rate risks, the changes in the fair values of the hedged item and the hedging instrument attributable to interest rate movements balance out almost completely in the income statement in the same period. This means that interest-rate-based changes in the measurement of the hedged item and the hedging instrument do not affect income and are therefore not subject to interest rate risk.

In the case of interest rate derivatives in fair value hedges, however, changes in market interest rates affect the amount of interest payments. As a consequence, they have an effect on interest income and are therefore included in the calculation of income-related sensitivities.

Changes in the market interest rate regarding financial instruments that were designated as hedging instruments in a cash flow hedge to hedge payment fluctuations resulting from interest rate movements affect the hedging reserve in shareholders' equity and are therefore taken into consideration in the equity-related sensitivity calculations.

Changes in market interest rates affect the interest income or expense of non-derivative variable-interest financial instruments, the interest payments of which are not designated as hedged items of cash flow hedges against interest rate risks. As a consequence, they are included in the calculation of income-related sensitivities.

Changes in the market interest rate regarding interest rate derivatives (interest rate swaps, cross-currency swaps) that are not part of a hedging relationship as set out in IAS 39 affect other financial income or expense and are therefore taken into consideration in the income-related sensitivity calculations. Currency derivatives are not exposed to interest rate risks and therefore do not affect the interest rate sensitivities.

If the market interest rates had been 100 basis points higher (lower) at December 31, 2011, profit or loss before taxes would have been EUR 223 million (December 31, 2010: EUR 249 million) lower (higher). The hypothetical effect of EUR –223 million on income results from the potential effects of EUR –190 million from interest rate derivatives and EUR –33 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, 2011, the hedging reserve would have been EUR 208 million (December 31, 2010: EUR 164 million) higher (lower).

Other price risks. As part of the presentation of market risks, IFRS 7 also requires disclosures on how hypothetical changes in risk variables affect the price of financial instruments. Important risk variables are stock exchange prices or indexes.

As in the prior year, no major other price risks existed as of December 31, 2011. **For further information on the selling price as fixed for the stake in Telekom Srbija denominated in euros as of the reporting date, please refer to Note 4.**

Credit risks. Deutsche Telekom is exposed to a credit risk from its operating activities and certain financing activities. With regard to financing activities, transactions are only concluded with counterparties that have at least a credit rating of BBB+/Baa1, in connection with an operational credit management system. At the level of operations, the outstanding debts are continuously monitored in each area, i.e., locally. Credit risks are taken into account through individual and collective allowances.

The solvency of the business with corporate customers, especially international carriers, is monitored separately. In terms of the overall risk exposure from the credit risk, however, the receivables from these counterparties are not so extensive as to justify extraordinary concentrations of risk.

In line with the contractual provisions, in the event of insolvency all derivatives with a positive or negative fair value that exist with the respective counterparty are offset against each other, leaving a net receivable or liability. When the netting of the positive and negative fair values of all derivatives was positive from Deutsche Telekom's perspective, the counterparty provided Deutsche Telekom with unrestricted cash pursuant to the collateral contracts mentioned in Note 1. The credit risk was thus further reduced (**for details on the fair value of the cash reported under cash and cash equivalents; please also refer to Note 36).**

On the basis of these contracts, derivatives with a positive fair value and a total carrying amount of EUR 1,533 million (December 31, 2010: EUR 835 million) have a maximum credit risk of EUR 45 million (December 31, 2010: EUR 126 million) as of the reporting date. When the netting of the positive and negative fair values of all derivatives was negative from Deutsche Telekom's perspective, Deutsche Telekom provided cash collateral to counterparties pursuant to collateral contracts. The corresponding receivables of EUR 302 million (December 31, 2010: EUR 223 million) were thus not exposed to any credit risks as of the reporting date (please also refer to Note 8). No other significant agreements reducing the maximum exposure to the credit risks of financial assets existed. The maximum exposure to credit risk of the other financial assets thus corresponds to their carrying amounts. In addition, Deutsche Telekom is exposed to a credit risk through the granting of financial guarantees. Guarantees amounting to a nominal total of EUR 100 million had been pledged as of the reporting date (December 31, 2010: EUR 115 million), which also represent the maximum exposure to credit risk.

Risks from financial guarantees and loan commitments. Deutsche Telekom acquired a bond issued by Everything Everywhere Limited (EE) for a nominal amount of GBP 187 million (December 31, 2010: GBP 625 million). The year-on-year reduction in the nominal amount was due to a partial repayment made in the reporting period. Should EE not be able to repay the bond which will mature on November 16, 2012, Deutsche Telekom has a continued obligation to EE to make this funding in the same amount available. The follow-up funding then has to be granted at normal market conditions, possibly also in the form of a warranty or guarantee. The obligation to provide follow-up funding is limited to a period of twelve months following approval of EE's annual statutory accounts, i.e., presumably until March 2013. The nominal amount of GBP 187 million (December 31, 2010: GBP 625 million) is the maximum default risk associated with this funding commitment.

In addition, Deutsche Telekom granted EE an irrevocable loan commitment of a maximum of GBP 225 million at normal market conditions in the reporting period which has not yet been utilized. The credit facility can be utilized at any time and will expire on November 14, 2012. The credit facility will be extended each time by a further twelve months, unless terminated by Deutsche Telekom AG three months prior to the end of the term. The nominal amount of GBP 225 million is the maximum default risk associated with this loan commitment.

No significant agreements reducing the maximum default risk of financial guarantees and loan commitments exist. There were no indications as of the reporting date that Deutsche Telekom will incur a loss.

Liquidity risks. Please refer to Note 10.

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 and USD. Fixed-income bonds/MTNs denominated in CHF, EUR, GBP and USD were designated as hedged items. The changes in the fair values of the hedged items resulting from changes in the CHFLibor, Euribor, GBPLibor, or USDLibor swap rate are offset against the changes in the value of the interest rate swaps. The aim of this hedging is to transform the fixed-income bonds into variable-interest debt, thus hedging the fair value of the financial liabilities. Credit risks are not part of the hedging.

The effectiveness of the hedging relationship is tested prospectively and retrospectively at each reporting date using statistical methods in the form of a regression analysis. All hedging relationships were sufficiently effective as of the reporting date.

As the list of the fair values of derivatives shows (please refer to table under "Derivatives"), Deutsche Telekom had interest rate derivatives with a net fair value of EUR +0.4 billion (December 31, 2010: EUR +0.1 billion) designated as hedging instruments in fair value hedges at December 31, 2011. The remeasurement of the hedged items resulted in losses of EUR 0.3 billion being recorded in other financial income/expense in the 2011 financial year (2010: losses of EUR 0.3 billion); the changes in the fair values of the hedging instruments resulted in gains of EUR 0.2 billion (2010: gains 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 interest payments to be made in the hedging period are the hedged items and are recognized in profit or loss in the same period. The changes in the cash flows of the hedged items resulting from changes in the Euribor and Libor rates are offset against the changes in the cash flows of the interest rate swaps. The aim of this hedging is to transform the variable-interest bonds into fixed-income debt, thus hedging the cash flows of the financial liabilities. The terms of the hedging relationships will end in the years 2012 through 2017. Credit risks are not part of the hedging.

The effectiveness of the hedging relationship is tested prospectively and retrospectively using statistical methods in the form of a regression analysis.

Ineffectiveness of EUR –25 million was recognized in profit or loss under other financial income/expense in the reporting year (2010: EUR –16 million). Of this amount, EUR –19 million relate to the partial de-designation of a hedging relationship in the reporting period. This hedging relationship was established in 2009, when forward payer interest rate swaps with a nominal amount of EUR 2.1 billion were designated as hedging instruments for loans scheduled to be taken out in 2011 of this amount. Against the background of the specific short-term funding disposition, a decision was made in the fourth quarter of the reporting period to not carry out a funding of EUR 450 million scheduled for this quarter. As a result, the hedging relationship was de-designated in the amount of EUR 450 million and the corresponding loss of EUR 19 million recognized directly in equity was immediately and fully reclassified to other financial income/expense. The remaining hedging relationship with a nominal amount of EUR 1.65 billion was effective as of the reporting date, i.e., all loans scheduled were actually taken out.

All designated hedging relationships were sufficiently effective as of the reporting date.

In 2011, Deutsche Telekom entered into forward payer interest rate swaps totaling EUR 3.05 billion for transactions expected in 2014. The following table shows the contractual maturities newly incorporated into a hedging relationship in 2011 relating to the payments for the aforementioned forward payer interest rate swaps.

Start	End	Nominal volume	Reference rate
January 23, 2014	January 23, 2017	€ 1,500 million	6-month Euribor
March 27, 2014	March 27, 2017	€ 750 million	6-month Euribor
June 26, 2014	June 26, 2017	€ 800 million	6-month Euribor

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 –0.5 billion (2010: EUR –0.3 billion) amounting to a nominal total of EUR 8.8 billion (2010: EUR 6.7 billion) designated as hedging instruments for the hedging of interest rate risks as part of cash flow hedges at December 31, 2011.

The recognition directly in equity of the change in the fair value of the hedging instruments resulted in losses (before taxes) of EUR 0.3 billion (2010: losses of EUR 0.1 billion) in shareholders’ equity in the 2011 financial year. Losses amounting to EUR 53 million (2010: losses of EUR 56 million) recognized directly in equity were reclassified to other financial income/expense in the income statement in the 2011 financial year.

Cash flow hedges – currency risks. Deutsche Telekom entered into currency derivative and cross-currency swap agreements to hedge cash flows not denominated in a functional currency. The payments in foreign currency to be made in the hedging period are the hedged items and are recognized in profit or loss in the same period. The terms of the hedging relationships will end in the years 2012 through 2030. The effectiveness of the hedging relationship is tested prospectively and retrospectively using statistical methods in the form of a regression analysis. All designated hedging relationships were sufficiently effective as of the reporting date.

No new cash flow hedges of this kind were designated in the reporting period.

In the 2011 financial year, gains (before taxes) totaling EUR 130 million (2010: gains of EUR 238 million) resulting from the change in the fair values of currency derivatives were taken directly to equity (hedging reserve) (excluding the cash flow hedge for the cash payment from AT&T totaling USD 3 billion). These changes constitute the effective portion of the hedging relationship. In the 2011 financial year, gains totaling EUR 61 million (2010: gains of EUR 98 million) recognized directly in equity were reclassified to other financial income/expense (excluding the cash flow hedge for the cash payment from AT&T totaling USD 3 billion). 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 8 million (December 31, 2010: EUR –43 million) and a total volume of EUR 0.5 billion (December 31, 2010: EUR 0.3 billion), as well as cross-currency swaps of a net fair value of EUR +0.2 billion (December 31, 2010: EUR +0.1 billion) and a total volume of EUR 2.1 billion (December 31, 2010: EUR 2.1 billion) designated as hedging instruments for cash flow hedges as of December 31, 2011.

Cash flow hedge for the cash payment from AT&T totaling USD 3 billion. In March 2011 Deutsche Telekom designated a cash flow hedge to hedge the expected U.S. dollar cash payments from AT&T against fluctuations in the U.S. dollar spot exchange rate. Currency forwards with a nominal amount of USD 3 billion were designated as hedging instruments ("sell USD – receive EUR") with a change in the U.S. dollar spot exchange rate being the hedged risk. Any changes in cash flows of the hedged item resulting from changes in the U.S. dollar spot exchange rate were offset by changes in the cash flows of the currency forwards. The change in fair value of EUR +30 million (before taxes) attributable to the forward component of the hedging instrument was not part of the hedge and was recognized in the income statement under other financial income/expense. The effectiveness of the hedging relationship was tested prospectively and retrospectively at each reporting date by comparing the cumulative value changes of hedging instruments and hedged item. The hedging relationship was consistently and fully effective. The cash inflow in the form of the cash component of the compensation was recorded on December 22, 2011. At this date, the losses of EUR 0.2 billion (before taxes) recognized directly in equity (total other comprehensive income) were reclassified and recognized in profit or loss under other operating income, thus reducing the cash inflow denominated in U.S. dollars of the translated equivalent of EUR 2.3 billion (before taxes). As a result, the cash component of the compensation was recognized in profit or loss with an amount of EUR 2.1 billion (before taxes) at the hedged exchange rate (please also refer to "Business combinations and other transactions" in the section "Summary of accounting policies").

Hedging of a net investment. In April 2011 Deutsche Telekom designated a net investment hedge for a nominal amount of USD 7 billion to hedge the net investment in T-Mobile USA against fluctuations in the U.S. dollar spot exchange rate. Currency forwards were used as hedging instruments ("sell USD – receive EUR") with a change in the U.S. dollar spot exchange rate being designated as the hedged risk. Any changes in value of the hedged item resulting from changes in the U.S. dollar spot exchange rate are offset by changes in the value of the currency forwards. The change in fair value of EUR +0.1 billion (before taxes) attributable to the forward component of the hedging instrument was not part of the hedge and was recognized in the income statement under other financial income/expense. After the hedged amount had been reduced, currency forwards with a nominal volume of USD 1.2 billion and a fair value of EUR –0.1 billion (before taxes) remained designated as hedge instruments at December 31, 2011. Losses totaling EUR 0.4 billion (before taxes) from the hedging relationship were recognized directly in equity (total other comprehensive income) in the 2011 financial year. The effectiveness of the hedging relationship is tested prospectively and retrospectively at each reporting date by comparing the cumulative value changes of hedging instruments and hedged item. The hedging relationship was fully effective for the total hedging period and as of the reporting date (please also refer to "Business combinations and other transactions" in the section "Summary of accounting policies").

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, net investment hedge) or not. Other derivatives can also be embedded (i.e., a component of a composite instrument that contains a non-derivative host contract).

	Net carrying amounts Dec. 31, 2011 millions of €	Net carrying amounts Dec. 31, 2010 millions of €
Assets		
Interest rate swaps		
Held for trading	56	43
In connection with fair value hedges	431	144
In connection with cash flow hedges	–	–
Currency forwards/currency swaps		
Held for trading	259	53
In connection with cash flow hedges	21	13
Cross-currency swaps		
Held for trading	518	464
In connection with cash flow hedges	248	118
Other derivatives in connection with cash flow hedges	–	–
Liabilities and shareholders' equity		
Interest rate swaps		
Held for trading	74	12
In connection with fair value hedges	–	–
In connection with cash flow hedges	470	266
Currency forwards/currency swaps		
Held for trading	581	43
In connection with cash flow hedges	13	56
In connection with net investment hedges	78	–
Cross-currency swaps		
Held for trading	171	184
In connection with cash flow hedges	–	–
Other derivatives in connection with cash flow hedges	–	–
Embedded derivatives	7	10

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, 2011. The target corridor for this indicator is between 0.8 and 1.2.

Calculation of net debt; shareholders' equity.

	Dec. 31, 2011 millions of €	Dec. 31, 2010 millions of €
Financial liabilities (current)	10,219	11,689
Financial liabilities (non-current)	38,099	38,857
Financial liabilities	**48,318**	**50,546**
Accrued interest	(966)	(1,195)
Liabilities from corporate transactions	–	(1,566)
Other	(615)	(467)
Gross debt	**46,737**	**47,318**
Cash and cash equivalents	3,749	2,808
Available-for-sale/held-for-trading financial assets	402	75
Derivative financial assets	1,533	835
Other financial assets	932	1,331
Net debt	**40,121**	**42,269**
Shareholders' equity in accordance with the consolidated statement of financial position	**39,941**	**43,028**

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, 2010: 32.0 percent) of the share capital of Deutsche Telekom AG. The Federal Republic usually represents a solid majority at the shareholders' meeting due to its high attendance rate, giving the Federal Republic control over Deutsche Telekom. Therefore, the Federal Republic and the companies controlled by the Federal Republic or companies over which the Federal Republic can exercise a significant influence are classified as related parties of Deutsche Telekom. Charges for services provided to the Federal Republic and its departments and agencies, and the individual companies are based on Deutsche Telekom's commercial pricing policies. Deutsche Telekom participates in the spectrum auctions of the Federal Network Agency. The acquisition of mobile communications spectrum though licenses may result in build-out requirements stipulated by the Agency.

The Federal Posts and Telecommunications Agency (Federal Agency) has been assigned certain tasks by law that affect cross-company issues at Deutsche Telekom AG, Deutsche Post AG, and Deutsche Postbank AG. The Federal Agency's responsibilities include the continuation of the Civil Service Health Insurance Fund (Postbeamtenkrankenkasse), the recreation service (Erholungswerk), the supplementary retirement pensions institution (Versorgungsanstalt der Deutschen Bundespost), and the welfare service (Betreuungswerk) for Deutsche Telekom AG, Deutsche Post AG, and Deutsche Postbank AG. The coordination and administrative tasks are performed on the basis of agency agreements. For the 2011 financial year, Deutsche Telekom made payments in the amount of EUR 58 million (2010: EUR 59 million, 2009: EUR 56 million). Payments are made to the special pension fund according to the provisions of the Posts and Telecommunications Reorganization Act (please also refer to Note 12).

The Federal Republic and the companies controlled by the Federal Republic and companies over which the Federal Republic can exercise a significant influence are customers or suppliers of Deutsche Telekom and as such have mutual contractual relationships. Deutsche Telekom did not execute any individually material transactions in the 2011 financial year at off-market terms and conditions or outside of its normal business activities.

Joint ventures. In the 2011 financial year, Deutsche Telekom generated revenue and other operating income totaling EUR 275 million from the Everything Everywhere joint venture established on April 1, 2010 and EUR 70 million from Toll Collect. In addition, Deutsche Telekom acquired a bond issued by Everything Everywhere for a nominal amount of GBP 187 million (2010: GBP 625 million). The bond will mature on November 16, 2012. Even after the bonds maturity, Deutsche Telekom is obliged to Everything Everywhere to continue putting the full amount at the joint venture's disposal until the end of March 2013 and grant follow-up funding at normal market conditions, possibly in the form of a guarantee. At year-end, receivables from Everything Everywhere totaled EUR 122 million, and liabilities to Everything Everywhere totaled EUR 171 million.

Related individuals. For information on the compensation of the Board of Management and Supervisory Board, please refer to Note 39.

Employee representatives elected to the Supervisory Board of Deutsche Telekom continue to be entitled to a regular salary as part of their employment contract. The amount of the salary is the adequate compensation for their job or activity within the Company.

Besides this, no major transactions took place with related individuals.

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), 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 February 23, 2011, the Supervisory Board agreed to Guido Kerkhoff's request to resign from the Board of Management effective midnight on March 31, 2011.

At its meeting on July 4, 2011, the Supervisory Board appointed Claudia Nemat as a new member of Deutsche Telekom's Board of Management for five years effective October 1, 2011. She is responsible for the Europe Board department. At the same meeting, the Supervisory Board appointed Prof. Marion Schick as a new member of Deutsche Telekom's Board of Management, responsible for Human Resources, effective May 3, 2012.

Edward R. Kozel asked the Supervisory Board to release him from his duties as Board member effective midnight on December 31, 2011. The Supervisory Board agreed to this request at its meeting on December 15, 2011. The contract of Reinhard Clemens was extended for five years at the same meeting.

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, 2011, Board of Management members René Obermann, Reinhard Clemens, Niek Jan van Damme, Timotheus Höttges, Claudia Nemat, 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 on the following pages.

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 an annual fixed remuneration and annual variable performance-based remuneration, a long-term variable remuneration component, as well as fringe benefits and deferred benefits based on a company pension entitlement. The Supervisory Board defines the structure of the compensation system for the Board of Management and reviews this structure and the appropriateness of compensation at regular intervals.

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

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

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

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

In the event of temporary incapacity for work caused by illness, accident or any other reason for which the respective Board of Management member is not responsible, the fixed basic remuneration continues to be paid for a maximum of three months following the end of the month in which the Board of Management member's permanent inability to work is established.

Variable performance-based remuneration (old system).

The annual short-term variable performance-based remuneration of Board of Management members is based on the achievement of targets set by the Supervisory Board of Deutsche Telekom AG for each member of the Board of Management prior to commencement of the financial year. The set of targets is composed of corporate targets and personal targets for the individual members of the Board of Management, based on the parameters of revenue, 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.

In addition, the Board of Management members who remained with the old system participate in Deutsche Telekom AG's mid-term incentive plan (MTIP) launched for the first time in the 2004 financial year (please also refer to Note 35).

	2011 MTIP Award amount €[b]	2011 MTIP Fair value at grant date €[b]	Total expense for share-based payments in 2011 €[b]	2010 MTIP Award amount €[b]	Total expense for share-based payments in 2010[a] €[b]
René Obermann	0	0	0	0	181,341
Dr. Manfred Balz	330,000	10,190	85,581	330,000	61,375
Reinhard Clemens	0	0	0	0	101,551
Niek Jan van Damme	0	0	0	0	22,737
Timotheus Höttges	0	0	0	0	108,805
Guido Kerkhoff	0	0	0	0	46,776
Thomas Sattelberger	515,000	15,902	133,558	515,000	163,652
	845,000	**26,092**	**219,139**	**845,000**	**686,237**

[a] Amounts relating to Board of Management members who left the Company in the course of 2010 are no longer included in the table.
[b] Fair value calculated using the 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 this Board of Management member'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. The assessment is 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.

Information on the share matching plan. In the 2011 financial year, the Board of Management members who fall under the new Board of Management compensation system, as described above are contractually obliged to invest a third of Variable I in shares of Deutsche Telekom AG. Deutsche Telekom AG will grant one additional share for every share acquired as part of the Board of Management's aforementioned personal investment (share matching plan) that will be allotted to the beneficiaries of this plan on expiration of the four-year lock-up period. This ensures that the shares granted by the Company can only be sold after the four-year period, and that this element of the compensation system rewards only the members' continued service to the Company.

DRS 17 and IFRS 2 require disclosure not only of the total expense related to share-based payment from matching shares in the 2011 financial year and the fair value of the matched shares at their grant date, but also of the number of entitlements to matching shares and their development in the financial year. The following table is based on expected target achievement for the 2011 financial year and thus on the estimated amount of the personal investment to be made by the respective Board of Management member to establish his or her entitlements to matching shares. The final number of entitlements to matching shares identified for the 2011 financial year may differ from the amounts estimated here.

	Number of entitlements granted to matching shares at the beginning of the financial year	Number of new entitlements to matching shares granted in 2011	Fair value of the matching shares at grant date €	**Total share-based payment expense for matching shares in 2011 €**	Total share-based payment expense for matching shares in 2010 €
René Obermann	86,567	43,223	315,958	202,898	78,372
Reinhard Clemens	44,134	22,476	164,298	105,101	40,937
Niek Jan van Damme	36,822	19,018	139,021	85,516	34,461
Timotheus Höttges	50,655	25,934	189,575	118,168	47,023
Guido Kerkhoff	18,601	0	0	(23,958)	23,958
Edward R. Kozel	22,693	0	0	(32,143)	32,143
Claudia Nemat	0	5,835	42,654	2,246	0

By December 31, 2011, Deutsche Telekom had acquired 232,169 shares for the purpose of awarding matching shares to Board of Management members as part of the share matching plan.

A total of 41,294 entitlements to matching shares were forfeited in the 2011 financial year as a result of Guido Kerkhoff's and Edward R. Kozel's departure from the Board of Management. In both cases, agreement was reached that these entitlements would forfeit without replacement or compensation.

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

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

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

Company pension plan.

Company pension plan (existing entitlement). The members of the Board of Management are entitled to a company pension. Benefits from the company pension plan are in direct relation to the beneficiary's annual salary. The Board of Management members receive company pension benefits based on a fixed percentage of their last fixed annual salary for each year of service rendered prior to their date of retirement. The pension payments may be in the form of a life-long retirement pension upon reaching the age of 62 or in the form of an early retirement pension upon reaching the age of 60. Opting for the early retirement pension scheme is connected with actuarial deductions, however. The company pension is calculated by multiplying a basic percentage rate of 5 percent (6 percent for René Obermann) by the number of years of service as a member of the Board of Management. After ten years of service, the maximum pension level of 50 percent (60 percent for René Obermann) of the last fixed annual remuneration will be attained.

The pension payments to be made increase dynamically, at a rate of 1 percent, 3 percent for René Obermann. In addition, the pension agreements include arrangements for pensions for surviving dependents in the form of entitlements for widows and orphans. In specifically provided exceptional cases, entitlement to a widow's pension is excluded. The standard criteria for eligibility in the pension arrangements are in line with market conditions. In the event of a permanent inability to work (invalidity), the respective period of service through the scheduled end of the current period of appointment serves as the basis for the period of service eligible for calculating the pension.

In addition, the Company makes contributions, including the related taxes, for term life insurance with standard coverage (EUR 1.3 million) for one Board of Management member. The related expenses are included in the figures for non-cash benefits.

Company pension plan (new entitlement). A 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 the event of a permanent inability to work (invalidity), the beneficiary is entitled to the pension fund.

Service cost and defined benefit obligation for each member of the Board of Management are shown in the following table:

	Service cost 2011 €	Present value of the defined benefit obligation (DBO) Dec. 31, 2011 €	Service cost 2010 €	Present value of the defined benefit obligation (DBO) Dec. 31, 2010 €
René Obermann	696,460	5,456,843	575,170	5,358,169
Dr. Manfred Balz	248,312	899,151	282,982	613,412
Reinhard Clemens	419,746	1,521,799	367,252	1,232,442
Niek Jan van Damme	250,568	726,336	275,534	465,141
Timotheus Höttges	337,339	1,475,193	260,901	1,307,754
Guido Kerkhoff	43,792	0*	273,876	431,504
Edward R. Kozel	0	0	146,567	146,567
Claudia Nemat	47,633	47,633	0	0
Thomas Sattelberger	373,834	5,259,298	875,447	4,751,293

* Due to Guido Kerkhoff's resignation from office in the course of the year, the corresponding DBO amount as of December 31, 2011 is included in the disclosures on previous Board of Management members who left the Group.

An annual contribution of EUR 290,000 was credited to the pension accounts of 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. Claudia Nemat and Edward R. Kozel each received an annual credit of EUR 250,000. The contributions for Claudia Nemat and Guido Kerkhoff for 2011 were defined pro rata temporis for the period of their office as a member of the Board. The pension benefit rights of Edward R. Kozel were not yet vested at his date of resignation and were therefore forfeited without replacement or compensation.

The pension expense resulting from the company pension plan is shown as service cost. The additions to provisions for pensions recognized in 2011 amounted to EUR 3.1 million (2010: EUR 3.6 million). This amount includes interest expense in the amount of EUR 0.7 million (2010: EUR 0.5 million).

Stock option plan. Deutsche Telekom no longer issues any stock option plans. Individual Board of Management members still receive stock options from the 2002 tranche of the 2001 Stock Option Plan.

Timotheus Höttges and René Obermann continue to participate in the 2002 tranche as a result of their prior activities at T-Mobile. Dr. Manfred Balz still participates in the Stock Option Plan as a result of his 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 2001 tranche of the 2001 Stock Option Plan expired in the 2011 financial year. The decrease in stock options in this tranche compared with the prior year exclusively results from the entitlements of the 2001 tranche that were forfeited.

The number of stock options is shown in the following table:

		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	**2011**	0		28,830	3.79	12.36
	2010	48,195	4.87	28,830	3.79	23.40
Dr. Manfred Balz	**2011**	0		17,360	3.79	12.36
	2010	32,130	4.87	17,360	3.79	23.81
Timotheus Höttges	**2011**	0		17,050	3.79	12.36
	2010	0		17,050	3.79	12.36
Guido Kerkhoff	**2011**	0		0		
	2010	0		4,650	3.79	12.36
	2011	**0**		**63,240**		
	2010	**80,325**		**67,890**		

Due to the expiry of the 2001 tranche in the 2011 financial year, no range of exercise prices can be specified, as only the 2002 tranche still exists. All Board of Management members participating in this tranche can exercise their options at an exercise price of EUR 12.36.

The average remaining term of the outstanding options for Board of Management members as of December 31, 2011 is 0.5 years.

According to the termination agreement signed with Guido Kerkhoff, his options from the 2001 tranche were revoked without replacement or compensation.

For information on stock option plans, please also refer to Note 35.

Board of Management compensation for the 2011 financial year. In reliance on legal requirements and other guidelines, a total of EUR 13.6 million (2010: EUR 14.4 million) is reported in the following table as total compensation for the 2011 financial year for the members of the Board of Management.

This compensation comprises the fixed annual remuneration for Board of Management members who have changed over to the new Board of Management compensation system, as well as other benefits, non-cash benefits and remuneration in kind, short-term variable remuneration (Variable I), and the fair value of the matching shares. This was calculated on the basis of the estimated amount of Variable I at the grant date and the resulting number of entitlements to matching shares.

For Board of Management members in the old compensation system, this compensation comprises the fixed annual remuneration, other benefits, non-cash benefits, remuneration in kind, the short-term variable remuneration for the 2011 financial year, and the fair value of the 2011 MTIP at the grant date.

All other remuneration is totally unrelated to performance.

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)[a] €	**Total** **€**
René Obermann	**2011**	1,450,000	28,683	1,471,250	315,958	**3,265,891**
	2010	1,350,000	35,790	1,346,250	628,943	**3,360,983**
Dr. Manfred Balz	**2011**	800,000	16,102	355,700	10,190	**1,181,992**
	2010	687,097	18,292	391,716	22,489	**1,119,594**
Reinhard Clemens	**2011**	840,000	26,800	628,550	164,298	**1,659,648**
	2010	795,000	25,064	665,000	328,255	**1,813,319**
Niek Jan van Damme	**2011**	700,000	20,125	527,450	139,021	**1,386,596**
	2010	570,000	24,502	542,080	276,523	**1,413,105**
Timotheus Höttges	**2011**	900,000	21,214	870,250	189,575	**1,981,039**
	2010	825,000	22,265	775,500	377,363	**2,000,128**
Guido Kerkhoff	**2011**	175,000	4,331	135,919	–	**315,250**
(until March 31, 2011)	2010	610,000	20,322	606,480	138,949	**1,375,751**
Edward R. Kozel	**2011**	900,000	81,856	641,925	–	**1,623,781**
(until December 31, 2011)	2010	595,161	43,960	420,623	225,115	**1,284,859**
Claudia Nemat	**2011**	225,000	10,900	166,219	42,654	**444,773**
(since October 1, 2011)	2010	–	–	–	–	**–**
Thomas Sattelberger	**2011**	800,000	4,762	941,417	15,902	**1,762,081**
	2010	800,000	4,582	908,417	35,097	**1,748,096**
	2011	**6,790,000**	**214,773**	**5,738,680**	**877,598**	**13,621,051**
	2010[b]	**6,232,258**	**194,777**	**5,656,066**	**2,032,734**	**14,115,835**

[a] This column shows the fair value of both the matching shares and for participation in the 2011 MTIP.
[b] Remuneration relating to Board of Management members who left the Company in the course of 2010 is no longer included in the table.

Under the termination agreement concluded with Guido Kerkhoff effective March 31, 2011, all existing entitlements to stock options, the granting of matching shares and the outstanding tranches of Variable II were terminated without replacement or compensation. The same applies to the post-contractual prohibition of competition. The proportionate fixed basic remuneration and the proportionate other remuneration were paid for the period up to March 31, 2011. The proportionate entitlement to short-term variable remuneration based on average target achievement over the previous two financial years was determined for the same period. Pension benefit rights acquired by March 31, 2011 are vested and thus remain.

Edward R. Kozel resigned from the Board of Management at Deutsche Telekom AG effective midnight on December 31, 2011. The short-term variable performance-based remuneration (Variable I) to be paid out for the 2011 financial year is determined for the entire twelve months of 2011. Under the termination agreement concluded, all entitlements to the granting of matching shares and the outstanding tranches of long-term variable performance-based remuneration (Variable II) are forfeited without replacement or compensation. The same applies to the post-contractual prohibition of competition. Pension benefit rights acquired are not yet vested and are thus forfeited without compensation.

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 5.0 million (2010: EUR 5.4 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 100.6 million (2010: EUR 99.3 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 fixed annual remuneration of EUR 40,000.00 plus variable, performance-related remuneration depending on the development of net profit per no par value share.

The performance-related annual remuneration with long-term incentive effect amounts to EUR 1,000.00 for every EUR 0.02 by which the net profit per no par value share in the second financial year following the financial year in question (reference year) exceeds the net profit per no par value share in the financial year preceding the financial year in question. The performance-related annual remuneration as a long-term incentive is limited to a maximum of EUR 40,000.00. The 2011 variable remuneration becomes due upon the end of the 2014 ordinary shareholders' meeting, provided the terms and conditions for the granting of such remuneration are met.

Since the terms and conditions for the payment of the performance-based variable remuneration were not met as of December 31, 2011, the 2009 performance-based remuneration was not paid out.

The chairperson of the Supervisory Board receives double, and the deputy chairperson one and a half times the remuneration of an ordinary member of the Supervisory Board. Total compensation also increases by 50 percent for each membership of a Supervisory Board committee (with the exception of the Mediation Committee and the Nomination Committee), by 100 percent for membership of the Audit Committee, and by a further 50 percent for each Supervisory Board committee chaired. Members of the Supervisory Board who were not in office for the entire financial year receive one twelfth of the remuneration for each month or part thereof that they held a seat. This applies both to fixed annual remuneration and to annual remuneration with a long-term incentive.

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

The total compensation of the members of the Supervisory Board in 2011 amounted to EUR 1,809,333.33 (plus VAT).

No loans were granted to the members of the Supervisory Board.

The **compensation** of the individual members of the **Supervisory Board** for 2011 is as follows:

Member of the Supervisory Board	Fixed remuneration including attendance fee €
Asmussen, Jörg (until December 14, 2011)	71,000.00
Becker, Hermann Josef	118,000.00
Dr. Bernotat, Wulf	72,000.00
Dr. Beus, Hans Bernhard (since December 15, 2011)	6,333.33
Brandl, Monika	70,000.00
Bury, Hans Martin	95,000.00
Dr. von Grünberg, Hubertus	83,000.00
Guffey, Lawrence H.	96,000.00
Hauke, Sylvia [a]	51,000.00
Hocker, Ulrich	62,000.00
Holzwarth, Lothar [b]	73,000.00
Kallmeier, Hans-Jürgen [c]	107,000.00
Prof. Dr. Lehner, Ulrich (Chairman)	175,000.00
Litzenberger, Waltraud	149,000.00
Löffler, Michael	51,000.00
Prof. Dr. Middelmann, Ulrich	93,000.00
Schröder, Lothar (Deputy Chairman) [d]	157,000.00
Dr. Schröder, Ulrich	71,000.00
Sommer, Michael	45,000.00
Spoo, Sibylle	50,000.00
Dr. h.c. Walter, Bernhard	114,000.00
	1,809,333.33

[a] Sylvia Hauke received compensation of EUR 12,500.00 from Telekom Deutschland GmbH, Bonn, a wholly owned subsidiary of Deutsche Telekom AG, for the 2011 financial year for a mandate as member of the supervisory board of this company.
[b] Lothar Holzwarth received compensation of EUR 15,000.00 from Telekom Deutschland GmbH, Bonn, a wholly owned subsidiary of Deutsche Telekom AG, for the 2011 financial year for a mandate as member of the supervisory board of this company.
[c] Hans-Jürgen Kallmeier received compensation of EUR 10,000.00 from T-Systems International GmbH, Frankfurt/Main, a wholly owned subsidiary of Deutsche Telekom AG, for the 2011 financial year for a mandate as member of the supervisory board of this company.
[d] Lothar Schröder received compensation of EUR 20,000.00 from Telekom Deutschland GmbH, Bonn, a wholly owned subsidiary of Deutsche Telekom AG, for the 2011 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) under Investor Relations in the Corporate Governance section.

41 Events after the reporting period.

Sale of stake in Telekom Srbija. OTE signed an agreement with Telekom Srbija on the sale of all shares held by OTE in Telekom Srbija on December 30, 2011. Consequently, the value of these shares was shown as held for sale as of December 31, 2011. The carrying amount of the stake was increased to a fair value of EUR 0.2 billion as of December 31, 2011 as a result of a purchase offer and recognized in total other comprehensive income. The sale was closed on January 25, 2012. Proceeds of EUR 0.4 billion from the sale were paid to OTE in January 2012. As a result, profit (after taxes) of EUR 0.2 billion will be included in profit/loss from financial activities. After deduction of non-controlling interests, an amount of EUR 0.1 billion will be included under profit attributable to owners of Deutsche Telekom (net profit) in the 2012 financial year.

42 Auditor's fees and services in accordance with § 314 HGB.

The following table provides a breakdown of the auditor's professional fees recognized as expenses in the 2011 financial year:

PricewaterhouseCoopers Aktiengesellschaft, Wirtschaftsprüfungsgesellschaft.

	2011 millions of €
Auditing services	5
Other assurance services	8
Tax advisory services	0
Other non-audit services	6
	19

Professional fees for auditing services include in particular fees for the statutory auditing of annual and consolidated financial statements as well as fees for other auditing services.

Professional fees for other assurance services primarily relate to fees for the review of the interim financial statements as well as auditing activities in connection with the documentation of the internal control system for financial reporting.

Professional fees for tax advisory services primarily include professional fees for tax advisory services performed as part of current or planned transactions.

Other non-audit services mainly relate to services in connection with the Company's compliance with requirements stipulated by the Federal Network Agency and other authorities.

Responsibility statement.

To the best of our knowledge, and in accordance with the applicable reporting principles, the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group, and the Group management report, which is combined with the management report of Deutsche Telekom AG, includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal opportunities and risks associated with the expected development of the Group.

Bonn, February 6, 2012

Deutsche Telekom AG
Board of Management

René Obermann

Dr. Manfred Balz

Reinhard Clemens

Niek Jan van Damme

Timotheus Höttges

Claudia Nemat

Thomas Sattelberger

Independent auditor's report.

To Deutsche Telekom AG, Bonn.

Report on the consolidated financial statements.

We have audited the accompanying consolidated financial statements of Deutsche Telekom AG and its subsidiaries, which comprise the consolidated statement of financial position, the consolidated income statement and statement of comprehensive income, the consolidated statement of changes in equity, the consolidated statement of cash flows and the notes to the consolidated financial statements for the financial year from January 1 to December 31, 2011.

Board of Management's responsibility for the consolidated financial statements. The Board of Management of Deutsche Telekom is responsible for the preparation of these consolidated financial statements. This responsibility includes that these consolidated financial statements are prepared in accordance with International Financial Reporting Standards, as adopted by the EU, and the additional requirements of German commercial law pursuant to § 315a (1) HGB ("Handelsgesetzbuch": German Commercial Code) and that these consolidated financial statements give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these requirements. The Board of Management is also responsible for the internal controls which the Board of Management deems to be necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with § 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany) (IDW), and additionally observed the International Standards on Auditing (ISA). Accordingly, we are required to comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing audit procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The selection of audit procedures depends on the auditor's professional judgment. This includes the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In assessing those risks, the auditor considers the internal control system relevant to the entity's preparation of consolidated financial statements that give a true and fair view. The aim of this is to plan and perform audit procedures that are appropriate in the given circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control system. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board of Management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Audit opinion. According to § 322 (3) sentence 1 HGB we state that our audit of the consolidated financial statements has not led to any reservations.

In our opinion based on the findings of our audit, the consolidated financial statements comply, in all material respects, with IFRSs, as adopted by the EU, and the additional requirements of German commercial law pursuant to § 315a (1) HGB and give a true and fair view of the net assets and financial position of the Group as at December 31, 2011 as well as the results of operations for the financial year then ended, in accordance with these requirements.

Report on the Group management report.

We have audited the accompanying Group management report, which is combined with the management report of the parent company, of Deutsche Telekom AG for the financial year from January 1 to December 31, 2011. The Board of Management of Deutsche Telekom AG is responsible for the preparation of the combined management report in accordance with the requirements of German commercial law applicable pursuant to § 315a (1) HGB. We conducted our audit in accordance with § 317 (2) HGB and German generally accepted standards for the audit of the combined management report promulgated by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany) (IDW). Accordingly, we are required to plan and perform the audit of the combined management report to obtain reasonable assurance about whether the combined management report is consistent with the consolidated financial statements and the audit findings, as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development.

According to § 322 (3) sentence 1 HGB we state that our audit of the combined management report has not led to any reservations.

In our opinion based on the findings of our audit of the consolidated financial statements and combined management report, the combined management report is consistent with the consolidated financial statements, as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development.

Frankfurt/Main, February 6, 2012

PricewaterhouseCoopers
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Harald Kayser
Wirtschaftsprüfer

Thomas Tandetzki
Wirtschaftsprüfer