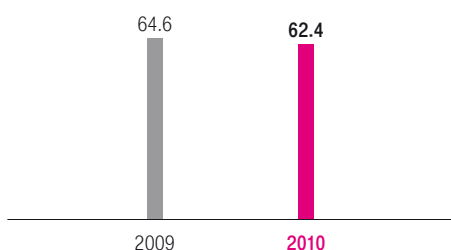


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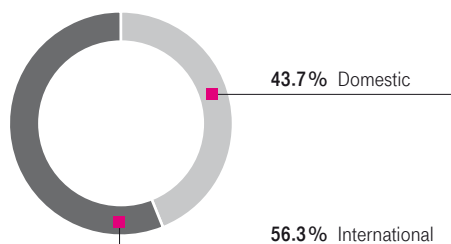
Overview of the 2010 financial year.

Net revenue. (billions of €)



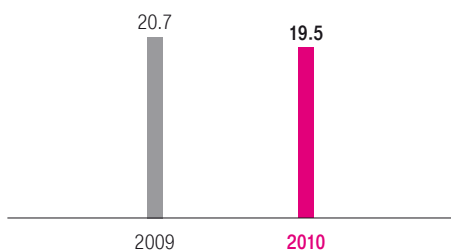
- Net revenue decreased by 3.4 percent compared with the prior year. Excluding T-Mobile UK, net revenue increased slightly year-on-year by EUR 0.3 billion.
- Changes in the composition of the Group (OTE, T-Mobile UK) had a net negative effect of EUR 1.9 billion, while exchange rate effects totaling EUR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

Proportion of net revenue generated internationally. (%)



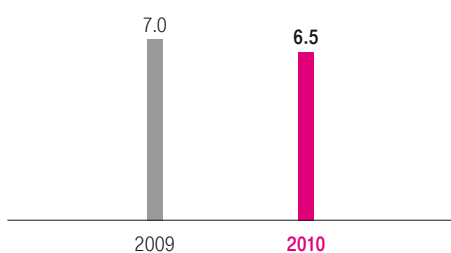
- Proportion of net revenue generated internationally decreased slightly to 56.3 percent, compared with 56.6 percent in the prior year.
- Domestic net revenue amounted to EUR 27.3 billion, EUR 0.8 billion lower than in the prior year. International net revenue decreased year-on-year by 3.9 percent or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

Adjusted EBITDA. (billions of €)



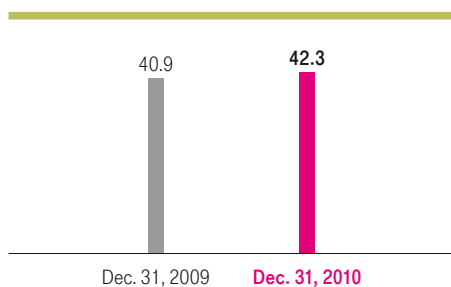
- We generated adjusted EBITDA of EUR 19.5 billion, achieving the target we originally communicated for the year of approximately EUR 20 billion, less EUR 0.4 to 0.5 billion following the deconsolidation of T-Mobile UK.
- Fixed-network lines lost to competitors, price changes imposed by the regulator,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

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



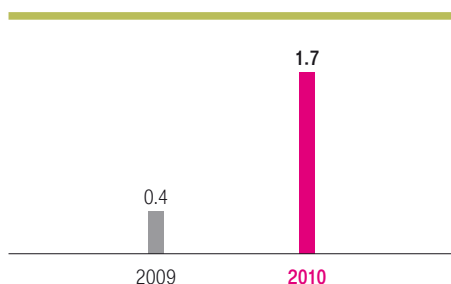
- Free cash flow amounted to EUR 6.5 billion, exceeding the Company's guidance for 2010 by EUR 0.3 billion despite a year-on-year decrease of EUR 0.6 billion in cash inflows from factoring.

Net debt. (billions of €)



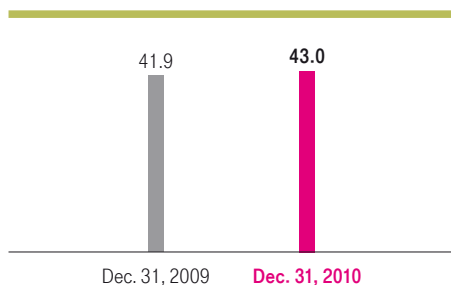
- Net debt increased by 3.3 percent compared with the end of 2009 to EUR 42.3 billion.
- This increase was driven by: dividend payments of EUR 4.0 billion (including dividends paid out to non-controlling interests), payments of EUR 1.3 billion for spectrum, exchange rate effects of EUR 0.8 billion, effects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

Net profit. (billions of €)



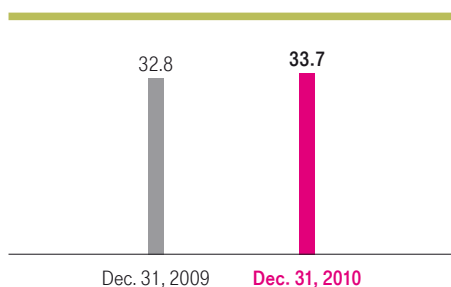
- Net profit increased by EUR 1.3 billion to EUR 1.7 billion.
- The decline in EBITDA was more than offset.
- Depreciation, amortization, and impairment losses (including impairment on goodwill and property, plant and equipment) decreased by EUR 2.1 billion; loss from financial activities reduced by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

Shareholders' equity. (billions of €)



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

Equity ratio. (%)



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

Comparison of expectations and actual development at Group level.

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

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

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



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

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

Comparison of stakeholders' expectations and actual development.

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

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

Shareholders 	Providers of debt capital 
<p>Shareholder remuneration policy^a</p> <p>2010 guidance</p> <ul style="list-style-type: none"> – Total annual remuneration volume of € 3.4 billion – Of which minimum annual dividend of € 0.70 per share <p>2010 delivery</p> <ul style="list-style-type: none"> – Share buy-back of € 0.4 billion and – Proposed dividend for 2010 of € 0.70 per share (€ 3.0 billion) 	<p>Rating</p> <p>Relative debt</p> <p>Equity ratio</p> <p>Gearing</p> <p>Liquidity reserve</p> <p>2010 guidance</p> <ul style="list-style-type: none"> A-/BBB+ 2 to 2.5x 25 to 35% 0.8 to 1.2 covers maturities of the next 24 months <p>2010 delivery</p> <ul style="list-style-type: none"> BBB+ 2.2x 33.7% 1.0 covers maturities > 24 months
<p>Guidance through 2012</p> <p>Improvement of 150 basis points</p>	<p>ROCE level^b</p> <p>2010: 3.5% (2009: 3.9%)</p>
<p>Staff restructuring and staff reduction</p> <p>Expenses arising from staff restructuring in 2010: € 1.0 billion</p> <p>ROCE impact: ≈ -0.6 %-age points</p>	<p>Transactions in 2010</p> <ul style="list-style-type: none"> – Establishment of the Everything Everywhere joint venture – PTC transaction <p>Total ROCE impact: ≈ -0.4 %-age points</p>
Employees	"Entrepreneurs within the enterprise"

^a  Please refer to footnote 2, page 129.

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

Highlights in the 2010 financial year.

Development of the Group's strategy.

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

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

Developments at management level.

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

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

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

Investors/Shareholder remuneration policy.

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

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

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

Corporate transactions/Changes in the segment structure.

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

* ■ Please refer to footnote 2, page 129.

Merger of the Europe and Southern and Eastern Europe operating segments. On February 24, 2010, the Supervisory Board resolved to realign the management structure of the two operating segments Southern and Eastern Europe, and Europe. These two operating segments were merged on April 1, 2010 to form the new Europe operating segment that encompasses the fixed-network and mobile operations of the national companies in Greece, Romania, Hungary, Poland, the Czech Republic, Croatia, the Netherlands, Slovakia, Austria, Bulgaria, Albania, the F.Y.R.O. Macedonia, and Montenegro, as well as the UK joint venture. It also includes the International Carrier Sales and Services unit, which mainly provides wholesale telecommunications services for the Group's other operating segments. Since April 1, 2010, we therefore report on the four operating segments Germany, Europe, United States, and Systems Solutions, as well as on Group Headquarters & Shared Services.

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

Litigation settlements.

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

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

One Company.

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

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

Delisting.

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

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

Employees.

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

Investments in networks and new spectrum.

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

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

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

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

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

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

New products/Connected life and work.

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

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

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

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

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

Connections of the future/Wireless Internet connections.

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

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

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

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

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

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

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

Group organization.

Merger of the Europe and Southern and Eastern Europe operating segments

Business activities and organization.

Business activities.

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

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

Our activities are guided by major trends in technology and society, which we play a pivotal role in shaping. One such trend is digital technology, which is increasingly prevalent in many areas of life. Products and services are becoming increasingly personalized, people are more mobile than ever before, and globalization is advancing, too. There is growing convergence among the various technologies. This is the reason we are focusing on an integrated product portfolio with which customers can access

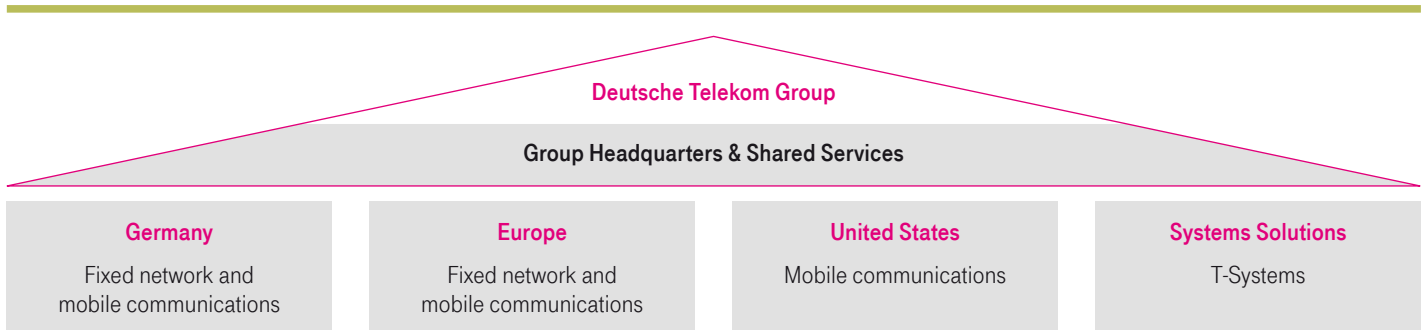
personalized data such as music, videos or addresses from any terminal device. Through fixed-network and mobile communications, we offer network access as well as communication and value-added services with ever-expanding bandwidths, thus promoting personal and social networking with innovative products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

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

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

Organization.

Organizational structure.



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

- Germany
- Europe
- United States
- Systems Solutions.

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

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

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

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

The **Europe** operating segment encompasses all fixed-network and mobile operations of the national companies in Greece, Romania, Hungary, Poland, the Czech Republic, Croatia, the Netherlands, Slovakia, Austria, Bulgaria, Albania, the F.Y.R.O. Macedonia, and Montenegro, as well as the UK joint venture. It also includes the International Carrier Sales and Services unit, which mainly provides wholesale telecommunications services for the Group's other operating segments.

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

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

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

Legal structure of the Deutsche Telekom Group.

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

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

Shareholders' equity.

Each share entitles the holder to one vote. These voting rights are nevertheless restricted in relation to treasury shares (around 2 million as of December 31, 2010) and trust shares (around 19 million as of December 31, 2010). The trust shares are connected with the acquisition of VoiceStream and Powertel in 2001. As part of these acquisitions, Deutsche Telekom issued new shares from authorized capital to trustees for the benefit of holders of warrants, options, and conversion rights, among others. As regards the shares issued to trusts, the trustees in question waive voting rights and preemptive rights and, in general, dividend rights for the duration of the trusts' existence. The shares issued to the trusts can be sold on the stock exchange on the instruction of Deutsche Telekom if the beneficiaries do not exercise their options or conversion rights or if these expire. The proceeds from the sale accrue to Deutsche Telekom.



Buy-back of Deutsche Telekom shares. The shareholders' meeting resolved on May 3, 2010 to authorize the Board of Management to purchase shares in the Company by November 2, 2011, with the amount of share capital accounted for by these shares totaling up to EUR 1,116,497,918.20, provided the shares to be purchased on the basis of this authorization in conjunction with the other shares of the Company which the Company has already purchased and still possesses or are to be assigned to it under § 71 d and § 71 e of the German Stock Corporation Act (Aktiengesetz – AktG) do not at any time account for more than 10 percent of the Company's share capital. Moreover, the requirements under § 71 (2) sentences 2 and 3 AktG must be complied with. Shares shall not be purchased for the purpose of trading in treasury shares. This authorization may be exercised in full or in part. The purchase can be carried out in partial tranches spread over various purchase dates within the authorization period until the maximum purchase volume is reached. Dependent Group companies of Deutsche Telekom AG within the meaning of § 17 AktG or third parties acting for the account of Deutsche Telekom AG or for the account of dependent Group companies of Deutsche Telekom AG within the meaning of § 17 AktG are also entitled to purchase the shares. The shares are purchased in compliance with the principle of equal treatment (§ 53a AktG) through the stock exchange. Shares can instead also be purchased by means of a public purchase or share exchange offer addressed to all shareholders, which, subject to a subsequently approved exclusion of the right to offer shares, must also comply with the principle of equal treatment.

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

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

Authorized capital and contingent capital. The shareholders' meeting on April 30, 2009 authorized the Board of Management to increase the share capital with the approval of the Supervisory Board by up to EUR 2,176,000,000 by issuing up to 850,000,000 no par value registered shares against noncash capital contributions in the period ending April 29, 2014. This authorization may be exercised either in full or in one or several partial amounts. The Board of Management is authorized, subject to the approval of the Supervisory Board, to disapply shareholders' preemptive rights when issuing new shares for business combinations or acquisitions of companies, parts thereof or interests in companies, including increasing existing investment holdings, or other assets eligible for contribution for such acquisitions, including receivables from the Company. The Board of Management is also authorized, subject to the approval of the Supervisory Board, to determine the rights accruing to the shares in the future and the conditions for issuing shares **(2009/I authorized capital)**.

The shareholders' meeting on April 30, 2009 authorized the Board of Management to increase the capital stock with the approval of the Supervisory Board by up to EUR 38,400,000 by issuing up to 15,000,000 no par value registered shares against cash and/or non-cash contributions in the period ending April 29, 2014. This authorization may be exercised either in full or in one or several partial amounts. Shareholders' preemptive rights are disappplied. The new shares may only be issued to grant shares to employees of Deutsche Telekom AG and of lower-tier companies (employee shares). The new shares can also be issued to a bank or some other company meeting the requirements of § 186 (5) sentence 1 AktG that assumes the obligation to use these shares for the sole purpose of granting employee shares. Where permitted by law, the employee shares may also be issued in such a way that the contribution to be paid in return is taken from the part of the income after income taxes that the Board of Management and the Supervisory Board may transfer to other retained earnings in accordance with § 58 (2) AktG. The shares to be issued as employee shares can also be acquired in the form of a securities loan from a bank or some other company meeting the requirements of § 186 (5) sentence 1 AktG and the new shares used to repay this securities loan. The Board of Management is authorized, subject to the approval of the Supervisory Board, to determine the rights accruing to the shares in the future and the conditions for issuing shares **(2009/II authorized capital)**.

The share capital has been contingently increased by up to EUR 31,813,089.28 as of December 31, 2010, composed of up to 12,426,988 new no par value registered shares (**contingent capital II**). The contingent capital increase is exclusively for the purpose of meeting preemptive rights to shares from stock options granted in the period until December 31, 2003 to members of the Board of Management of the Company, to members of second-tier management, and to other executives, managers, and specialists of the Company and to members of the boards of management, members of management, and other executives, managers, and specialists at lower-tier Group companies in Germany and other countries, on the basis of the authorization for a 2001 Stock Option Plan granted by resolution of the shareholders' meeting on May 29, 2001. It will be implemented only to the extent that the holders of stock options exercise these options.

The share capital was contingently increased by EUR 1,100,000,000 as of December 31, 2010, composed of up to 429,687,500 no par value registered shares (**2010 contingent capital**). The contingent capital increase will be implemented only to the extent that

- a) the holders or creditors of bonds with warrants, convertible bonds, profit participation rights and/or participating bonds (or combinations of these instruments) with options or conversion rights, which are issued or guaranteed by Deutsche Telekom AG or its direct or indirect majority holdings by May 2, 2015, on the basis of the authorization resolution granted by the shareholders' meeting on May 3, 2010, make use of their option and/or conversion rights or
- b) those obligated as a result of bonds with warrants, convertible bonds, profit participation rights and/or participating bonds (or combinations of these instruments) which are issued or guaranteed by Deutsche Telekom AG or its direct or indirect majority holdings by May 2, 2015, on the basis of the authorization resolution granted by the shareholders' meeting on May 3, 2010, fulfill their option or conversion obligations

and other forms of fulfillment are not used. The new shares shall participate in profits starting at the beginning of the financial year in which they are issued as the result of the exercise of any option or conversion rights or the fulfillment of any option or conversion obligations. The Supervisory Board is authorized to amend § 5 (5) of the Articles of Incorporation in accordance with the particular usage of the contingent capital and after the expiry of all the option or conversion periods.

Main agreements including a change of control clause.

The main agreements entered into by Deutsche Telekom AG, which include a **clause in the event of a change of control**, principally relate to bilateral credit lines and several loan agreements. In the event of a takeover, the individual lenders have the right to terminate the credit line and, if necessary, serve notice or demand repayment of the loans. A takeover is assumed when a third party, which can also be a group acting jointly, acquires control over Deutsche Telekom AG.

In addition, the other members of the Toll Collect consortium (Daimler Financial Services AG and Cofiroute SA) have a call option in the event that the ownership structure of Deutsche Telekom AG changes such that over 50 percent of its share capital or voting rights are held by a new shareholder and this change was not approved by the other members of the consortium. § 22 (1) of the German Securities Trading Act (Wertpapierhandelsgesetz – WpHG) similarly applies to the allocation of voting rights.

Should Deutsche Telekom AG be taken over by another company that is not a telecommunications company based in the European Union or the United States of a similar size and stature to Deutsche Telekom AG, the Hellenic Republic shall have the right to purchase from Deutsche Telekom AG all the shares Deutsche Telekom AG owns in the Greek company Hellenic Telecommunications Organization S.A., Athens, Greece (OTE). For this purpose, Deutsche Telekom shall be deemed to have been taken over if one or several entities, with the exception of the Federal Republic of Germany, directly or indirectly acquires 35 percent of the voting rights in Deutsche Telekom AG.

When establishing the Everything Everywhere joint venture in the United Kingdom, Deutsche Telekom AG and France Télécom S.A. agreed in the joint venture agreement that if Deutsche Telekom comes under the controlling influence of a third party, France Télécom will be exempted from all the restrictions imposed on the shareholders with regard to a transfer of their shares. Transferring shares to competitors would remain prohibited even in this situation, however.



Changes in the consolidated group.

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

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

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

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

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

Management and supervision.

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

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

- Chairman of the Board of Management

and the Board departments

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

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

- Germany
- Europe
- T-Systems.

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

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


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

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

The members of the Board of Management are appointed and discharged in accordance with § 84 and § 85 AktG, and § 31 of the German Codetermination Act (Mitbestimmungsgesetz – MitbestG). Amendments to the Articles of Incorporation are made pursuant to § 179 and § 133 AktG, and § 18 of the Articles of Incorporation. According to § 21 of the Articles of Incorporation, the Supervisory Board is authorized, without a resolution by the shareholders' meeting, to adjust the Articles of Incorporation to comply with new legal provisions that become binding for the Company and to amend the wording of the Articles of Incorporation.

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

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

Basis of Board of Management compensation. On February 24, 2010, the Supervisory Board resolved a new system for the compensation of the Board of Management members, taking into account the provisions specified in the German Act on the Appropriateness of Management Board Remuneration (Gesetz zur Angemessenheit der Vorstandsvergütung – VorstAG) that has been in effect since August 5, 2009. The shareholders' meeting of Deutsche Telekom AG on May 3, 2010 approved this new system. Pursuant to the VorstAG explanatory memorandum (document 16/13433), the contracts of the Board of Management members that were in existence before the Act entered into force enjoy vested rights protection. These Board of Management members nevertheless have the option of voluntarily changing over to the new compensation system.  For more information on the compensation of the Board of Management and the disclosures required by § 314 HGB, German Accounting Standard No. 17 (GAS 17), and the German Corporate Governance Code, please refer to Note 39 in the notes to the consolidated financial statements.

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

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

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

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

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

Group strategy and Group management.

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

Group strategy.

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

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

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

We have defined five new strategic action areas:

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

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

Improve the performance of mobile-centric assets.

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

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

Leverage One Company in integrated assets.

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

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

Build networks and processes for the gigabit society.

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

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

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

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

Connected life across all screens.

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

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

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

Connected work with unique ICT solutions.

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

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

Growth areas of Deutsche Telekom.

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

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

Another very important growth area for us is the **connected home**. Here, we bundle all revenues that we generate with our existing double- and triple-play packages, i.e., our fixed-network-based voice, data, and TV services. This area also includes future innovative products for the connected home, such as the Home Gateway or the Personal Communication Suite. The aim here is to generate around EUR 7 billion in revenue by 2015.

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

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

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

Growth areas of Deutsche Telekom.

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

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

Group management.

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

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

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

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

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

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

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

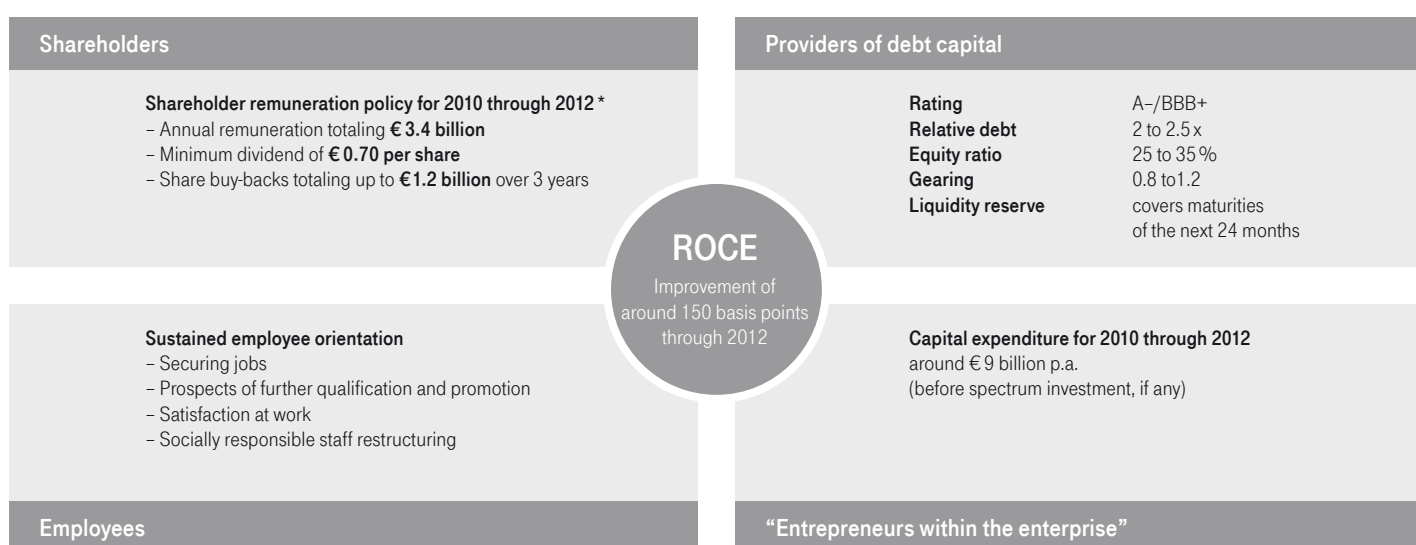
We define **free cash flow** as net cash from operating activities less net cash outflows for investments in intangible assets (excluding goodwill) and property, plant and equipment. It is the key measure used by providers of debt capital and equity as stakeholders in Deutsche Telekom. Free cash flow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

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

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

Finance strategy.

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



* Please refer to footnote 2, page 129.

The economic environment.

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

Global economic development.

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

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

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

Telecommunications market.

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

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

Germany.

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

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

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

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

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

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

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

Europe.

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

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

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

United States.

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



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

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

Systems Solutions.

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

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

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

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

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

Regulatory influence on Deutsche Telekom's business.

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

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

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

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

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

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

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

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

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

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

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

Development of business in the Group.

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

Statement on business development in 2010.

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

Effects of changes in the composition of the Group.

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

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

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

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

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

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

Results of operations of the Group.

Net revenue.

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

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

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

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

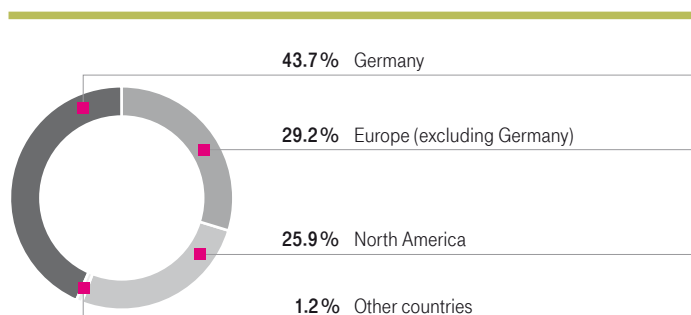
Translated into euros, revenue in the **United States** operating segment increased by 4.0 percent year-on-year. After adjustment for exchange rate effects of EUR 0.8 billion, however, operating segment revenue declined slightly by 1.0 percent.

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

Contribution of the operating segments to net revenue.

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

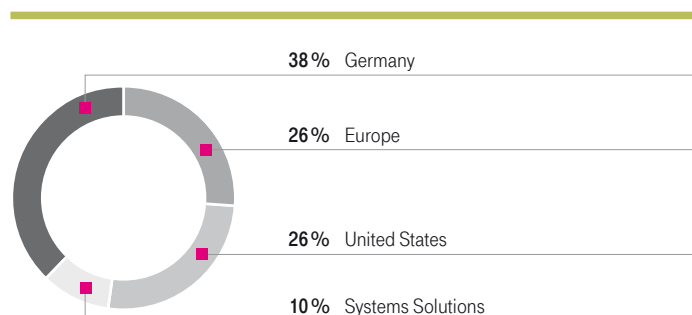
Breakdown of revenue by region.



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

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

Contribution of the operating segments to net revenue.



EBITDA.

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

Consolidated income statement and effects of special factors.

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

Adjusted EBITDA.

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

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

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

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

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

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

Contribution of the operating segments to adjusted Group EBITDA.

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

EBIT.

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

Profit/loss before income taxes.

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

Net profit.

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

Save for Service program.

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

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

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

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


Financial position of the Group.


Consolidated statement of financial position.

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

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


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

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

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

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

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

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

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

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

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

Financial liabilities.

	Dec. 31, 2010			
	Total millions of €	Due within 1 year millions of €	Due > 1 year ≤ 5 years millions of €	Due > 5 years millions of €
Bonds and other securitized liabilities				
Non-convertible bonds	23,078	3,894	9,317	9,867
Commercial paper, medium term notes and similar liabilities	15,112	2,843	6,195	6,074
Liabilities to banks	4,190	472	3,284	434
	42,380	7,209	18,796	16,375
Lease liabilities	1,934	142	426	1,366
Liabilities to non-banks from promissory notes	1,164	–	192	972
Other interest-bearing liabilities	1,304	1,056	139	109
Other non-interest-bearing liabilities	3,193	3,176	15	2
Derivative financial liabilities	571	106	457	8
	8,166	4,480	1,229	2,457
Financial liabilities	50,546	11,689	20,025	18,832

Reconciliation of gross debt.

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

Net debt.

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

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

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

The rating of Deutsche Telekom AG.

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

Financial flexibility.

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

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

Condensed consolidated statement of cash flows.

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

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

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

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

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

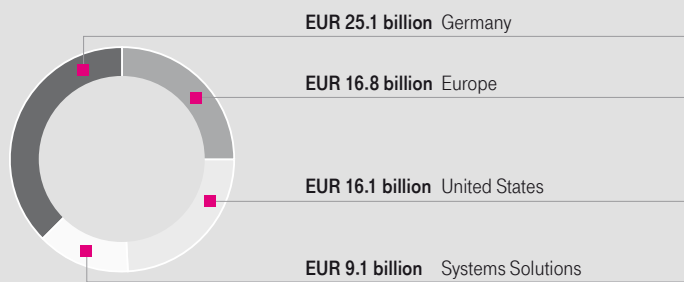
Outflows for property, plant and equipment (EUR 0.7 billion) and acquisitions (EUR 0.6 billion) both decreased and thus had an offsetting effect. Net cash outflows from the change in short-term investments and marketable securities and receivables, by contrast, increased by EUR 0.8 billion.

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

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

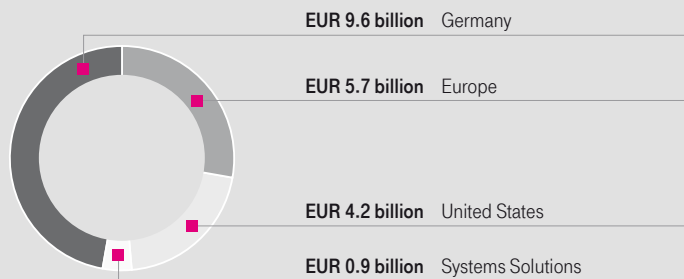
Development of business in the operating segments.

Share of operating segments in net revenue of the Group.



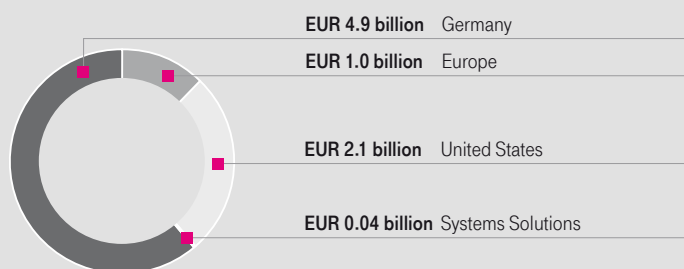
Share of Group Headquarters & Shared Services of EUR 2.2 billion and reconciliation of EUR -6.9 billion.

Share of operating segments in adjusted EBITDA.



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

Share of operating segments in EBIT.

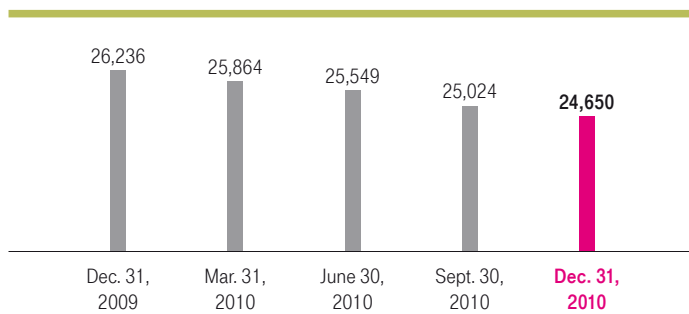


Share of Group Headquarters & Shared Services of EUR -2.5 billion and reconciliation of EUR -0.1 billion.

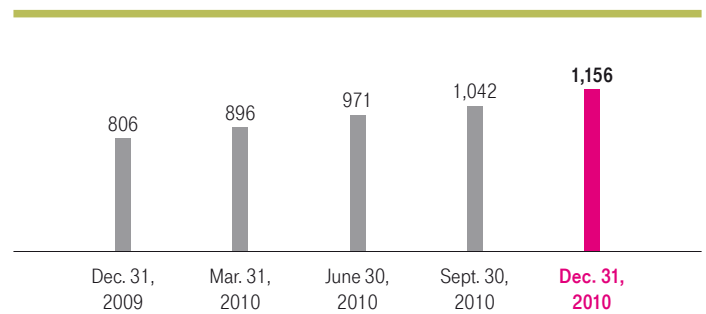
Germany.

Customer development.

Fixed-network lines. ('000)

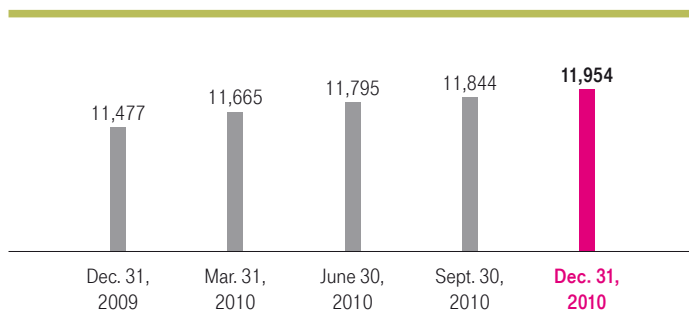


IPTV.* ('000)

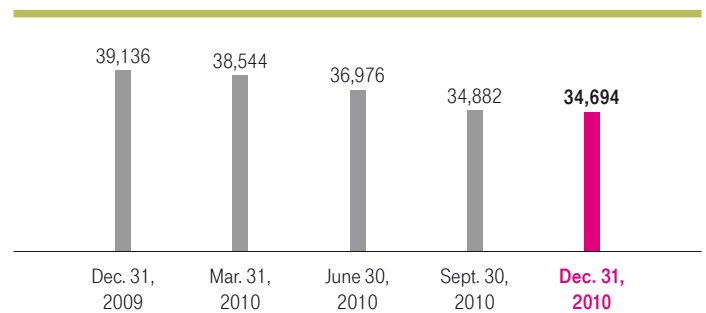


* Customers connected.

Retail broadband lines. ('000)



Mobile customers.* ('000)



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

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

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

Total.

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

Fixed network.

Connected worlds: telephone, Internet and television.

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

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

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

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

Mobile communications.

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

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

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

Development of operations.

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

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

Total revenue.

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

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

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

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

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

EBITDA, adjusted EBITDA.

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

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

EBIT.

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

Cash capex.

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

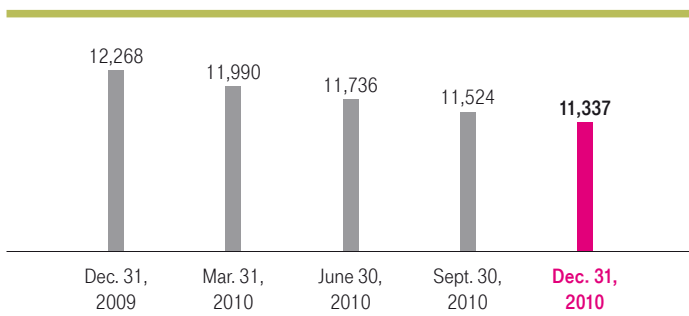
Employees.

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

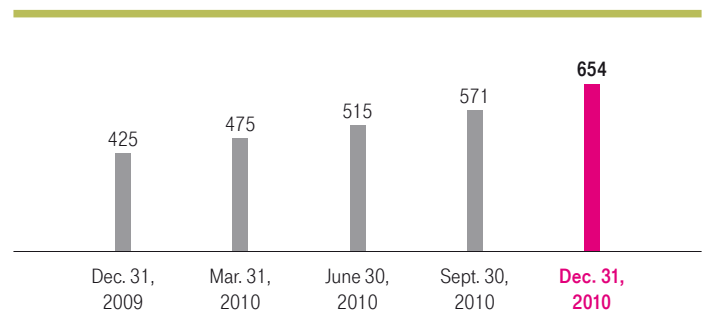
Europe.

Customer development.

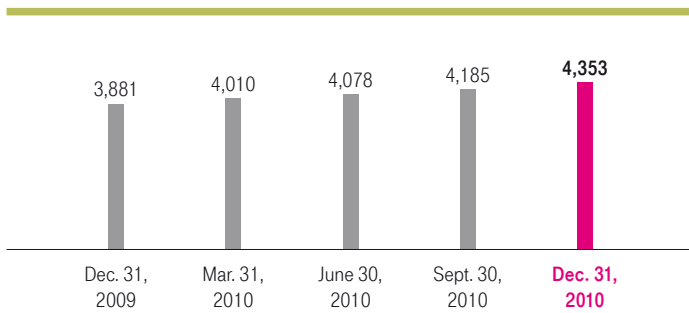
Fixed-network lines. ('000)



IPTV. ('000)



Retail broadband lines. ('000)



Mobile customers. ('000)



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

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

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

^c Including the Romanian company Zapp since November 1, 2009.

^d Other: national companies of Bulgaria, Albania, the F.Y.R.O. Macedonia, and Montenegro.

Total.

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

Fixed network.

Connected worlds: telephone, Internet and television.

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

Mobile communications.

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

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

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

Development of operations.

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

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

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

Total revenue.

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

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

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

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

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

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

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

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

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

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

EBITDA, adjusted EBITDA.

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

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

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

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

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

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

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

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

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

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

EBIT.

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

Cash capex.

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

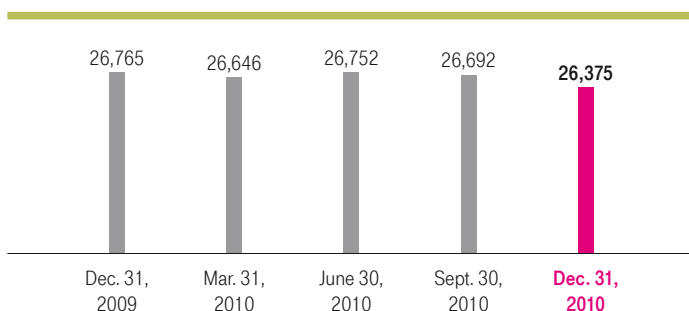
Employees.

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

United States.

Customer development.

Contract customers. ('000)



Prepay customers. ('000)



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

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

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

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

Development of operations.

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

Total revenue.

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

EBITDA, adjusted EBITDA.

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

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

EBIT.

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

Cash capex.

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

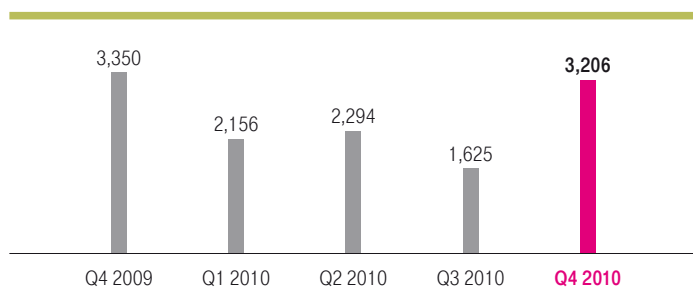
Employees.

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

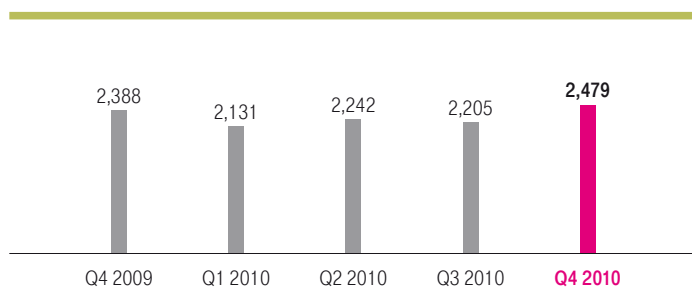
Systems Solutions.

Selected KPIs.

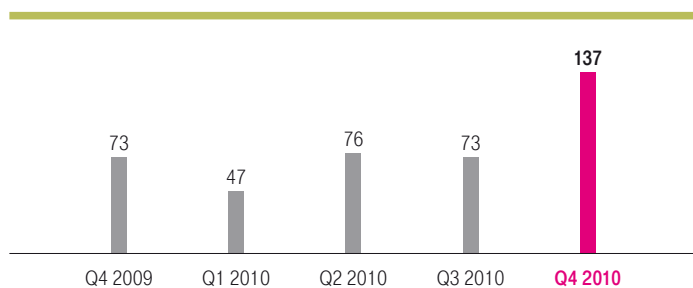
New orders. (millions of €)



Revenue. (millions of €)



Adjusted EBIT. (millions of €)



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

Development of business.

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

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

Development of operations.

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

Total revenue.

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

Net revenue.

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

EBITDA, adjusted EBITDA.

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

EBIT, adjusted EBIT.

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

Cash capex.

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

Employees.

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

Group Headquarters & Shared Services.

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

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

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

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

Development of operations.

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

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

Total revenue.

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

EBITDA, adjusted EBITDA.

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

EBIT.

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

Employees.

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

Development of business at Deutsche Telekom AG.

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

As the headquarters of the Deutsche Telekom Group, we perform strategic and cross-segment management functions and provide services for other Group companies. The profits and losses of our subsidiaries and Group financing measures have a material effect on our financial position and results of operations. For Deutsche Telekom AG, the 2010 financial year was again marked by intense competitive and price pressure in the telecommunications industry, which was also reflected in the income and loss of its subsidiaries.

Deutsche Telekom AG reported income after taxes for the 2010 financial year of EUR 3.0 billion. The development of business in the reporting year was marked by a number of very different effects, arising from both the company's day-to-day operations and income related to subsidiaries, associated and related companies, as well as from the restructuring activities carried out in the 2010 financial year.

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

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

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

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

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

Results of operations of Deutsche Telekom AG.

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

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

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

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

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

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

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

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

Financial position of Deutsche Telekom AG.

Balance sheet of Deutsche Telekom AG under German GAAP.

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

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

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

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

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

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

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

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

Statement of cash flows.

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

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

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

Risk management in hedge accounting.

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

Corporate responsibility.

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

Responsible corporate governance.

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

Climate protection activities and new climate protection targets.

Climate protection activities. Climate protection was a special focus of our CR activities in the 2010 reporting year and involved not only reducing harmful greenhouse gases in our own operations, but also helping our customers to reduce emissions through the use of our products and solutions. In our own operations, we concentrated – among other aspects – on sustainable mobility. In accordance with the new Green Car Policy, for example, the CO₂ emissions of new cars throughout the entire vehicle fleet will average 110 grams per kilometer by 2015. This corresponds to an average consumption of 4.2 liters of diesel per 100 kilometers. This figure is actually below the climate protection targets of 120 grams per kilometer that the European Union hopes to achieve by 2015.



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

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

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

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

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

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

Sustainability along the entire supply chain.

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

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

New channels for stakeholder communication.

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

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

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



For further information on the CR strategy and core CR topics, please refer to the printed CR report for 2010 and the online CR report at www.cr-report.telekom.de.*

Further achievements: sustainability ratings and awards.

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

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

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

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

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

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

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

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

Innovation and product development.

Connected life drives innovation

Innovation drives product networking forward.

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

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

Everything starts with an idea.

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

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

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

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

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



Ever shorter innovation cycles.

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

Patents and awards.

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

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

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

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

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

Research and development results.

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

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

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

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



Innovative products, high-speed networks and ongoing developments.

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

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

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

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

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



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

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

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

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

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

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

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

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

Expenditure and investment in research and development.

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

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

Employees.

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

Fix – Transform – Innovate.

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

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

Headcount development.

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

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

^b Average number of employees.



Personnel costs.

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

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

HR Big I: Competitive workforce.

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

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

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

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

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

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

HR Big II: Service culture.

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

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

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

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



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

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

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

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

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

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

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

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

HR Big III: Talent agenda.

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

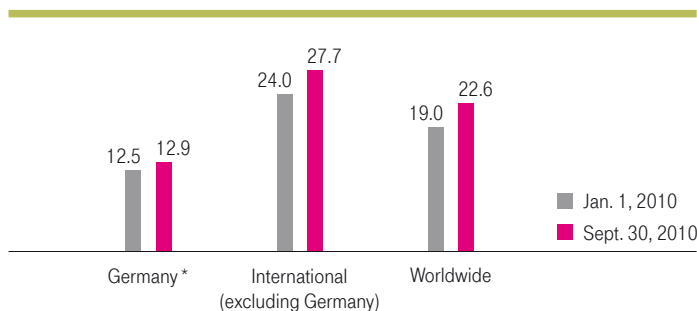
Top training company. We are one of the largest providers of training in Germany. In the 2010/2011 training year, there were more than 10,000 trainees and students, around 1,000 of whom were on cooperative degree courses. On top of this, more than 200 students are directly enrolled at our own University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

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

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

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

Women in middle and upper management. (%)



* Upper management only.

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

Expert career path throughout the entire Deutsche Telekom Group.

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

HR Big IV: HR@2012

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

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

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

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

Risk and opportunity management.

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

Risk management system.

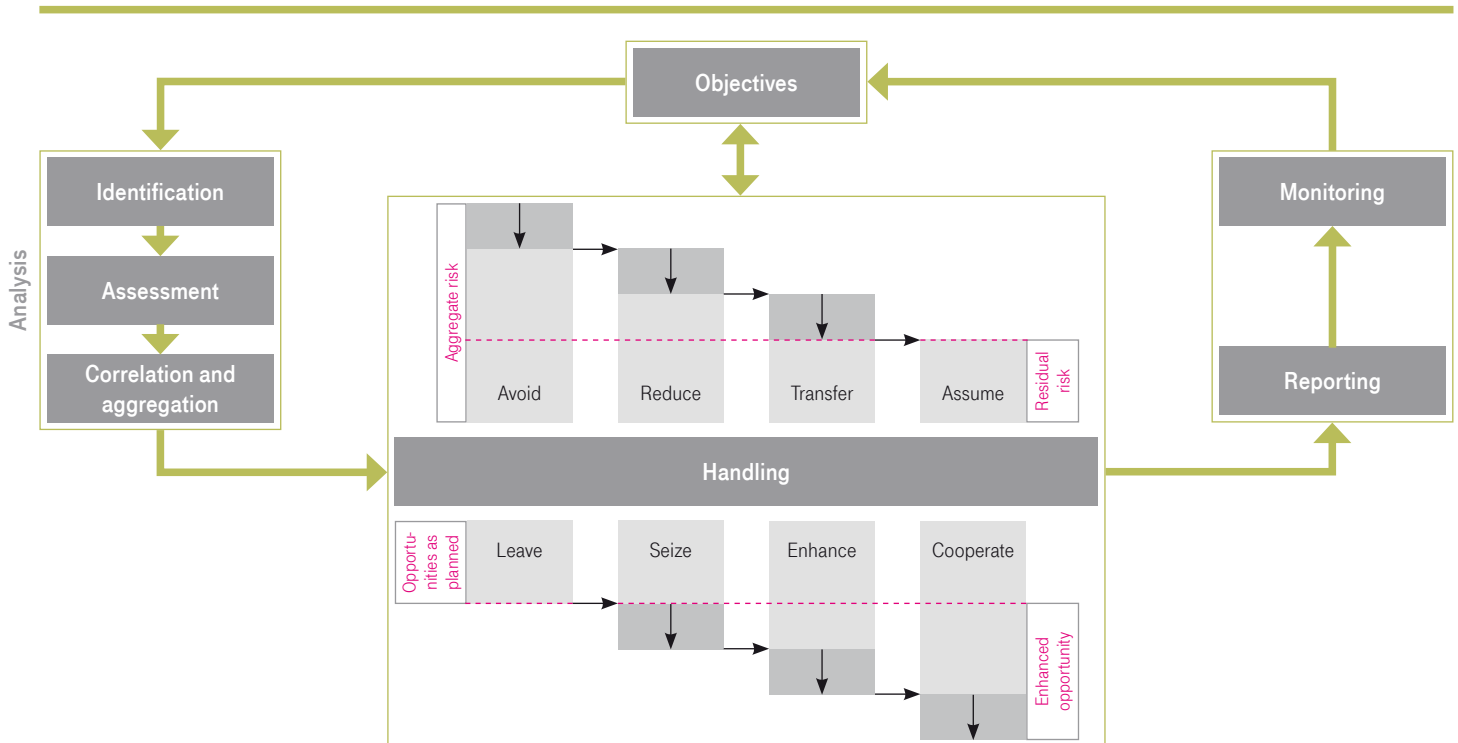
Our environment is characterized by rapid technological progress, increasingly intense competition, and far-reaching regulatory decisions in mobile and fixed-network communications. We master these challenges by systematically managing risks and opportunities using a holistic risk early warning system.

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

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

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

The risk management system (RMS).





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

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

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

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

Depending on the type and volume of the financial transaction, prior approval is required from the Board of Management, which is also regularly briefed on the scope and amount of the current risk exposure. We use simulations to assess the impact of various market developments, which involves devising a series of market and worst-case scenarios. We use selected derivative and non-derivative hedging instruments to hedge market risks. However, we only hedge risks that affect cash flows. We use derivatives exclusively as hedging instruments; not for trading or other speculative purposes.

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

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

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

The risks.

Of all the risks identified for the Group, the following section examines those risk areas or individual risks that could, as it stands today, materially affect Deutsche Telekom's financial position and results and, by way of the profits and losses of the Company's subsidiaries, also Deutsche Telekom AG's financial position and results of operations.

Economic environment.

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

Industry and competition.

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

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

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

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

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

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

Products, services, and innovations.

As a result of rapid technological progress and ongoing technological convergence, technologies and products may to some extent substitute one another. This could lead to lower prices and revenues in both voice and data traffic. But new and refined smartphones and data services will be new sources of mobile Internet revenue.

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

Regulation.

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



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

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

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

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

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

Net neutrality. To this day, there is still no generally accepted and at the same time technically appropriate definition of this term and it is increasingly becoming a subject of public debate. There are even demands from some quarters that all data packets should be treated in exactly the same way, both in technical and in commercial terms. Content and application providers in particular expect network operators to continue expanding their transport capacities and their infrastructure in the years to come.

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

Personnel.

In 2010, we once again used socially responsible measures to restructure the workforce in the German part of the Group, essentially by means of voluntary redundancies, partial and early retirement, and employment opportunities for civil servants and employees offered by Vivento, especially in the public sector. We will continue our workforce restructuring program on the required scale in the future. If it is not possible to implement the corresponding measures as planned or at all, this may have negative effects on our financial targets and profitability.

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

Year-end bonus for civil servants. In November 2004, the Federal Republic of Germany passed the first Act to amend the Act on the Legal Provisions for the Former Deutsche Bundespost Staff (Postpersonalrechtsgesetz – PostPersRG), which abolished the obligation on Deutsche Telekom and other successor companies to Deutsche Bundespost to pay active civil servants an annual year-end bonus under the German Federal Act on Bonus Payments (Bundessonderzahlungsgesetz). This Act was reviewed at several court instances. In December 2008, the Federal Administrative Court decided to refer the case to the Federal Constitutional Court for a judicial review pursuant to Art. 100 of the Basic Law. A Federal Constitutional Court decision is expected in early 2011. If the court rules that the abolition of the bonus payment was unconstitutional, a supplementary payment for the period 2004 to June 2009 may have to be made.

Reduced pay tables. With the entry into force of the reform of civil service law on February 11, 2009, the legislator integrated the previous year-end bonus paid annually in accordance with the German Federal Act on Bonus Payments into the basic monthly salary for all federal civil servants. In accordance with § 78 of the Federal Civil Service Remuneration Act (Bundesbesoldungsgesetz), this does not apply for civil servants employed by the Deutsche Bundespost successor companies. Some civil servants also appealed the new, reduced pay tables. The Stuttgart Administrative Court has submitted two cases to the Federal Constitutional Court for it to evaluate whether this was constitutional. Depending on the outcome, supplementary payments may have to be made for the period beginning July 2009.

IT/NT infrastructure.

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

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

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

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


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

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

Data privacy and data security.

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




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

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

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

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

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

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

Health and the environment.

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

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

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

Procurement.

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

Supply risks cannot be entirely ruled out. Delivery bottlenecks, price increases, changes in the prevailing economic conditions or suppliers' product strategies may have a negative impact on our business processes and our results. Risks may result from the dependence on individual suppliers or from individual vendors' defaulting as a direct result of the economic crisis. We employ a large number of organizational, contractual, and procurement strategy measures to counteract such risks. Measures we have introduced include a supplier evaluation system, based on KPIs some of which have a certain predictive quality. In this way we can identify supplier risks as early as possible and introduce risk management measures in good time.

OTE.

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

Legal risks.

Litigation. Deutsche Telekom is party to several proceedings both in and out of court with government agencies, competitors, and other parties. The proceedings listed below are of particular importance from Deutsche Telekom's point of view.

- **Lawsuit on prospectus liability.** There are around 2,600 ongoing lawsuits from around 16,000 alleged buyers of T-Shares sold on the basis of the prospectuses published on May 28, 1999 and May 26, 2000. The amount in dispute totals approximately EUR 80 million. Some of the actions are also directed at Kreditanstalt für Wiederaufbau (KfW) and/or the Federal Republic of Germany as well as the banks that handled the issuances.

The Frankfurt/Main Regional Court has issued certified questions to the Frankfurt/Main Higher Regional Court in accordance with the German Capital Investor Model Proceedings Act (Kapitalanleger-Musterverfahrensgesetz – KapMuG) relating to the DT2 and DT3 public offerings and has temporarily suspended the initial proceedings. The last hearing in the DT3 model proceedings was held on December 15, 2010. The parties have the opportunity to respond again in writing. The Court has announced it will issue a ruling in the second quarter of 2011. To all intents and purposes, the proceedings for a preliminary ruling on DT2 are currently suspended.

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

- **Toll Collect.** In the arbitration proceedings between the principle members of the Toll Collect consortium (Daimler Financial Services AG, Deutsche Telekom and the consortium company Toll Collect GbR) on the one hand and the Federal Republic of Germany on the other regarding disputes relating to the truck toll collection system, Deutsche Telekom received the Federal Republic's statement of claim on August 2, 2005. In the statement of claim, the Federal Republic maintained its claim to lost toll revenues of approximately EUR 3.51 billion plus interest for the delayed commencement of operations on September 1, 2003. The total claim for contractual penalties amounted to EUR 1.65 billion plus interest. The contractual penalties are based on alleged violations of the operator agreement (lack of consent to subcontracting, delayed provision of on-board units and monitoring equipment). In a letter dated May 16, 2008, the Federal Republic recalculated its claim for damages for lost toll revenues and reduced it minimally by EUR 169 million. The new claim is approximately EUR 3.3 billion plus interest. The main claims by the Federal Republic (including contractual penalties) amount to around EUR 4.99 billion.



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

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

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

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

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

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

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

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

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



Anti-trust proceedings.

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

Financial risks.

Most of our financial risks arise from liquidity, credit, currency, and interest rate risks. Risky investments by subsidiaries in Southern and Eastern Europe in particular exist on account of operational requirements and transfer restrictions. We monitor and manage these risks by means of regular analysis and evaluation of the investment risks.

To ensure the Group's and Deutsche Telekom AG's solvency and financial flexibility at all times, we maintain a liquidity reserve in the form of credit lines and cash. The primary instruments used for medium- to long-term financing are bonds and medium-term notes (MTNs) issued in a variety of currencies and jurisdictions. These are generally issued via Deutsche Telekom International Finance B.V. and are forwarded within the Group as internal loans.

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

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

At December 31, 2010, Deutsche Telekom's credit rating with Moody's was Baa1, while Fitch and Standard & Poor's rated us BBB+. All three agencies gave us a "stable" outlook. If our rating fell below certain defined levels, interest rates for some of the bonds and MTNs issued would rise.

Impairment of Deutsche Telekom's assets.

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

Sales of shares by the Federal Republic or KfW.

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

The Federal Republic may continue its privatization policy and sell further equity interests, including shares in Deutsche Telekom AG, in a manner designed not to disrupt the capital markets and with the involvement of KfW. On May 16, 2008, KfW issued a five-year exchangeable on shares of Deutsche Telekom AG. Exchangeables are debt certificates that the holder can exchange during a pre-determined period and at a pre-determined conversion price for shares in another company (in the case of the KfW exchangeables referred to here, for registered shares in Deutsche Telekom AG). If the conversion price is exceeded, KfW may exchange the exchangeables submitted to it for shares in Deutsche Telekom AG and if the holders of the exchangeables exercise the conversion option, it must exchange them. When the exchangeables mature, KfW has the right to pay them out in Deutsche Telekom shares. This exchangeable has a volume of EUR 3.3 billion and a conversion price of EUR 14.9341. There is a risk that the sale of a significant volume of Deutsche Telekom shares by the Federal Republic or KfW, or any speculation to this effect, could have a negative short-term impact on the price of the T-Share.

Aggregate risk position.

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

The opportunities.

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

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

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

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



Accounting-related internal control system.

Deutsche Telekom AG's internal control system (ICS) is based on the internationally recognized COSO (The Committee of Sponsoring Organizations of the Treadway Commission) Internal Control – Integrated Framework. The Audit Committee of Deutsche Telekom monitors the effectiveness of the ICS – as required pursuant to the German Accounting Law Modernization Act by § 107 (3) sentence 2 AktG. The Board of Management has the responsibility to define the scope and structure of the ICS at its discretion.

Internal Audit is in charge of independently reviewing the effectiveness of the ICS in the Group and at Deutsche Telekom AG, and, to comply with this task, has comprehensive information, audit and access rights. It is generally true of any ICS that regardless of how it is specifically structured there can be no absolute guarantee that it will achieve its objectives. Regarding the accounting-related ICS, there can therefore only ever be relative certainty, but no absolute certainty, that material accounting misstatements can be prevented or detected.

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

The accounting-related ICS aims to ensure the consolidated financial statements of Deutsche Telekom are prepared in accordance with the International Financial Reporting Standards (IFRS) as adopted by the European Union (EU), as well as with the regulations under commercial law as set forth in § 315a (1) HGB. Another objective of the accounting-related ICS is the preparation of annual financial statements of Deutsche Telekom AG in accordance with German GAAP.

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

Internal controls are embedded in the accounting process depending on risk levels. The accounting-related ICS comprises both preventive and detective controls, which include IT-based and manual data matching, the segregation of functions, the dual checking principle, general IT checks such as access management in IT systems, change management, and the monitoring of such systems.

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

Significant events after the reporting period.

Ministerial Decision on IKA-ETAM social security fund.

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


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

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



Other disclosures.

Corporate Governance Statement in accordance with § 289a HGB.

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

Closing statement by the Board of Management on the dependent company report.

Since the Federal Republic of Germany, as minority shareholder of Deutsche Telekom AG, represents a solid majority at the shareholders' meeting due to the average level of attendance, Deutsche Telekom is a dependent company of the Federal Republic of Germany in accordance with § 17 (1) AktG.

Deutsche Telekom is not subject to any control or profit and loss transfer agreement with the Federal Republic of Germany. Under § 312 AktG, the Board of Management of Deutsche Telekom has therefore prepared a dependent company report describing relations between the controlling entity and dependent companies. The Board of Management issued the following statement at the end of the report: "The Board of Management hereby declares that under the circumstances known to the Board of Management at the time the corporate transactions were performed, the Company received appropriate remuneration for such transactions. The Company did not perform or omit any actions on behalf of, or on the instructions of, the controlling company or any dependent companies."

Development of revenue and profits.¹

Economic outlook.

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

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

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

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

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

Market expectations.

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

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

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

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



Expectations for the Group.

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

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

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

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

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

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

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

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

At the end of 2010, the rating agencies Fitch, Moody's, and Standard & Poor's rated us as a solid investment-grade company at BBB+/Baa1/BBB+. The outlook from all three rating agencies was "stable." In order to retain secure access to the international financial markets in the future, an equally solid investment-grade rating is part of our financial strategy for 2011.

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

Expectations for the operating segments.

Germany.

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

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

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

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

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

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

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

Europe.

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

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

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



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

United States.

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

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

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

Systems Solutions.

T-Systems focuses on the growing ICT services market where it provides solutions for corporate customers. Demand for international ICT solutions is increasing – not least as a result of the further globalization of corporations. Drawing on a global infrastructure of data centers and networks, T-Systems manages information and communication services for some 400 corporate customers, including multinational corporations and public-sector and public-health institutions. On this basis, our corporate customers arm provides integrated solutions for the networked future of business and society. We laid the foundations for revenue growth in the next few years, especially through new large-scale contracts from renowned industry giants, such as Deutsche Post, Ergo-Versicherung, TUI, SBB, and E.ON. It nevertheless remains to be seen how the business of T-Systems' customers will develop in the current economic environment.


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

Group Headquarters & Shared Services.

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

Save for Service program.

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

¹ The forecasts for the development of revenue and profits contain forward-looking statements that reflect management's current views with respect to future events. Words such as "assume," "anticipate," "believe," "estimate," "expect," "intend," "may," "could," "plan," "project," "should," "want," and similar expressions identify forward-looking statements. These forward-looking statements include statements on the expected development of net revenue, adjusted EBITDA, capital expenditure, and free cash flow until 2012. Such statements are subject to risks and uncertainties, such as an economic downturn in Europe or North America, changes in exchange and interest rates, the outcome of disputes in which Deutsche Telekom is involved, and competitive and regulatory developments.  Some uncertainties or other imponderabilities that might influence Deutsche Telekom's ability to achieve its objectives, are described in the "Risk and opportunities management" section in the combined management report and the disclaimer at the end of the Annual Report. Should these or other uncertainties and imponderabilities materialize or the assumptions underlying any of these statements prove incorrect, the actual results may be materially different from those expressed or implied by such statements. We do not guarantee that our forward-looking statements will prove correct. The forward-looking statements presented here are based on the current structure of the Group, without regard to significant acquisitions, dispositions, business combinations or joint ventures Deutsche Telekom may choose to undertake. These statements are made with respect to conditions as of the date of this document's publication. Without prejudice to existing obligations under capital market law, we do not intend or assume any obligation to update forward-looking statements.

² This policy is subject to the requisite unappropriated net income being posted in the single-entity financial statements of Deutsche Telekom AG for the financial year in question and the ability to form the necessary reserves for the share buy-back. It is also contingent upon the executive bodies adopting resolutions to this effect, taking account of the Company's situation at the time.